VOLVO

Annual Report 1996

Three years ago Volvo decided to concentrate all available resources on its automotive and transport equipment operations in order to maintain and strengthen the Group's long-term profitability in one of the world's most competitive industries.

Since 1994 Volvo's core operations have been strengthened through acquisitions of shareholdings and companies while businesses outside the automotive and transport equipment operations with a value of SEK 34 billion have been divested.

Volvo has today an operating structure in which passenger cars and heavy commercial vehicles each account for approximately half of the Group's sales. The equity/ assets ratio has improved and the Group's freedom of action has increased.

Substantial resources are being invested to strengthen the Group through aggressive product and process development, the introduction of new families of products and increased facilities such as financing and service contracts.

Investments in Volvo's industrial system are increasing as a means of strengthening the Group's international presence and its proximity to customers. Marketing is being focused on strategically important regions. The dealer network, and the service and spare parts operations are being further developed.

Front cover shows three important new Volvo products:

- The Volvo C70 Coupé
- The Volvo VN truck for the North American market
- A new-generation excavators produced by Volvo Construction Equipment

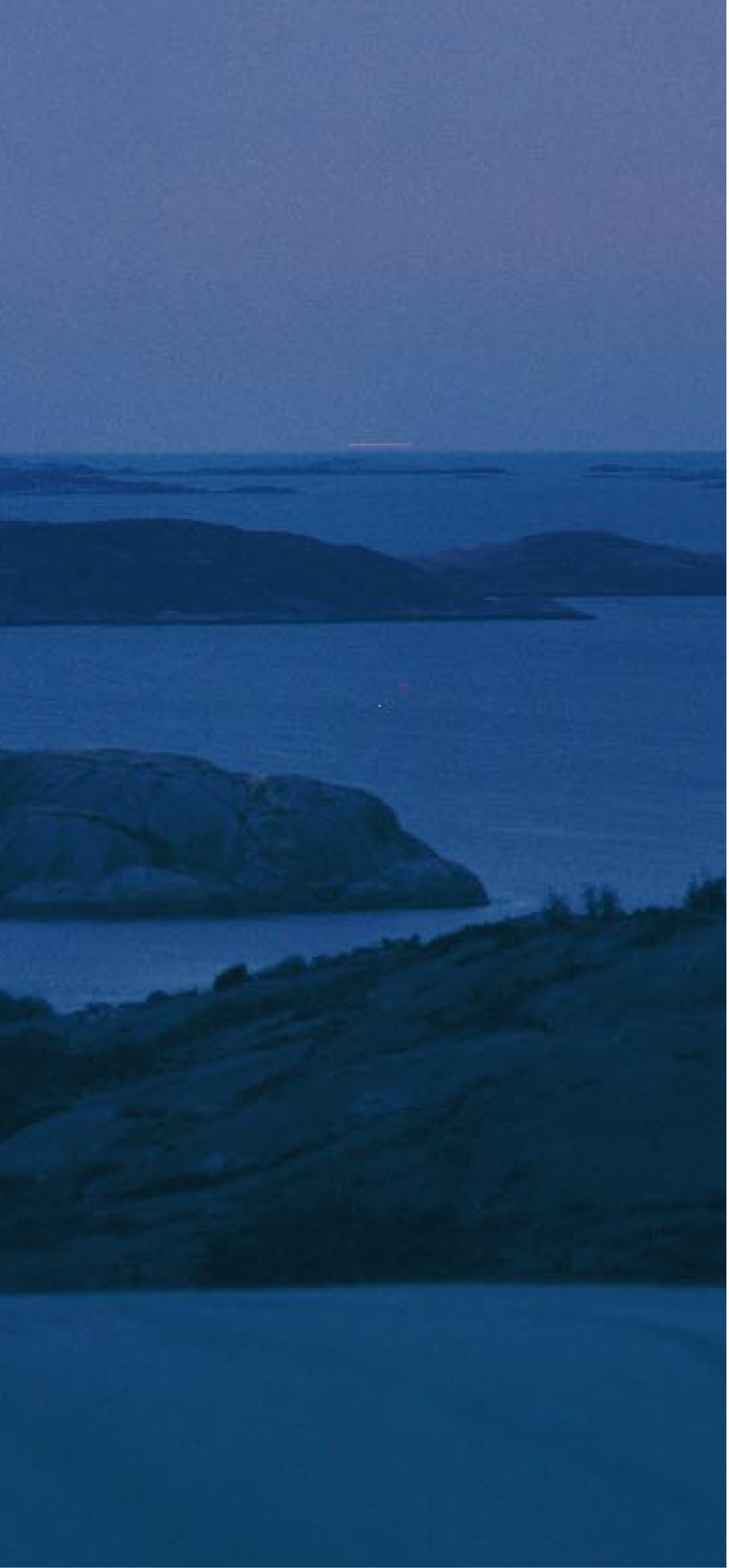
Volvo 1996

Volvo is an international transport equipment group with 70,000 employees, production in more than 20 countries, and a global marketing and service organization.

The Group occupies a prominent position as a producer of passenger cars in its segment of the market and is among the world's leading producers of trucks, buses, construction equipment and drive systems for marine and industrial use. In the aircraft engine field, Volvo has substantial resources for the maintenance of engines and development of components.

Volvo has a strong identity that has been built up over a period of seven decades. The Group's ambition is to further enhance its leadership in the field of vehicle safety.

In the environmental area, Volvo is intensifying its programs in preparation for future shifts in technology.



- *Consolidated income in 1996 increased from SEK 9.3 billion in 1995 to SEK 12.5 billion. Income per share rose from SEK 20.20 to SEK 26.90.*

- *The level of operating income from automotive operations, which amounted to SEK 3.6 billion, was substantially lower than income of SEK 7.5 billion in 1995 and was not acceptable.*

- *The year was characterized by the launching of several product innovations, a high rate of product development and aggressive measures to strengthen production and marketing systems.*

- *The decline in income was attributable primarily to Volvo Trucks' losses in North and South America.*

  The trend of income in Volvo Cars was favorable and Volvo Construction Equipment continued to show good results.

- *In addition to a regular cash dividend of SEK 4.30 per share on 1996 operations, Volvo's Board of Directors will propose the redemption of one share for every 20 shares held.*

Unless otherwise stated, all amounts shown in the Annual Report are in millions of Swedish kronor (SEK M). Definitions of key ratios appear on page 57.

Comments by the Chief Executive Officer

Three years have now passed since Volvo's new strategic orientation was presented. During this period Volvo's resources have been concentrated on creating a competitive automotive operation. Parallel with this, ownership interests outside the automotive business have been divested at a rapid rate.

This process is now essentially complete. Shareholdings with a value of SEK 34 billion have been sold. In accordance with our ambitions, these sales have been effected in a manner that has strengthened Volvo's financial position and has created added value for our shareholders, while responsible industrial solutions have been found for the companies that were affected.

Volvo's net income increased to SEK 12,477 M in 1996. The increase in earnings was due primarily to the sale of slightly more than two thirds of our shareholding in Pharmacia & Upjohn, which yielded a capital gain of SEK 7,766 M. Operating income from Volvo's automotive operations, SEK 3,619 M, was unsatisfactory, however.

The heavy losses incurred in our truck operations in the United States were a severe setback and earnings in Volvo Cars are still at an unsatisfactory level, although the trend is positive. Volvo Construction Equipment maintained solid – if slightly weaker – income despite declining volumes of business. Volvo Aero, which benefited from a strong increase in sales of components for commercial aircraft engines, also reported satisfactory income. The trends in Volvo Buses and Volvo Penta were negative, due mainly to unfavorable exchange rates.

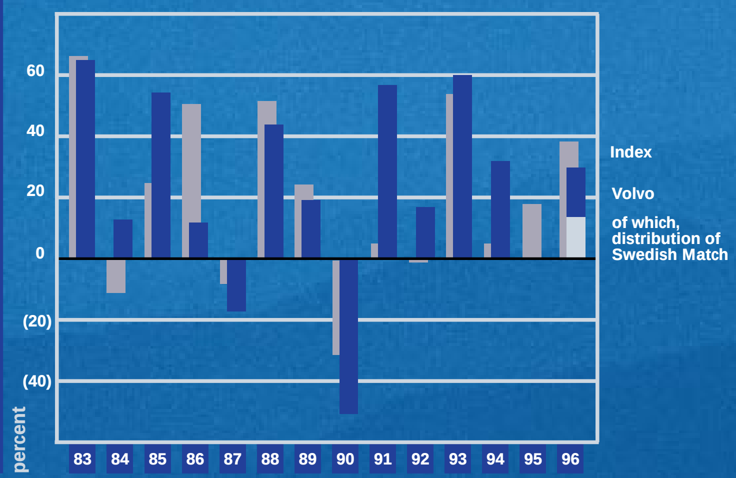
Volvo's financial position has been steadily strengthened during the past few years. It was against this background that we distributed the holding in Swedish Match to Volvo's shareholders last year. Despite this divestment, we today have net financial assets amounting to approximately SEK 12 billion. This does more than give us freedom of action to develop the Group. It also makes it possible for us to give our shareholders a not insignificant portion of the growth in value that has taken place. The Board of Directors will therefore propose a redemption of Volvo shares, with one share being redeemed for every 20 outstanding. The decrease in shareholders' equity that will result from this action will also give us a better opportunity to achieve the yield requirements that have been established.

The efforts to strengthen Volvo's competitiveness and create sound profitability now have the highest priority. We are making basic improvements in our industrial system with the objective of achieving greater efficiency and advantages of scale through changes within the Group and strategic

SEK M	1994	1995	1996
Sales	155,866	171,511	156,060
Operating income before nonrecurring items, automotive operations	7,486	7,493	3,619
Net income	13,230	9,262	12,477
Income per share, SEK	31.80	20.20	26.90
Cash dividend, per share	3.40	4.00[1]	4.30[2]
Capital expenditures, property plant and equipment	4,274	6,491	8,200
Research and development costs	4,604	7,289	8,209
Number of employees, December 31	75,550	79,050	70,330

1 Plus one share of Swedish Match AB for each Volvo share held at SEK 21.74 (weighted average of ten first trading days after listing on the exchange).
2 Proposed by the Board of Directors.

Effective return of Volvo Series B shares



The effective return on Volvo shares (dividend plus increase in share value) during the past 15 years has averaged 29% per year.

joint ventures. A stronger focus on marketing and a better geographical balance will also contribute to reinforcing our long-term competitiveness.

Volvo has decided to establish operations in India and to make additional investments in China. The fruits of our long-term growth strategy in these and other growth regions will be harvested a few years following the turn of the century. Our well established operations in South America today were built up using the same far-sighted approach.

The acquisition of Volvo Construction Equipment has given the heavy sector of Volvo a broader base and a stable percentage of the Group's sales. In this sector of the Group, which includes trucks, buses, construction equipment and industrial engines – all of which hold a strong position in their segment – substantial synergies can be obtained through cooperation among the various operating sectors. Volvo Cars, on the other hand, is striving for economies of scale through more flexible production and processes as well as through cooperation with external partners.

The positive trend of Volvo Cars' income in 1996 is attributable in part to a sharper focus on costs and new, more efficient work methods, as well as to higher sales of the new Volvo S40/V40 medium-size cars. Further development of the basic investment in the Volvo 850 continued during the year with the introduction, by stages, of new and more exclusive versions. The Volvo S70/V70 – the new generation of the Volvo 850 – was introduced during the autumn and sales began around the end of the year. The exclusive Volvo C70 Coupé was also launched during the year, followed by the Volvo C70 Cabriolet early in 1997.

Volvo Cars has thus renewed its product program with six new models and versions within a period of two years. The objective is to develop new models on a continuing and parallel basis in order to achieve larger volumes and higher revenue. The change means that – instead of the long product life cycles, with extended introduction periods and rising product development costs, that we had earlier – we will have more frequent introductions of models and a more even level of costs for the development of these products.

Volvo Trucks is now taking aggressive measures to straighten out operations in the United States and to introduce the FH technology in its production systems throughout the world. During 1996 the Volvo VN truck was launched for the American market, and the Volvo NH for sales in Australia. Both are based on the highly successful FH series. These models are being produced locally. Preparations are under way for assembly of the FH series in Brazil.

Volvo Construction Equipment and Volvo Buses are participating actively, through acquisitions, in the current restructuring of their industries; this is giving these companies opportunities to grow in the world market and compete with the best in their fields.

We have an eventful period behind us. The years immediately ahead are likely to be no less eventful. The attention of the Board of Directors and Management is now being focused totally on the transport vehicle operations, where the Group faces a number of strategically and structurally important decisions.

I am now leaving Volvo after five years as President and Chief Executive Officer and

am turning these responsibilities over to Leif Johansson. For me personally, this has been an exciting period in one of the world's most closely watched and most competitive industries. During my travels and in my meetings with people, I have seen evidence of the recognition and attention that our products have gained throughout the world. The consistency with which Volvo has concentrated on quality and safety since the company was founded has earned the greatest respect and has given us a unique profile. As a result, we now have a high degree of credibility as we intensify programs in our third core area of concern: the environment. Volvo's purposeful work in the environmental field is an investment for the future. This activity, combined with the expertise and determination that is available in the Volvo organization, gives me reason for assurance that Volvo will be able to enter the next century as a competitive and independent automotive manufacturer.

Sören Gyll
February 19, 1997

Trends and tendencies within the automotive industry

The world automotive industry is changing at a rapid pace. While it once consisted of local industrial groups, that focused on their domestic market, the leading automotive companies today are global players.

As a result of the relatively modest growth in the market in OECD countries, growth ambitions within the industry, and the appearance of new vehicle manufacturers, notably from Southeast Asia, there is growing excess capacity, strong competition and greater globalization. The restructuring of the industry is continuing, with acquisitions, mergers and joint-venture projects. Increased demands in the environmental and safety fields require substantial investments in product development. Process development, new technologies and new ways of working in a global perspective are key factors for boosting productivity and reducing costs.

Trend of the total market. The demand for transports of goods and people is growing and is closely related to the trend of the general economy.

According to industry analysts, sales of heavy trucks are expected to increase 1% to 2% annually in OECD countries and between 7% and 8% a year in Asia between now and the year 2005, with sales of passenger cars in these regions rising between 1% to 2% and 4% to 5%, respectively. The market for heavy buses is projected to grow between 1% to 2% per year during the same period.

Economic growth and investments in roads and civil engineering projects in the Asian markets outside of Japan will result in substantially increased demand for heavy trucks and construction equipment. A changeover from simple truck-based buses to more modern vehicles for transporting people is also foreseen. The Central European countries, following an initially stronger market growth, will increasingly follow the trend in Western Europe. It is more difficult to estimate the rate of growth in Russia and the other countries of the former Soviet Union, as well as in Africa.

The largest growth in demand for passenger cars will also occur primarily outside the OECD countries, but the increase will occur from low levels. The trend within the OECD will increasingly be characterized by more and more model versions and product specifications that are designed to meet changing customer demands.

Positioning in the value chain. A number of the large automotive manufacturers are concentrating operations on core businesses and ceasing their nonautomotive-related activities. Companies are also repositioning themselves in all segments of the value chain – from development and design to final contacts with customers and end-users. To an increasing degree, they are withdrawing partially or completely from such sections of the value chain where ownership is not considered to be necessary strategically. In these sections there is increased cooperation with selected partners at the same time that there is an ever-sharper focus on the strategically important sections.

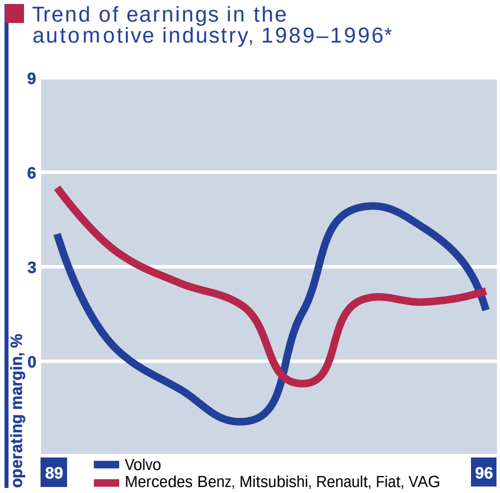
Increased customer orientation. Business development and long-term planning today are based on well-defined categories of customers whose specific demands and needs influence product and process development.

Producers of passenger cars are attempting to broaden their product lines to reach new segments and niches of the market. Certain manufacturers of luxury cars are downsizing – increasing their presence in the small-car segment – while others are concentrating on such niche products as minivans and sport/-utility models.

In the truck and bus sectors, products are to a greater extent being

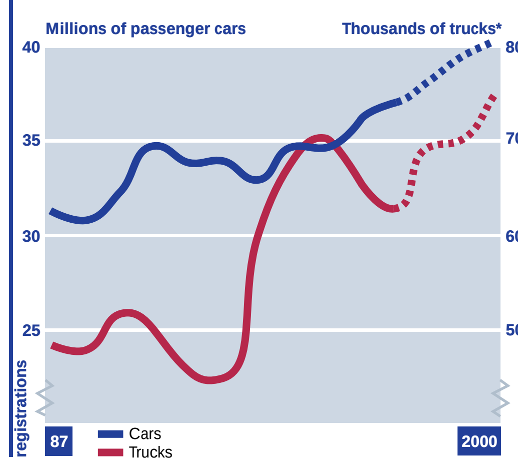
* Approximately 20 car manufacturers and about 20 truck producers are active in the world market today. Only a few have operating structures similar to Volvo's. The chart (left) shows the operating margins of these companies.

Trend of earnings in the automotive industry, 1989–1996*



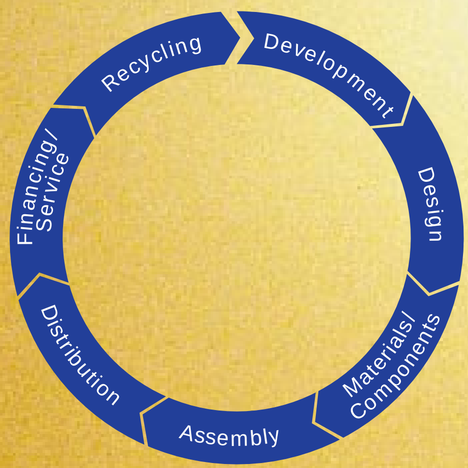
Source: Annual reports and quarterly reports.

Trend of world market, 1987–2000

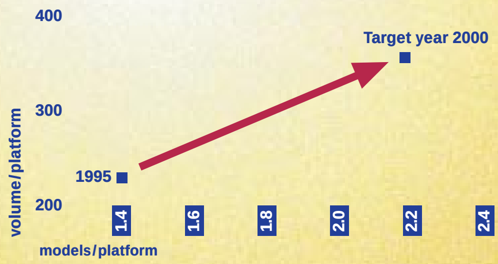


* Includes former Comecon countries, China and India since 1993

Value chain within the automotive industry



Number of models per platform in the European automotive industry



Source: Salomon Brothers Inc.

adapted to specific areas of use and service; these include buses powered by natural gas to improve the environment in densely populated areas, and low-floor buses that offer greater comfort and accessibility for elderly or handicapped persons. Trucks are being adapted to specific job requirements, with the superstructure and trailer being increasingly integrated with the truck chassis.

Well-established relationships with customers and end-users are required in order to gain the highest degree of customer satisfaction and determine how customers' demands are developing. These relationships are being achieved by offering increased "software" in the form of financing solutions such as leasing, service contracts and the like.

Greater customer-orientation, the growth patterns in different regions and the trend of trade policies are increasing the demands for local production in connection with investments in new markets. The competition to gain a foothold in new growth regions is severe and the political risks are high in some cases. The establishment of operations often takes place in cooperation with a local partner.

New technologies and new work methods. Substantial improvements in efficiency have been achieved since the 1980s.

The modular concept has had a major impact in the areas of *product development* and *design*. A vehicle is being constructed using a number of modules whose basic design is common for a number of models. In this way more versions and models can be developed from the same basic concept (the so-called platform concept) at the same time that the labor content is reduced. Through a process-oriented method of working, the expertise in development, procurement and production is brought together for parallel development of each module. This method of working shortens lead times, which reduces costs, and also yields improvement in quality and the ability to offer custom-tailored products.

Purchasing functions are being coordinated and cooperation with suppliers is being intensified. This is resulting in uniform quality requirements, deliveries of larger systems of components, shorter lead times and global purchasing.

The flexibility of *production facilities* is critical in customer-order-driven production of a number of models and versions in the same system.

Large car and truck manufacturers are attempting to coordinate their production processes in a number of regions – trying to create a global industrial structure based on economies of scale and flexibility.

Greater efficiency in *distribution* is being achieved by such means as increased cooperation between marketing organizations in different regions and by concentrating on fewer, but larger, dealerships.

Information technology is becoming increasingly important in both products and processes.

Highway traffic and the environment. Highway traffic is the largest single source of emissions of carbon monoxide, nitric oxides, hydrocarbons and a number of other substances that affect the environment. The environmental demands being imposed on new vehicles are being tightened continuously.

The greater part of the emissions can be eliminated through more efficient engines, cleaner fuels and exhaust emission devices. A modern gasoline-powered passenger car equipped with catalytic exhaust control emits approximately 90% less harmful exhaust gases than an old car. The emission of carbon monoxide, hydro carbons and particles from a heavy diesel-powered engine is currently nearly 85% lower than in 1975. New and cleaner vehicles are being phased in gradually in the OECD countries and this will result in reduced emissions between now and end of the century.

Other major improvements can be achieved through more efficient planning of transports. New, computer-based aids for intelligent transport systems are being developed for this purpose. Much greater amounts of freight can be transported with fewer vehicles than are required today. And mass transportation can be made much more attractive by offering faster, more comfortable and safer travel.

Catalytic exhaust cleaning has reduced emissions of carbon monoxide, hydro carbons and nitric oxides. The emissions of carbon dioxide, which is the dominant anthropogenic "greenhouse" gas, constitute a major problem. In order to reduce these emissions, the consumption of fossil fuels must be reduced radically through the use of more energy-efficient vehicles and fuels that are renewable.

New engine technologies, more efficient transmissions, the use of lighter material and similar measures can reduce fuel consumption by between 15% and 25% by the year 2005, compared with 1990 levels of consumption. Over the longer term, however, the phasing in of new alternative fuels, as well as further technical development work, will be required.

Development work is proceeding rapidly and there are a number of alternatives that have prospects of becoming important complements. But it is difficult for available alternatives to compete with diesel oil and gasoline at the present time. Limited supplies, low energy output, high costs and undeveloped production and distribution systems are obstacles that have to be overcome.

The drive systems that the industry elects to continue to develop and commercialize will be determined by the market prospects that will be created for various fuels. Developing an infrastructure for a new fuel in a country is estimated to take between five and ten years. And it takes two to three years to develop vehicles powered by the new fuel. ■

Investments for the future

As part of Volvo's decision to concentrate all its resources on the automotive and transport vehicle industry, substantial investments are being made to improve the efficiency of the Group and strengthen it. The objective is to reach new customer groups, to optimize the industrial and marketing systems and to increase Volvo's presence in important markets.

New customer groups. In order to reach new customer groups and be able to offer first-class product programs, Volvo is investing substantial resources in product development. The projected annual costs of research and development during the next five years are slightly more than 50% higher than the average during the most recent five-year period.

The first products resulting from Volvo's new product strategy are being introduced at the present time: the Volvo C70 Coupé and C70 Convertible – Volvo Cars' new niche models – the Volvo VN for the North American truck market, and the first models of a completely new generation of excavators produced by Volvo Construction Equipment.

As a means of rationalizing and improving efficiency in production, the new passenger cars and trucks are based on a modular concept in which the basic design for various modules (flooring, instrument panel, complete doors and driveline package, for example) is common for a number of products and constitutes part of a flexible construction system. As a result, various models contain many common components or systems, which creates advantages of scale in connection with development work, purchasing, production and distribution.

Investments in increased capacity and flexibility. The development of new products increases the need for investments. The production apparatus is being adapted not only to produce larger volumes but to provide greater flexibility that makes it possible to produce a number of models and versions in the same system without major industrial changes.

The passenger car plant in Torslanda (Sweden), where changeover investments are being made to permit the manufacture of a number of car models in the same production system, is one example; the NedCar plant in Born (Netherlands), where Volvo and Mitsubishi are producing their respective car models on the same production line, is another.

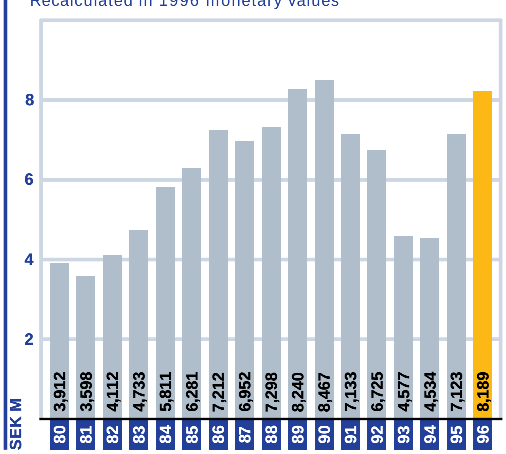
During the past few years Volvo Trucks has made investments to expand the capacity and flexibility of all of its components and assembly plants, as well as those of suppliers. An enlargement of cab manufacturing capacity was completed in Umeå (Sweden) during 1996 and a new cab plant was inaugurated in New River Valley, Virginia (U.S).

As part of the build-up of a global industrial structure, Volvo Construction Equipment has begun a program to expand its plant for wheel loaders and articulated haulers in Asheville, North Carolina (U.S.). Investments in the plants in Sweden are being focused on increasing productivity.

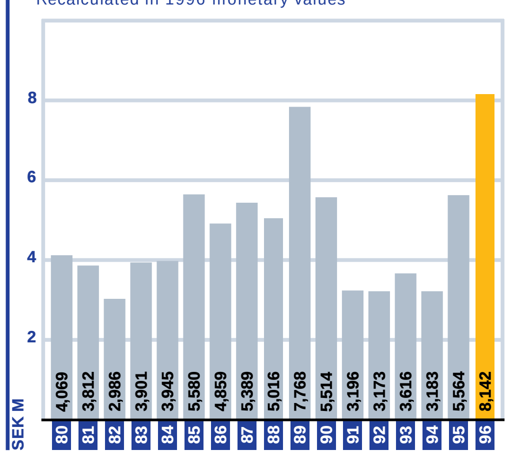
Greater market presence. Volvo's objective is to position itself closer to customers in terms of both production and service. Efforts are being focused on the growing markets for cars and transport products in Southeast Asia.

Volvo Cars has for a number of years enjoyed large volumes of business as an import car in Japan and certain countries in Southeast Asia. In 1996, to further develop this business, Volvo Cars established a new marketing organization in Singapore and designated the "Asia Pacific" region as a separate market area. During the year, Volvo Buses, Volvo Construction Equipment and Volvo Penta also established independent regional operations in the area, all with Singapore as a base.

Research and development costs, automotive operations
Recalculated in 1996 monetary values



Capital expenditures for property, plant and equipment, automotive operations
Recalculated in 1996 monetary values



In the years prior to 1993 type-specific tools were included in research and development costs. Since then, they have been included in capital expenditures.

Major investments, joint ventures and acquisitions in 1996

Common Group investments are being made in certain growth markets where Volvo units that are established in the region are paving the way for others. Examples are Volvo Trucks which decided to establish a plant in India and Volvo Buses which has a production facility in China, owned jointly with Chinese interests, since 1994.

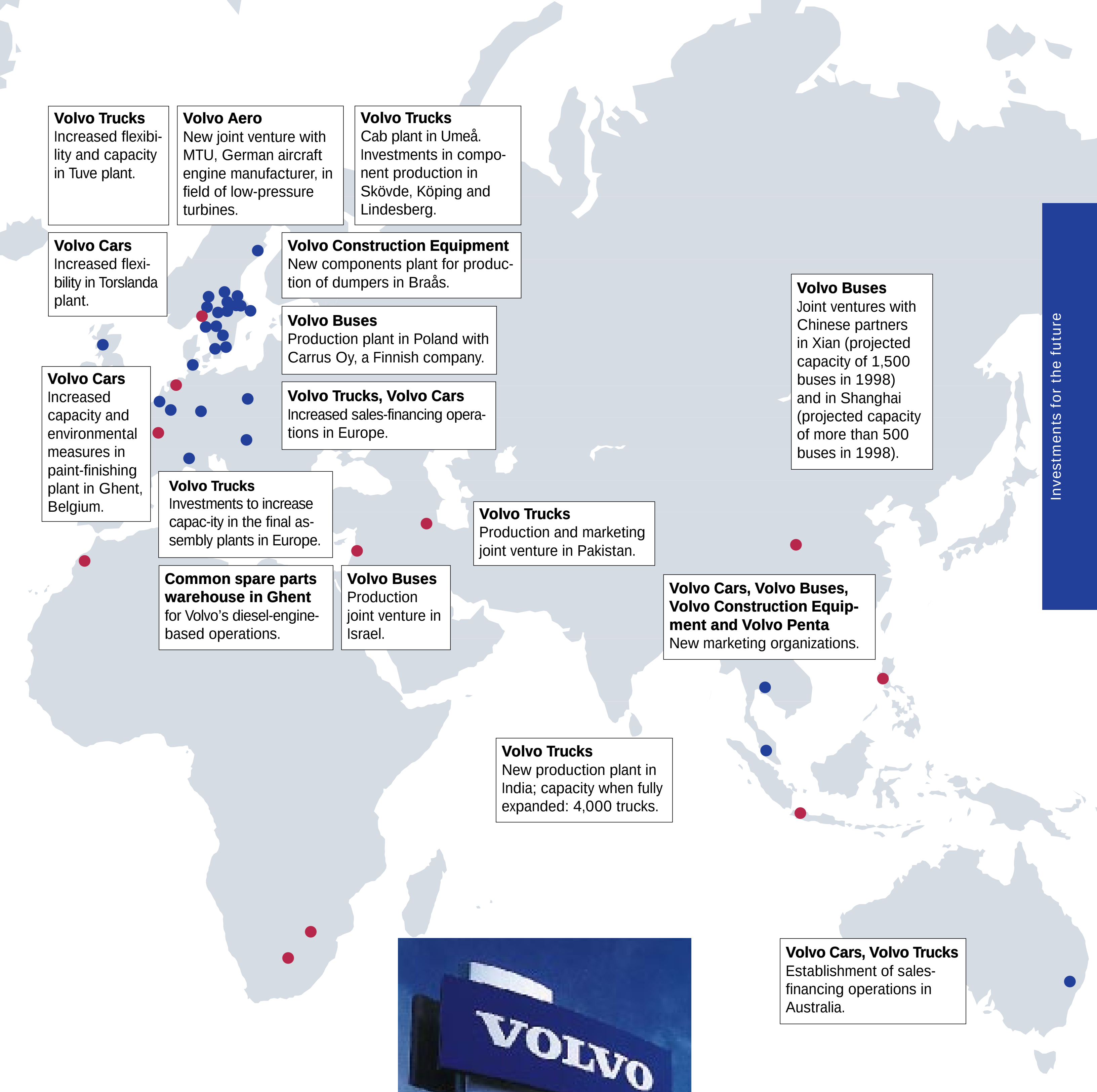
All of Volvo's operating sectors, except one, have their largest or second-largest markets in North America. The exception is Volvo Buses, which in 1995 acquired a 51% interest in Prévost, a Canadian bus manufacturer, in order to increase its presence on the North American continent. Volvo Trucks, Volvo Buses and Volvo Construction Equipment occupy strong positions in Latin America and Volvo Cars has been increasing its presence in this region through new sales companies.

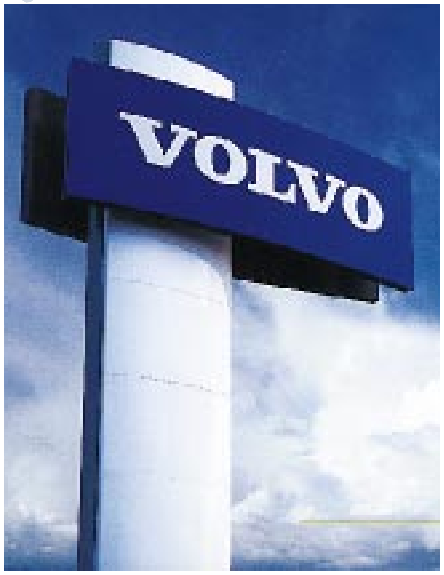
To support its marketing companies, Volvo is investing in sales financing. This applies, in particular, to the sector of the Group based on heavy diesel engines, which is offering new customer solutions ranging from financing and insurance to contracts covering spare parts and service.

Restructuring of the industry. Volvo Buses and Volvo Construction Equipment have clearly defined growth strategies and each is participating in the restructuring of their respective segments of the industry through acquisitions and joint ventures.

In addition to the acquisitions of body manufacturers (Aabenraa Karrosserifabrik A/S and Drögmöller Karosserien GmbH) that was made in 1994 as part of its integration of this segment of the industry, Volvo Buses concluded new cooperation agreements in 1996 with Merkavim Metal Works Ltd in Israel and the Finnish company Carrus Oy in Poland. A cooperation agreement with Shanghai Automotive Company Ltd in China was also signed during the year.

At the end of 1995, Volvo Construction equipment acquired Groupe Pel-Job, a French manufacturer of mini excavators.





During 1996 VolvoÕs product designers developed a new sign program for use within the Group. The signs constitute an important interface with customers and are part of VolvoÕs new corporate identity program that will be introduced throughout the world beginning in 1997.

Volvo's environmental programs

Volvo's objective is to be ranked, not later than the year 2000, as one of the transport equipment manufacturers that has made the greatest progress in programs to reduce the impact of products and processes on the environment. The market is demanding increasingly environmentally compatible products and the requirements being imposed on new vehicles are being sharpened continuously. A successful environmental program is therefore an important prerequisite for long-term competitiveness and profitability.

During the first half of the 1990s, 20% to 30% of Volvo Cars' product-development costs were related to measures to improve the environment. It is estimated that this figure will increase to 50% during the next five-year period. This is attributable to programs designed to reduce fuel consumption and minimize exhaust emissions in new cars.

The trend is the opposite where capital expenditures are concerned. During the first half of the 1990s, approximately 50% of Volvo Cars' total investments were attributable to measures related to the environment. These investments were made primarily in new paint-finishing plants. During the remaining portion of the decade, this percentage is expected to decline to below 30% as the focus is shifted to preventive measures.

A total view of the environment. The environmental program within Volvo, which is based on a holistic view of the manner in which operations and products impact on the environment, is increasingly being integrated in activities at all levels within the organization. Up to and including 1997, more than 40,000 employees, suppliers and dealers will have received training in environmental matters. Systems for effective environmental controls will be applied in 40 of Volvo's units throughout the world not later than 1998. Life-cycle assessment is being used in an increasing number of development projects and modern, environmentally compatible technologies are gradually being introduced in Volvo's plants.

Products. By far the greater part of the impact on the environment caused by motor vehicles occurs during the use phase. As a result, the development of vehicles and engines that have low impact on the environment has a high priority. Volvo already has in its program a large number of products that meet the emission requirements that will come into force at the beginning of the next century. The emissions from Volvo's passenger cars, trucks and buses, compared with statutory requirements, are shown on the next page. Specific environmental projects that were presented in 1996 are discussed in the sections of the Annual Report dealing with each operating sector.

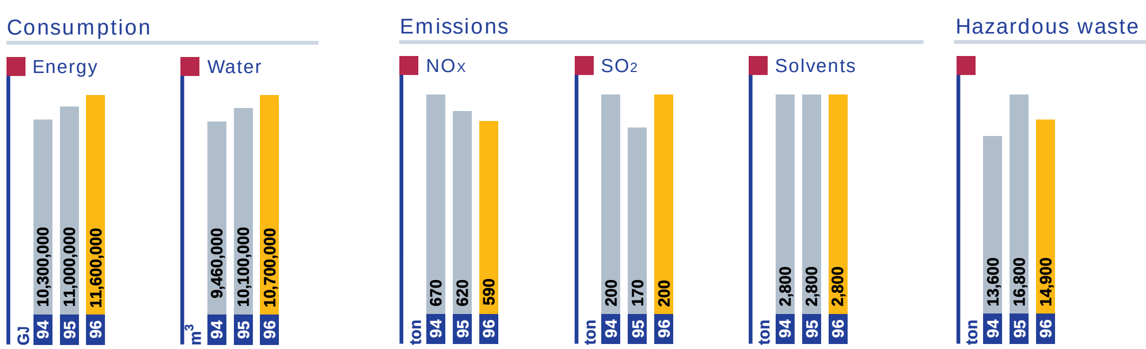
The production process. Volvo's objective is to choose production processes that have the least harmful impact on the environment.

Data on the Volvo Group's consumption, for the last three years, of energy and water, as well as emissions of nitric oxide, sulphur dioxide and solvents for all of Volvo's 42 majority owned production facilities worldwide is presented below.

Information about environmentally hazardous waste is also presented below.

Recycling. Since 1994 the greater part of Volvo's activity related to the recycling of vehicles has been conducted at the research facilities ECRIS (Environmental Car Recycling in Scandinavia) plant in Jönköping (Sweden).

The production process



The data presented pertains only to production processes and does not include transport, for example. Data for energy consumption is based on actual measurements. Data for water consumption includes water used in cooling operations. Emission data is based on estimates. Data on hazardous waste is based on estimates and projections.

The total figures do not include data on hazardous waste in six plants, and on solvents in four.

Volvo has owned a number of the plants for only part of the period covered by the report. These include, among others, Volvo Construction Equipment plants that Volvo has owned since July 1995. Data for 1994 and 1995 thus includes impact on the environment that may be attributable to former owners.

In June 1996, the Swedish Parliament adopted a legislation pertaining to manufacturers' responsibility for used cars weighing up to 3,500 kilograms. As a result, manufacturers and importers of cars, will have to accept used cars sold as from January 1, 1998

Use phase

Emissions from Volvo cars relative to statutory specifications

Model year 1997 (grams/km)	CO	NOx +	HC	=
Volvo S40, 2.0-liter	1.31			0.27
Volvo S70, 2.5-liter	0.75			0.17
Volvo S90, 3.0-liter	1.12			0.44
Volvo S70 TLEV/ Environmental Class I (FTP)	0.39	0.066	0.062	0.128
Volvo S70 Bi-Fuel	0.82[1] 0.14[2]			0.23[1] 0.19[2]
Statutory specifications EU 96	2.2			0.5
TLEV (FTP)	2.1	0.25	0.078[3]	

1 Gasoline
2 Natural gas
3 Hydrocarbons, excluding methane

TLEV = Transitional Low Emission Vehicle. (Designation used in Carlifornia law pertaining to emissions.)

FTP = Federal Test Procedure (used in U.S.)

Emissions from Volvo trucks and buses relative to statutory specifications

(grams/kWh)	CO	NOx	HC	PM
Modern diesel engine	0.7	6.3	0.4	0.11
Natural gas engine with catalyst	0.3	2.0	1.1	0.05
Statutory specification EU 1996 (Euro 2)	4.0	7.0	1.1	0.15
Statutory specification EU 01* (Euro 3)	2.0	5.0	1.0	0.1

* Anticipated levels
CO = Carbon monoxide
NO_X = Nitric oxides
HC = Hydrocarbons
PM = Particles

for scrapping without charge. There are plans for similar measures within the European Union, but as yet no legislation.

Environmental management. Responsibility for management of local environmental programs within Volvo rests with the individual line managers. Each operating sector and most of the production plants have environmental councils that develop strategies and implementation programs in accordance with the Group's environmental policy. Environmental activity in each main area is coordinated by an environmental manager.

Environmental issues of major strategic importance are dealt with by Volvo's Group Management.

Environmental management systems. In order to improve the efficiency of environmental programs, environmental management systems are being introduced in an increasing number of plants and other units. A general manual prepared for this purpose makes it possible to meet the criteria based on current international standards and directives and ensure that Volvo's program is being carried out in a consistent manner.

Environmental audits. Volvo employs environmental audits to check on the observance of current environmental legislation and its own rules in Group plants. The manner in which operations will be affected by future legislation is also evaluated.

In connection with environmental audits and the introduction of control systems, estimates of the need and costs for decontaminating soil and ground water are also made. Decontamination projects costing approximately SEK 50 M have been carried out since 1989. At year-end 1996 no decontamination requirements that will involve substantial costs for Volvo in the future had been identified.

In all, 57 environmental audits have been conducted since 1989. All but two of the plants in which Volvo has had a majority interest since

A detailed description of VolvoÕs environmental programs appears in VolvoÕs Environmental Report 1996.

Volvo's most important environmental objectives

¥ By the year 2000 Volvo is to rank as one of the leading automotive manufacturers in the environment field.

¥ The fuel consumption of VolvoÕs passenger cars in the year 2005 is to be 25% lower than in 1990 for the range of cars sold within the EU.

¥ The contribution to the greenhouse effect caused by emissions of CO_2 (carbon dioxide) by buses sold beginning in 1999 is to be 11% lower than comparable 1995 figures for city buses, and 4% lower in the case of intercity buses and coaches.

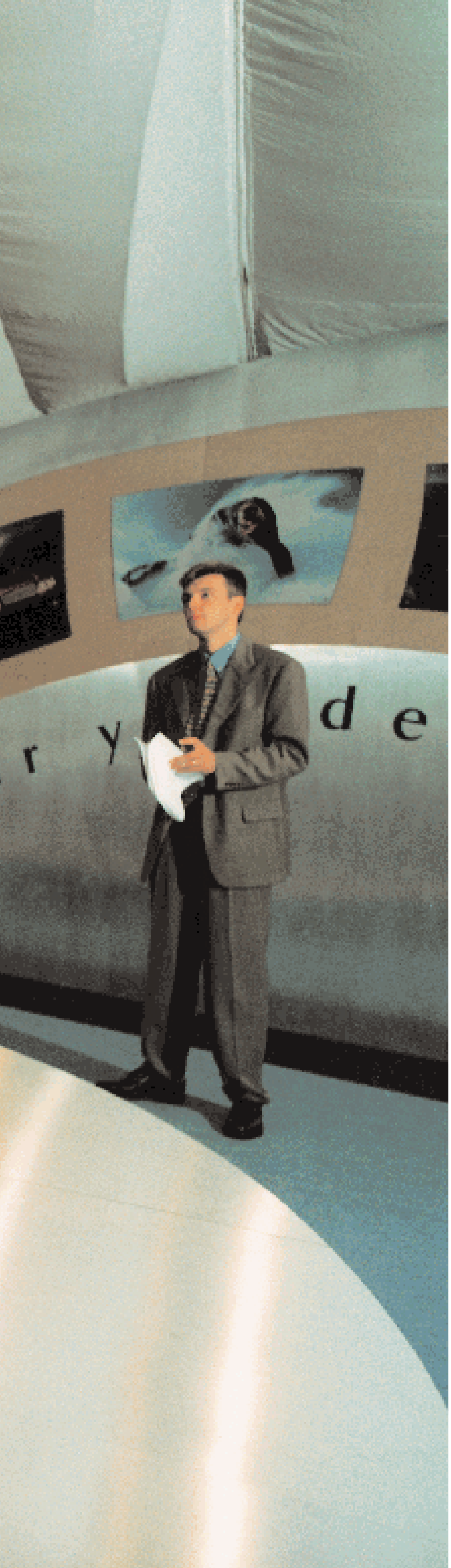
¥ Environmental control systems shall have been introduced in 40 Group units not later than 1998.

¥ All majority-owned production facilities shall have been environmentally audited not later than 1998.

¥ Life-cycle analyses shall have been integrated as decision-making tools in at least 10 development projects not later than 1998.

¥ Not later than 1998, levels of consumption of resources and of emissions related to production processes shall be reduced as follows, relative to 1995 levels:

Emissions of solvents	**-25%**
Consumption of energy	**-10%**
Consumption of water	**-10%**
Waste dumped	**-10%**
Emissions of nitric oxides	**-5%**



Volvo Cars

Volvo S-line (S40, S70, S90)

Volvo V-line (V40, V70, V90)

Volvo C-line
(C70 Coupé, C70 Convertible)

The Volvo S70/V70 Bi-Fuel models are so-called hybrid cars, designed to be powered by both gasoline and methane gas.

Volvo Cars is the Volvo Group's largest single operating sector. It comprises operations pertaining to the development, design, production and marketing of Volvo passenger cars and the provision of spare parts for the cars.

Research and development is conducted largely in Sweden. Production is concentrated in Sweden, Belgium and the Netherlands. Volvo cars are also produced in Canada, Indonesia, Thailand, Malaysia and the Philippines.

The production of family cars constitutes the base for operations but Volvo is also cultivating other categories of car owners with new exclusive convertible and coupé models. Volvo Cars' position is to be strengthened, and its volume of sales increased, through more frequent introductions of models and a broader product line.

Volvo Cars' new products are being developed with a platform and development strategy based on increased modularization, flexible production systems and cross functional methods of working. The NedCar plant in the Netherlands, where Volvo and Mitsubishi within the framework of a joint venture are manufacturing their respective cars in the same production system, is an example of such a flexible production facility.

Volvo's premise is that cars of the future must be safe and cause the least possible impact on the environment. Volvo will implement this premise with intensified programs to reduce the fuel consumption, weight and air resistance of the new generation of models planned and will, before these models are available, develop small series of environmental cars utilizing new technologies.

In the large-car segment – which included the Volvo 850, the Volvo 960 and the Volvo 940 in 1996 – Volvo had 7.8% (10.2) of the market in Europe, 9.5% (8.9) in North America, and 2.5% (2.1) in Japan. Volvo's share of the market in the medium-size segment – which includes the Volvo S40/V40, – in Europe was 3.1% (3.3). The most important competitors in the world market are Audi, BMW and Mercedes.

Product renewal. Higher sales during the latter part of the year. Positive trend of income.

In all, 36.2 (34.6) million cars were sold in 1996. The North American market was sluggish but the market in Europe increased by 6%. There was a weak increase in Japan.

Sales. Volvo Cars' sales amounted to SEK 83,589 M (83,340). The number of cars invoiced was 368,300 (374,600). The trend of sales in Europe was weak during the first half of the year. Toward the end of the year, in connection with increased deliveries of the Volvo S40/V40 models, the situation improved. The year was also characterized by a favorable trend of sales for the Volvo 850 and stronger positions in the segments for large cars in the U.S. and Japan.

The number of cars invoiced in Europe declined to 216,100 in 1996, compared with 219,800 a year earlier. Sales in Sweden were affected adversely by the uncertainty prior to imposition of the new tax on company cars. Volvo was affected to a high degree since company cars account for approximately 50% of its Swedish sales. Sales picked up after the Government submitted its bill at the end of the year but registrations of Volvo cars for the full year declined by 11%, to 43,700. Registrations of Volvo cars in Great Britain, the third-largest market, decreased by 15%, to 33,700 (39,600), due to delayed deliveries of S40/V40 models. In Germany, 31,700 (31,400) Volvo cars were registered. Increases in sales were also recorded in France, Belgium, the Netherlands, Finland, Austria and Portugal.

In the U.S., a strong trend of sales for the Volvo 850 and Volvo 960 largely made up for earlier sales of the Volvo 940 which is no longer sold in that market. Volvo strengthened its position in Japan with the sale of 24,000 (20,500) cars.

Income. Volvo Cars' operating income increased to SEK 1,498 M, from SEK 1,089 M in 1995. A more favorable product mix, with higher deliveries of Volvo S40/V40 and Volvo 850 models, as well as beneficial movements in foreign exchange rates, had a favorable effect on operating income. Smaller volumes of sales and start-up costs for the 1997 model program had a negative impact.

The operating margin was 1.8% (1.3) and the return on operating capital was 12% (8).

Cost reduction. The program to reduce costs continued in 1996. It involved administrative functions as well as production, purchasing and distribution.

Costs per car produced were reduced through improvements in quality, lower procurement costs and higher productivity in production.

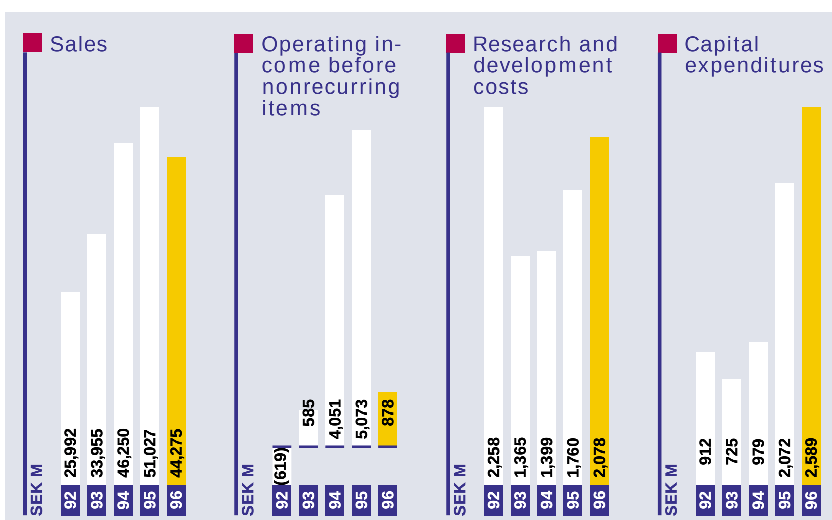
A number of Volvo's suppliers established operations close to the Torslanda plant during the year. As a result, transport times and the size of plant inventories were reduced. Assembly times are also being reduced since many components are being delivered in the form of complete subsystems.

In the distribution sector, Volvo is consolidating its dealer network in fewer but larger units. Changes that have been implemented have yielded results in Great Britain and Finland, among other countries. In North America a program is under way to reduce costs throughout the distribution process from factory to customer.

Production and capacity. Volvo produced 375,800 (370,500) passenger cars in 1996. Utilization of capacity in the plant in Ghent (Belgium) where the Volvo 850 is built was high. The plant in Torslanda was well utilized for production of the Volvo 850 but utilization of capacity for the Volvo 940/960 models was lower, due to weak orders.

Production of the Volvo S40/V40 model was begun at NedCar in Born (Netherlands). A total of 71,100 cars were built during the year. Production of the Volvo 400 was phased out according to plan. Production of Volvo S40/V40 cars is planned to increase to 110,000 units in 1997.

Production of the Volvo C70 will begin in Uddevalla during the spring of 1997, with an initial annual rate of 7,000 cars, which will gradually increase to 20,000 cars per year.



Capital expenditures. Capital expenditures for property, plant and equipment increased substantially, from SEK 2,540 M in 1995 to SEK 4,425 M in 1996. The greater part were related to the new paint-finishing plant in Ghent, to change-overs in the Torslanda plant and to investments in type-specific tools for future car models.

Product development. With the support of a product program that contains more car models and versions than before, Volvo is determined to reach its objective of selling slightly more than half a million cars per year following the turn of the century. The new strategy requires substantial costs for research and development. However, the rising level of costs during 1995 leveled off according to plan in 1996.

A number of products, as well as a new system for designating models, were introduced during the year. The Volvo S40 and V40 that were launched in 1995 were the first cars in the new model program. They were followed by the introductions of the Volvo S70/V70 models, the Volvo C70 Coupé and the Volvo C70 Convertible. See page 20.

Lower exhaust emissions. In the “850 GLT Environmental Class I” (TLEV; Transitional Low Emission Vehicle) that was introduced for the Swedish market in 1996, Volvo has implemented a large number of technical measures that have substantially reduced exhaust gas emissions.

In the beginning of 1996 Volvo delivered the first series-produced Volvo 850 Bi-Fuel (now designated Volvo S70/V70 Bi-Fuel) cars. The car has twin fuel systems and can be operated with both gasoline and methane gas. When operated with methane gas, the amount of exhaust gas emitted is one tenth of the amount allowable in accordance with current legislation in Europe. During 1996, 160 Volvo Bi-Fuel cars were sold in Sweden and a large number are being used in field tests in the U.S.

During the year Volvo introduced environmental specifications for all of its models being sold in the Japanese market. Specifications for the European, U.S. and Australian markets will also be introduced by stages.

New sales companies. In January 1997 Volvo took over the importer operations of Wolfgang Denzel KFZ AG pertaining to Volvo cars in Austria. (See Note 2 to the consolidated financial statements.)

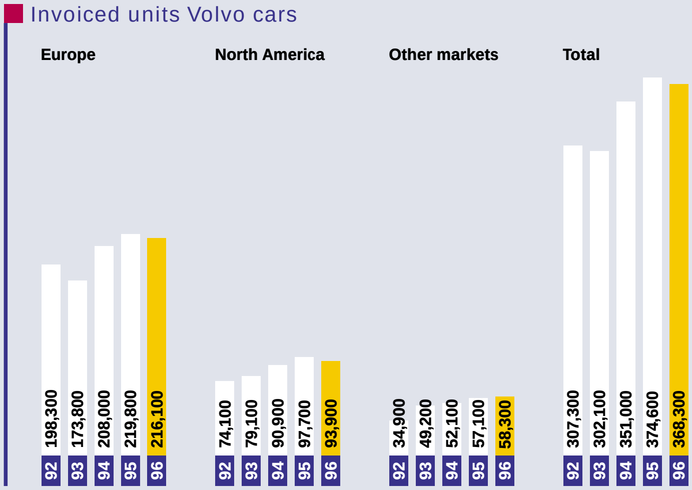
New sales companies were established in Argentina, the Czech Republic and Hungary.

Volvo Cars’ largest markets

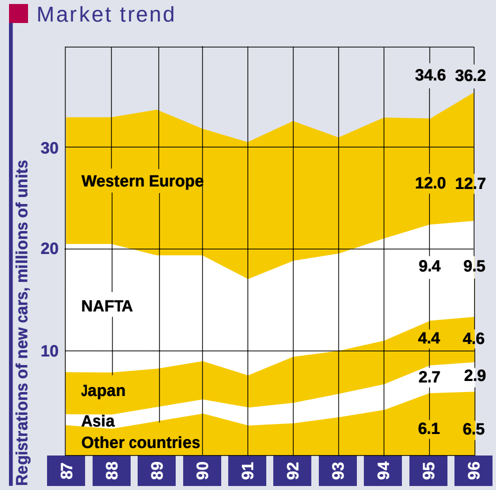
	Volvo car registrations		Market share, %	
	1995	1996	1995	1996
United States [1]	87,000	87,600	1.0	1.0
Sweden	49,000	43,700	28.9	23.8
Great Britain	39,600	33,700	2.0	1.7
Germany	31,400	31,700	1.0	0.9
Japan	20,500	24,000	0.5	0.7
Italy [1]	27,200	21,900	1.6	1.2
Netherlands	19,000	19,700	4.3	4.2
Spain	9,200	9,300	1.1	1.0
Belgium	8,600	9,300	2.4	2.4
France	6,800	8,200	0.4	0.4
Canada [1]	7,800	7,300	1.2	1.1
Taiwan	10,000	5,700	2.4	1.6

1 Retail sales.

Invoiced units Volvo cars



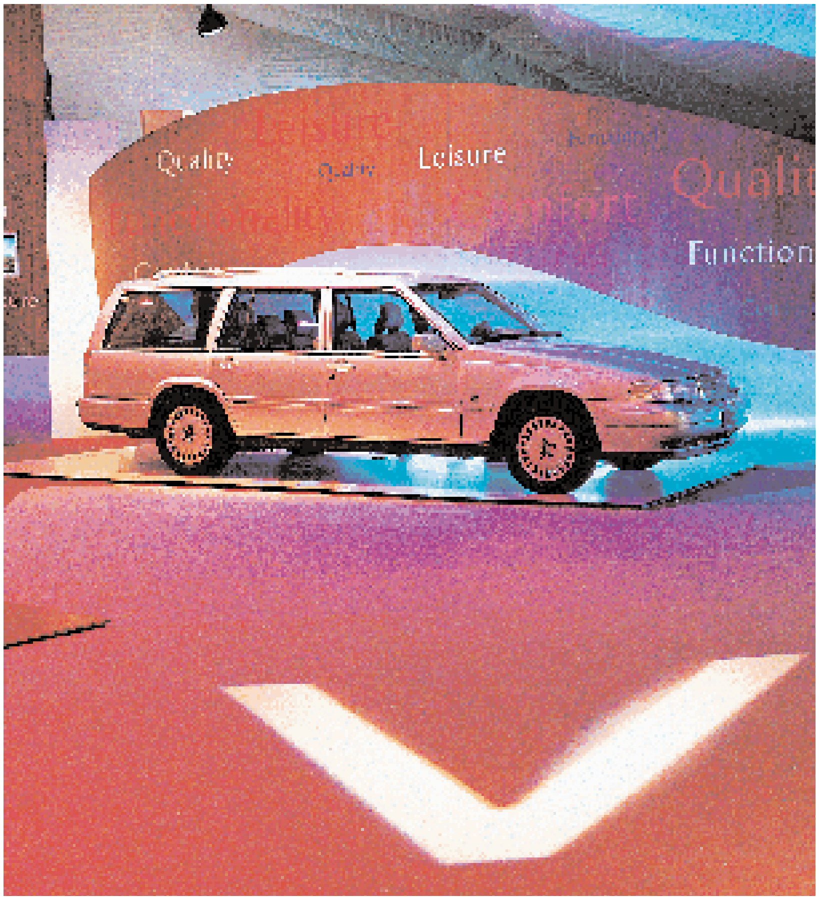
Market trend

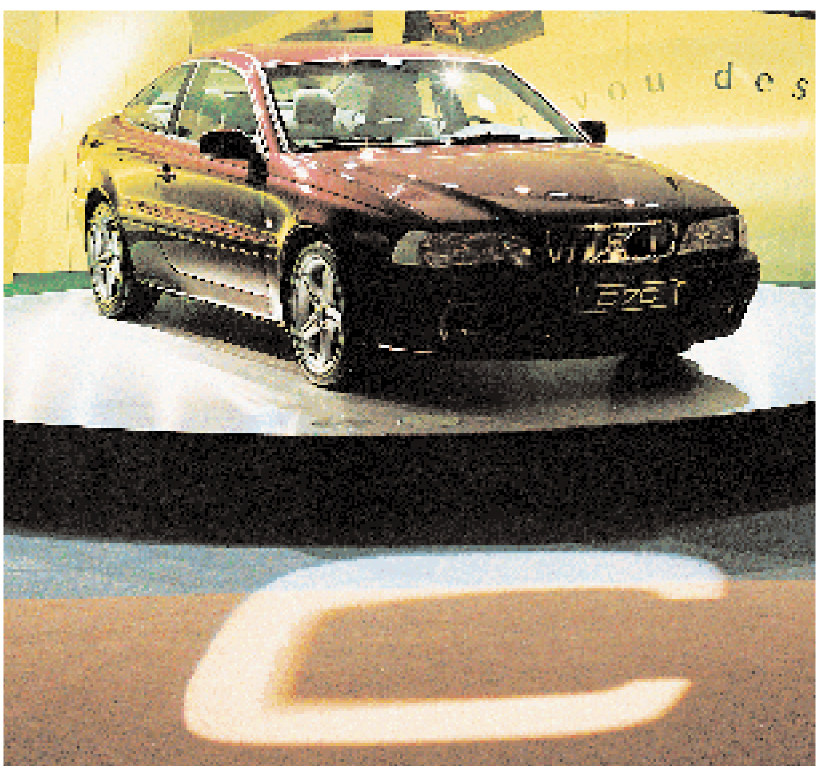


New passenger car program

The Volvo S, V and C line. Volvo Cars' product program has been renewed with six new models and versions during the past two years, beginning with the introduction of the Volvo S40/V40 cars in the autumn of 1995. The Volvo S70/-V70 models were then introduced in the autumn of 1996. And, as further results of Volvo's new product strategy, the exclusive Volvo C70 Coupé was unveiled at the same time, followed after the turn of the year by the Volvo C70 Convertible, the open version of the Volvo C70. With the launching of the 1997 models, the names of the Volvo 960 models were changed to Volvo S90 and V90. With the S, V and C line, Volvo's products are being focused on target groups and can be adapted to meet individual customers' needs and life styles.

Flexible model system. The Volvo S70 and V70 constitute a flexible model system that allows the customer to combine drive lines, fittings and extra equipment to meet personal demands. Seven different engine versions are offered, based on the 5-cylinder engine that was in the Volvo 850. The versions range from 126-hp to the 240-hp turbo model.





For customers who want a Volvo S70/V70 car in an exclusive high-performance configuration, a Volvo V70R AWD (four-wheel drive) was unveiled at the Geneva show in spring 1997.

Environmentally compatible engines. With their 20-valve, 2.5-liter engines, the Volvo S70 and Volvo V70 are two of the world's "cleanest" gasoline-powered cars. The oily, oxygen-deficient exhaust gases that occur with a cold start are mixed with air from a fan that increases the oxygen content, enabling the catalyst to achieve the proper degree of efficiency more rapidly. This reduces emissions during a cold start by about 50% compared with other engines.

The Volvo S70/V70 Bi-Fuel model is designed for operation with both gasoline and methane gas. The engine is a 2.5-liter engine with 10 valves and an automatic gearbox, supplemented with an injection system for methane gas. A full tank of methane gas will suffice for approximately 200 kilometers (about 160 miles) of driving. The driver can change from one fuel to the other by pushing a button. Introduction of this model in a large number of European markets is planned during 1997.

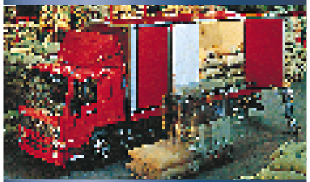
Increased safety. The level of safety in all Volvo cars is among the highest in the world. It has been further enhanced through strengthening of the Side Impact Protection System (SIPS). The manner in which safety belts function has been further developed and the steering column has been divided into three sections to minimize risk of knee damage.

The Volvo C70 Convertible will be equipped with an automatic Roll Over Protection System (ROPS) and seat-belt pretensioners in both the front and back seats.


Globetrotter XL
VOLVO
FH16
L
FH 520

Volvo Trucks

Volvo FLC / FL6 / FE



Volvo FL7 / FL10 / FL12

Volvo FH12 / FH16

Volvo NL10 EDC / NL12 EDC

Volvo VN

Volvo NH

Environmental Concept Truck

The Volvo ECT received in 1996 the "Distinguished Engineering Research Project Achievement Award" of the American Engineering Council.

Volvo Trucks develops, produces and markets medium-heavy and heavy trucks. The heavy-truck class (more than 16 tons total weight) accounts for more than 90% of total production.

The Volvo FH truck that was introduced in 1993 has established the foundation for continuing development of competitive products in the heavy truck segment. Through a global supply of components and their standardization, the FH concept is creating the prerequisites for rational assembly operations and cost-effective manufacturing.

Volvo Trucks has a global industrial structure with resources for development and production in Sweden, Belgium, Brazil and the U.S. The emphasis is on assembling trucks in close proximity to customers. In line with this approach, Volvo Trucks also has plants in Great Britain, Poland, Peru, Malaysia and Australia.

Volvo trucks are sold in virtually all parts of the world, with a special focus on Europe, North America and South America. New marketing programs are currently under way in China, India, Pakistan, Eastern Europe and Mexico, among other markets.

Based on preliminary figures, the world market for heavy trucks in 1996 is estimated to have amounted to 655,000 vehicles. Approximately 20 large manufacturers are competing in this market. Volvo's share of the world market was preliminary 9%.

The introduction of new products by truck manufacturers in Europe during 1996 contributed to an increasingly tough competitive climate. The increased activities of leasing companies, as well as the deregulation that is being implemented in the transport industry, had the same effect.

Strengthened market position in Europe. Product renewals and investments in the U.S. New product capacity in Asia. Substantial loss in the North American operations.

During 1996 the world market for heavy trucks decreased by about 7%, to 655,000 units, from the record-high level of the preceding year. The decline was most apparent in North and South America, but the markets were also smaller in Japan, Southeast Asia and Australia. The market in Europe continued to be strong, with the same high level of sales as in 1995.

Sales. Volvo Trucks' sales declined by 13%, to SEK 44,275 M. Volvo delivered a total of 63,680 medium-heavy and heavy trucks, 17% fewer than in 1995. Sales in Europe, amounting to 35,030 vehicles, were largely unchanged. Volvo's sales in North America fell by 38%, to 16,860 trucks, and deliveries in South America were down 36%, to 4,980 units. Deliveries in other markets increased 6%, to 6,810 trucks.

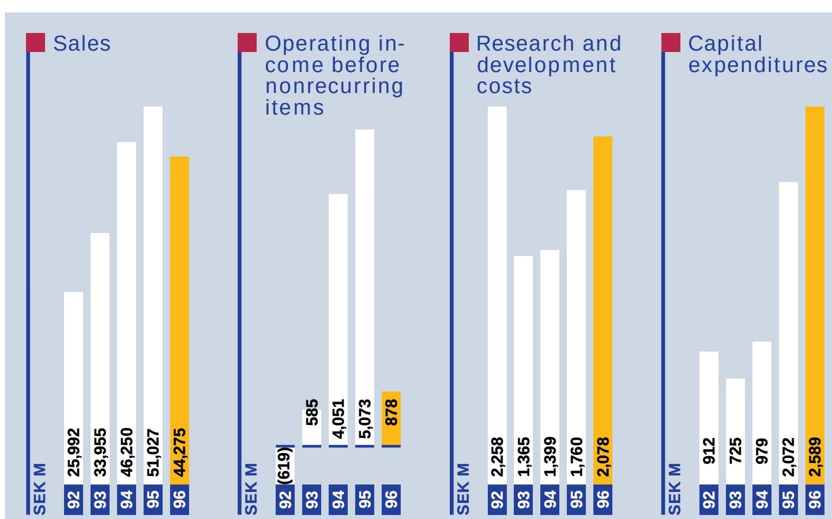
Volvo's share of the market for heavy trucks in Europe increased to 16.7% (16.1). In the medium-heavy class (10 to 16 tons total weight), Volvo increased its share of the European market to 10.8% (10.0). Its share of the heavy-truck class (Class 8) in North America decreased from 11.2% to 8.8%, and from 25.9% to preliminary 22% in South America.

The order backlog as of December 31, 1996 was approximately 28% lower than on the year-earlier date.

Income. Volvo Trucks' operating income dropped to SEK 878 M (5,073). The decrease was attributable primarily to smaller volumes of sales in North America and the costs of restructuring operations there. Of the total loss of approximately SEK 1,600 M in the North American market, SEK 700 M represented the costs of shutting down the plant in Orrville, Ohio and the write-down of its fixed assets, plus the costs of reducing the number of employees by approximately 940 between January 1996 and midyear 1997, and change-over costs related to the phasing out of certain products. Income was also reduced as a result of lower sales and depressed margins in South America. Income from Volvo Trucks' European operations was satisfactory but margins narrowed as result of the stiffening competition.

Volvo Trucks' operating margin was 2.0% (9.9) and its return on operating capital was 10% (>25).

Production. Volvo Trucks produced 62,700 (77,400) medium-heavy and heavy trucks in 1996. Of this number, 38,300 (40,400) were produced



in Europe, 16,700 (27,600) in North America, 4,400 (7,000) in South America and 3,300 (2,400) in other parts of the world. Utilization of capacity in the European plants was good, but production in North and South America decreased as a consequence of declining sales.

Capital expenditures. Capital expenditures for property, plant and equipment, which amounted to SEK 2,589 M (2,072), comprised investments in the industrial system in the U.S., including a new cab plant, as well as preparations for the assembly of the FH series of trucks in Brazil. In Europe, substantial investments were made in final-assembly operations and the central spare parts warehouse in Ghent, Belgium, as well as in the production of components in Umeå, Skövde, Lindesberg and Köping in Sweden. Investments were also made in the distribution network in Europe and in marketing programs for the global launching of the FH series.

Product development. The Volvo VN truck was introduced in the North American market in August. The VN is the first enhanced version of the Volvo FH truck that is being marketed in more than 60 countries. The Volvo NH – also a further development of the FH, featuring the FH model's chassis and the VN cab developed in the U.S. – was introduced in Australia. The FLC developed for efficient distribution operations in city environments was also launched during the year.

Volvo's D12 engine was upgraded significantly with a higher torque during 1996, with a resulting improvement in fuel economy.

Joint venture agreements. Volvo Pakistan Ltd was formed in the beginning of 1996. The company, in which Volvo Trucks holds a 51% interest, will produce Volvo trucks in a company-owned plant in Lahore, Pakistan, beginning in 1997 and will handle sales in the country.

During the year the Indian authorities approved Volvo Trucks' application to produce trucks in the country. The assembly plant will be located in Bangalore and production will start in 1998. When fully expanded, the plant will have the capacity to produce 4,000 trucks per year.

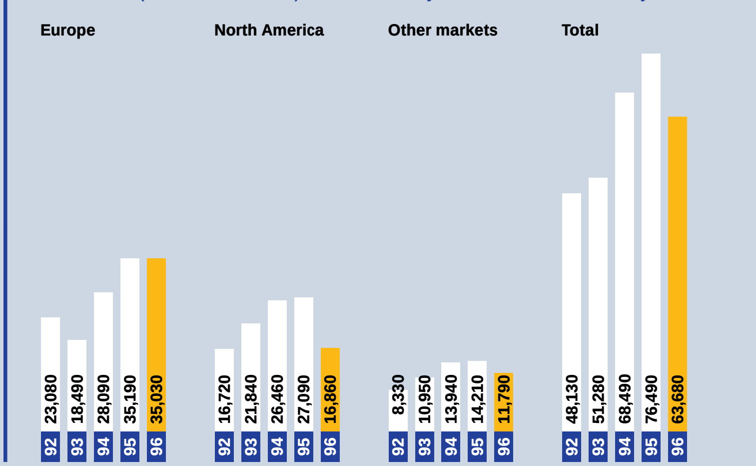
The letter of intent that had been signed earlier pertaining to the assembly of Volvo trucks in China was followed in 1996 by a so-called Project Description that was submitted to the Chinese authorities for approval.

Volvo Trucks' largest markets in 1996 (trucks ≥16 tons)

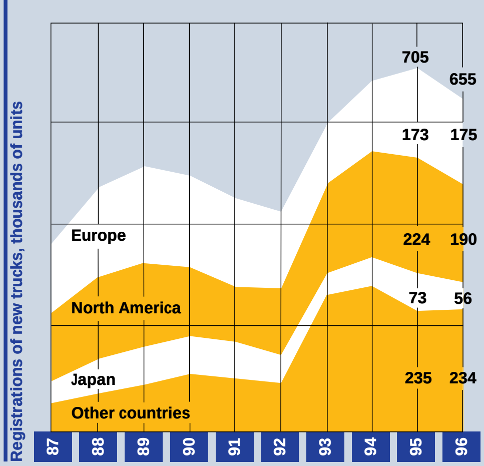
	Volvo trucks registered		Market share %	
	1995	1996	1995	1996
United States	23,410	15,460	11.6	9.1
Great Britain	6,140	5,780	18.9	19.2
France	4,500	4,770	13.7	13.7
Brazil	5,820	3,570	28.8	24.3
Germany	2,740	3,270	6.9	8.5
Italy[1]	2,080	2,240	13.5	13.6
Netherlands	1,900	2,220	17.5	17.9
Sweden	1,430	2,070	51.5	46.1
Spain	1,560	1,540	13.9	14.7
Belgium	1,790	1,520	25.0	24.0
Denmark	1,440	1,480	34.2	35.9
Canada	1,700	1,320	7.5	6.5

1 Preliminary data for 1996.

Delivered (invoiced units) Volvo heavy and medium-heavy trucks



Market trends, trucks ≥16 tons*



* Including India, China and former COMECON countries as from 1993.

The Volvo VN truck, the first model whose development is based directly on the successful Volvo FH series, was introduced in North America in the autumn of 1996.

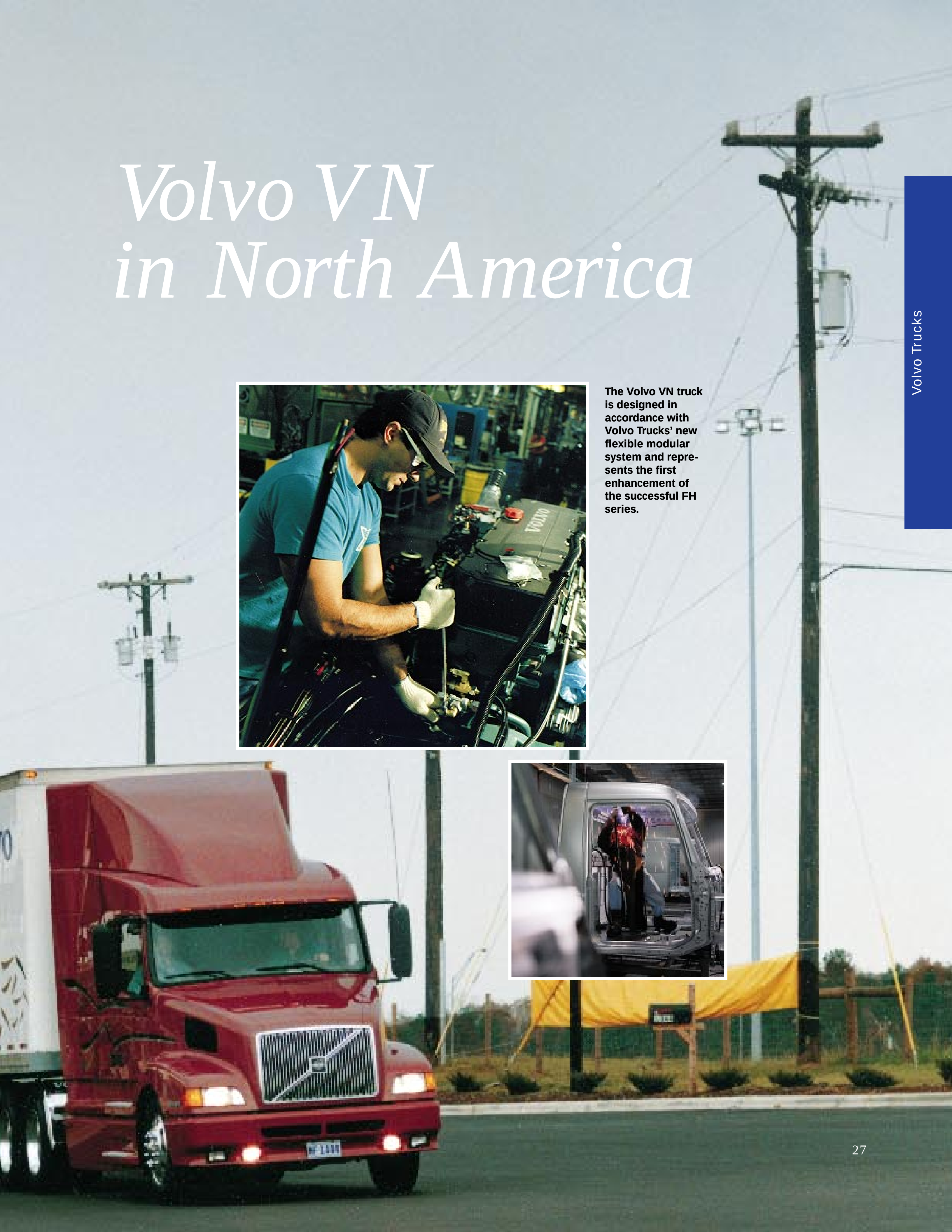
The Volvo VN is the first example. The Volvo FH series constitutes the platform upon which future families of models produced by Volvo Trucks will be built. The basic philosophy is to create a flexible system within which a number of model combinations can be developed – and to reduce the number of components. The long-term objective is to reduce the total number of components from approximately 40,000 today to about 25,000 in the year 2000. This system will reduce Volvo Trucks' costs of warehousing, purchasing and transportation. It will also improve the quality of operations at all levels. In addition, the modularization offers possibilities to meet customers' special demands without the need for comprehensive redesign work. The Volvo VN is the first example of this system.

Production being concentrated in New River Valley. In a move that is being coordinated with the introduction of the VN series, Volvo's production of trucks in the U.S. is being concentrated in the expanded plant in New River Valley, Virginia. All assembly operations in the Orrville, Ohio plant are being transferred to New River Valley during the first half of 1997.

Strengthening of the dealer network. The action program that Volvo Trucks initiated in the North American market during 1996 includes activities pertaining to the dealer network and customer support. The dealer network has been divided into three regions containing a total of 240 dealerships and 200 service points. The program comprises the upgrading of services offered and a consolidation of the dealer network.

New sales-finance company. Volvo Truck Finance, North America was formed at the end of 1995. Through this company, customers are being offered both financing and service contracts in connection with purchases of Volvo trucks. This makes it possible for customers to have complete, long-term control over their operating costs, while Volvo obtains greater influence over this segment of the value chain. ■

Volvo VN in North America



The Volvo VN truck is designed in accordance with Volvo Trucks' new flexible modular system and represents the first enhancement of the successful FH series.

Volvo Buses

City buses

Intercity buses

Coaches

Special applications

Environmental Concept Bus

Volvo's Environmental Concept Bus (ECB) contains a number of technical solutions for urban transport systems in the future.

New joint-venture agreement in China. Larger market share in Europe. Slightly lower income.

Volvo Buses' operations comprise the production and marketing of bus chassis, complete buses and transport systems for traffic in metropolitan areas. Chassis are produced in company-owned plants in Europe and South America. Buses are manufactured in wholly and partly owned plants in Europe, Canada and Asia.

Market and competitors. The world market for heavy buses has declined steadily during the 1990s, except for a small upturn in 1995. While the world market as a whole decreased again in 1996, the total market in Western Europe increased and amounted to 18,400 (17,300) vehicles, an increase of 6%, based on preliminary figures. There is substantial restructuring in the industry and Volvo Buses has strengthened its international presence through acquisitions and cooperation agreements. At year-end 1996, Volvo Buses was the second largest manufacturer in the OECD countries of buses weighing more than 12 tons. Its principal competitors were Mercedes, Setra, Renault and Scania.

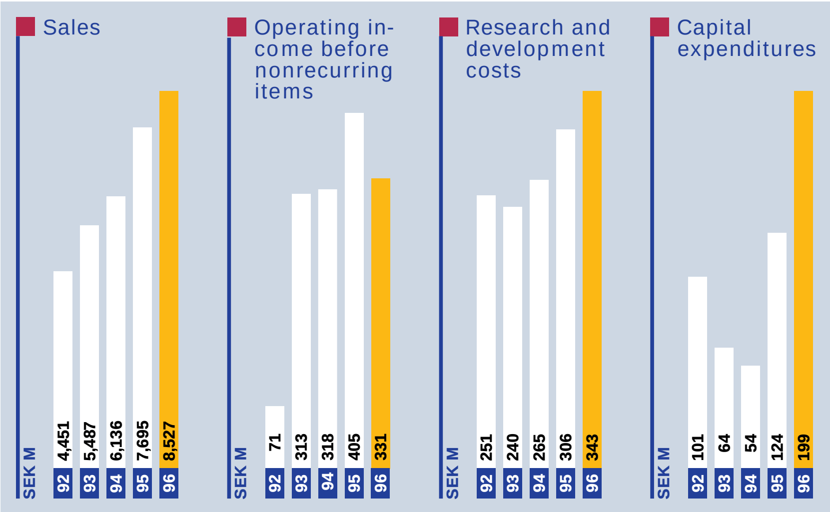
Sales. Volvo Buses delivered 7,410 (6,830) buses and bus chassis in 1996, 8% more than in 1995. Excluding Prévost, which was acquired at midyear 1995, the increase amounted to 200 buses. The order backlog as of December 31, 1996 was 28% higher than on the year-earlier date. Good volumes of sales were achieved in the Nordic countries, Great Britain, Spain and Brazil. The trend in North America was also favorable. Based on preliminary market data, Volvo Buses' share of the western European market for buses weighing more than 12 tons amounted to 19.2% (18.1).

Income. Volvo Buses reported operating income of SEK 331 M (405). The decrease was due primarily to stiffer competition and the continued strength of the Swedish krona. The operating margin declined to 3.9% (5.3) and the return on operating capital was 12% (18).

Production. Volvo manufactured a total of 7,440 (6,870) chassis, of which 5,330 (4,930) were produced in Europe, 1,410 (1,570) in South America and 700 (370) in other parts of the world. Utilization of capacity was satisfactory in all plants. At the end of 1996 it was decided to increase capacity at the Xian Silver Bus plant in China from 400 to 1,500 units per year. Volvo Bus Poland also started production of Volvo buses at the end of the year.

Alternative fuels. Approximately one third of the buses sold by Volvo Buses in the Swedish market in 1996 consisted of buses equipped to use alternative fuels. Series production of natural-gas engines, that was started in the Skövde engine plant at the end of 1995, had reached a production rate of 200 engines per year at the end of 1996.

New joint-venture agreement in China. During the year Volvo Bus Corporation and Shanghai Automotive Company Ltd. concluded an agreement covering formation of a jointly owned company in Shanghai to produce and market city buses and comuters. Under terms of the agreement, which requires approval by the Chinese authorities, production will begin at the end of 1997 with an initial volume of 500 buses per year. ■



Volvo Buses' largest markets

	Registrations of Volvo buses		Market share, %	
	1995	1996	1995	1996
Great Britain	1,380	1,500	60.5	63.8
Brazil[1]	1,010	1,170	6.9	8.5
United States	250[2]	540	–	–
Sweden	410	420	54.8	48.7
Hong Kong[1]	210	380	–	–
China[1]	100	230	–	–
Spain	180	220	10.7	11.8
Singapore[1]	290	200	–	–
Finland	130	200	47.4	56.2
Norway	210	190	51.2	52.4

1 Delivery from plant.
2 July–December.

Volvo Construction Equipment


Mini wheel loaders


Mini excavators


Wheel loaders


Excavators


Articulated haulers


Rigid haulers

Introduction of a completely new generation of excavators. Continuing favorable income despite decrease in market.

Volvo Construction Equipment, with a strong position in Europe and a growing position in North America, ranks among the world's leading manufacturers of construction equipment. The organization is highly decentralized and has production facilities in Sweden, Germany, France, the U.S., Canada and Brazil.

Operations are focused on strong growth. A large number of projects based on a sharper customer orientation were initiated in 1996 with the aim of increasing the company's competitiveness and documenting opportunities for accelerated growth. The objective is to broaden the range of products, continue to penetrate new markets outside Europe and North America and implement programs directed at important customer segments. Services such as financing, handling of used equipment and information technology support in the sales and distribution process are also being developed intensively.

Competitors. The construction equipment industry is characterized by a limited number of large companies with broad product programs and global market coverage, as well as by a large number of smaller, specialized companies with international or local coverage. The consolidation of the industry continued during the year, notably in the sector comprising light construction equipment.

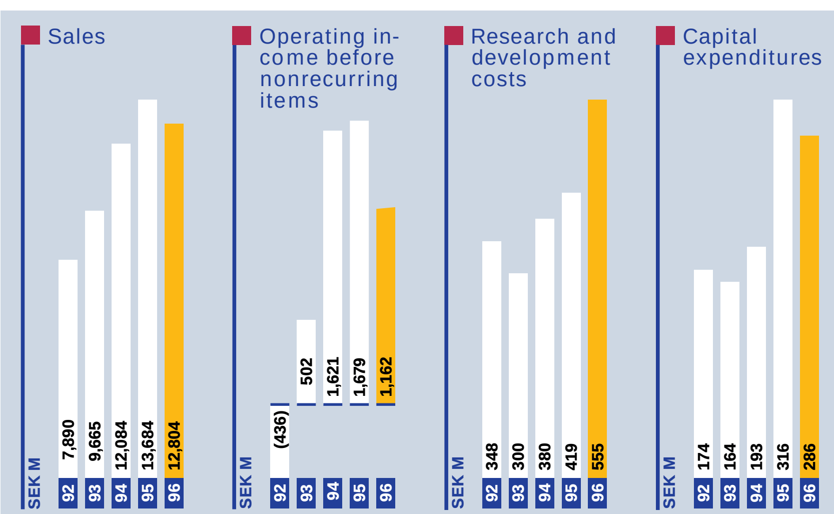
Market. The decline in important markets continued during 1996. It was less striking in North America, while the German market decreased significantly. The markets in other European countries also weakened, especially during the second half of the year.

Sales. Volvo Construction Equipment's sales amounted to SEK 12,804 M, a decrease of 6%. Increased sales volume contributed by Groupe Pel-Job, which had been acquired at the end of 1995, was offset by declining volumes in other sectors and movements in foreign exchange rates. But Volvo Construction Equipment maintained or strengthened its position in important business areas.

Income. Operating income declined to SEK 1,162 M (1,679) as a result of higher research and development costs and business development costs, unfavorable trends of exchange rates and lower volumes. The operating margin was 9.1% (12.3) and its return on operating capital was 23% (>25).

Product development. The first models in a new generation of excavators were introduced at the end of 1996. This development project is one of the largest ever undertaken by Volvo Construction Equipment. The new excavators will initially be marketed in Europe and later in North America and other markets. Volvo Construction Equipment thus has a modern program that offers comprehensive coverage in important product segments. Development projects involving loaders and articulated haulers as well as lighter construction equipment, were continued and/or begun during the year.

Capital expenditures for property, plant and equipment amounted to SEK 286 M. A new plant that manufactures components used in the production of articulated haulers was inaugurated in Braås (Sweden) in September. A substantial upgrading of the wheel loader plant in Arvika (Sweden) was begun in preparation for future product programs. At the end of the year a decision was made to expand the plant that manufactures wheel loaders and articulated haulers in the U.S. ■



Volvo Construction Equipment is consolidated as a wholly owned subsidiary of the Volvo Group effective June 30, 1995. The accompanying figures pertain to full years.

Figures for the year prior to 1995 are based on accounting in accordance with principles applied in the U.S. The figures have been translated from U.S. dollars to Swedish kronor at the average exchange rate in each year.

Volvo Penta

Marine Leisure, gasoline

Marine Leisure, diesel

Marine Commercial

Industry

Engines for gen sets

Unchanged sales. Stronger positions in a number of markets. Loss.

Volvo Penta develops and manufactures complete drive systems for marine and industrial applications. In order to meet specific construction and application demands of boat-builders and end-customers, the company is working with large industrial customers on a number of development projects. Approximately 80% of Volvo Penta's sales are to customers in Europe and North America.

With its marketing company in Singapore as a base, Volvo Penta is conducting a program to develop its operations in Southeast Asia. A representative office was opened in Shanghai in 1996 as a means of gaining a foothold in the Chinese market.

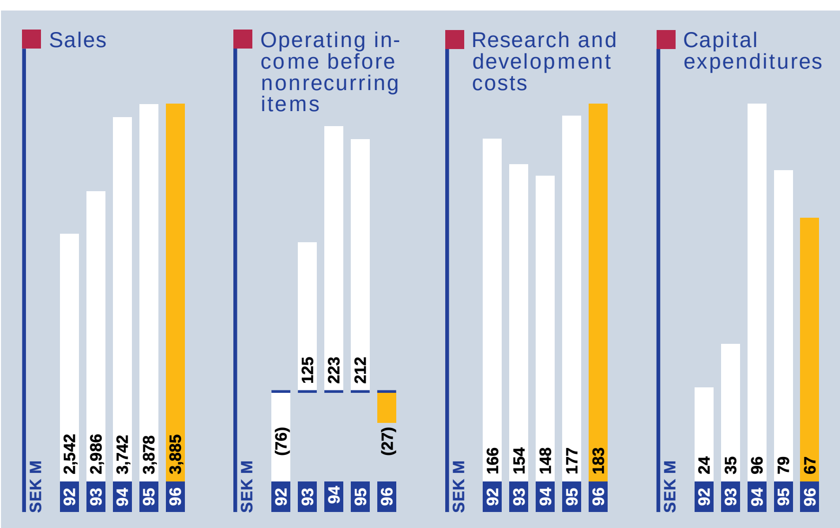
Competitors. Volvo Penta occupies a leading position as a supplier of engines for leisure craft in Europe. In the U.S., it is the second-largest supplier – after Mercruiser – with the "Aquamatic" products. Yanmar is the largest competitor in the segment for small marine diesel engines.

Caterpillar and Cummins, American companies, are the largest competitors in the market for 6-cylinder diesel engines used in commercial vessels and industrial applications. Volvo Penta is a world leader as a supplier of complete drive systems.

Market. The world market for marine engines in 1996 was unchanged from 1995. Demand for leisure craft in Europe was slightly lower and the trend in North America was on the year-earlier level. The world market for industrial engines continued to grow.

Sales. Volvo Penta's sales were approximately the same as in the preceding year. Sales of marine engines for leisure craft were higher in North America, and Volvo Penta maintained its shares in a declining market in Europe. Sales of engines used in commercial vessels were strong in Europe, but relatively weak in Asia. Sales of industrial engines increased, based on continuing firm demand for engines used for electrical generation.

Income. As a consequence of unfavorable foreign exchange rates and higher costs, including restructuring costs amounting to SEK 85 M, Volvo Penta incurred an operating loss of SEK 27 M in 1996, compared with income of SEK 212 M in 1995. The operating margin was negative, compared with a margin of 5.5% a year earlier and the return on operating capital was also negative, compared with a return of 17% in 1995.



Product introductions. During the year Volvo Penta introduced another engine – the TAMD122 EDC – with electronic diesel control. The first two engines in this series were launched in 1995. With the new technology, the amount of fuel and the combustion during operation are adapted precisely to the engine's rpms and load, resulting in a high degree of fuel efficiency and extremely low emissions.

In cooperation with a large number of train manufacturers, Volvo Penta has developed a new flexible propulsion system for rail cars. The drive unit consists of a Volvo Penta 265 kW DH 10A-360 engine in a "Euro 2" low-emission configuration plus a Volvo Powertronic automatic gearbox. The electronic control makes it possible to connect a large number of cars that can be controlled from one operator's position. The system is expected to be highly cost-effective and is much more flexible than current methods of rail-based transport.

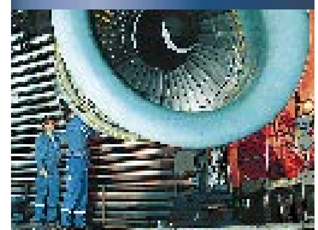
Restructuring. Four regions with local responsibility for Volvo Penta products of all types are being created, effective in 1997. Global support functions will assist the following four regions: Europe, North America, Asia and "International."

Beginning in 1997, the distribution of spare parts will be coordinated with Volvo's other operations using diesel engines. ■

Volvo Aero

Military engines

Commercial engines



Engine services

Space propulsion

Demand for new aircraft and spare parts increased sharply during the year. Important joint-venture agreements were signed. Income improved.

Volvo Aero develops, manufactures and maintains military and commercial aircraft engines. It also develops and manufactures small gas turbines, components for rocket engines, and diesel engines. Its operations are concentrated in Sweden but nearly 60% of its sales are to customers outside the country.

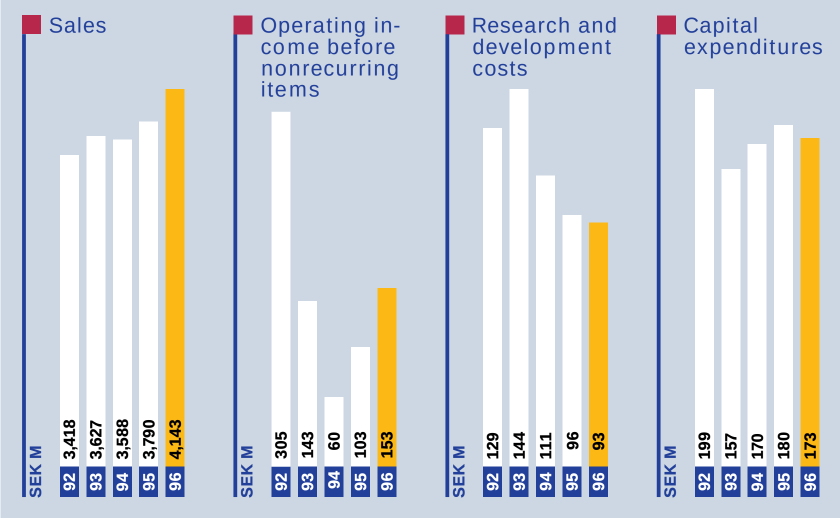
Income. Volvo Aero's operating income improved to SEK 153 M (103). The positive trend of income was attributable primarily to sharply higher sales of commercial aircraft engine components, combined with continuing rationalization measures. The operating margin was 3.7% (2.7) and the return on operating capital was 19% (13).

Military engines. The Swedish Air Force's cutback and rearmement from the Viggen aircraft, in favor of the more cost-effective JAS 39 Gripen, which requires less maintenance, affected Volvo Aero to a high degree during the year.

The company made a decision in January 1997 whereby the operations of Volvo Aero Support and Volvo Aero Engine Services in Arboga are being moved to Trollhättan, due to a dramatic reduction in Volvo Aero Support's revenue. The basic activity of this unit – maintenance of the Viggen's RM8 engines – will be reduced by 80% within a year and will cease entirely in 2003.

The military aircraft engine operations of Volvo Aero in Trollhättan were rationalized to adapt to future demand in the Swedish market. Deliveries of the RM12 engine for use in the JAS 39 Gripen continued according to plan.

Commercial engines. International air traffic increased by 8% in 1996. Demand for new aircraft and spare parts rose sharply. During the latter part of the year Volvo Aero concluded a joint-venture agreement with MTU, the aircraft engine manufacturer that is part of Daimler-Benz Aerospace. Under terms of the agreement, which is a step in the restructuring of the European aircraft engine industry, Volvo Aero will participate in the world's largest aircraft engine program – development of the PW 4084/90/98 for the Boeing 777. The contract is valued at approximately SEK 4 billion over a period of 20 years.



Engine Services. The market for maintenance of commercial aircraft engines increased, but there was heavy pressure on prices due to excess capacity in the industry. During the year Volvo Aero increased its stake in The AGES Group (Air Ground Equipment Sales), an American company, from 5% to 25%. AGES trades in, and leases, aircraft materiel. In the beginning of 1997, Volvo Aero increased its holding in AGES to 51%, whereby the latter became a subsidiary of Volvo Aero.

Space Propulsion. Arianespace SA, the French space agency, decided to extend the operational time of the Ariane 4 rocket by one year. As a result Volvo Aero received orders valued at SEK 100 M for additional combustion chambers. The first edition of the new Ariane 5 rocket crashed on its first launch. The cause was a fault in the control system software, which is outside Volvo Aero's area of responsibility. The next launch is scheduled for the summer of 1997. Volvo Aero develops and manufactures exhaust nozzles and power turbines for the rocket's main engine.

Gas turbines. The VT2600 and VT600 gas turbines are in the final stages of development. Both underwent field tests during the year and the search for primary customers has begun. Volvo Aero sold its 50% holding in VOAC Hydraulics to Parker Hannifin in 1996. The company's heater unit was sold to Eberspächer, a German firm. ■

Sales financing

In addition to offering attractive financing terms in connection with the acquisition of Volvo products, the growing sales-financing business provides a wide range of services in the form of leasing, service and maintenance contracts, insurance, credit cards, etc. These operations, which involve broader and closer contacts with customers, are conducted as an integral part of the activities of each operating sector within the automotive operations.

Volvo Cars. The greater part of the sales-financing operations during the year were focused on the newly formed Volvo Car Finance Holding AB, in which the sales-financing companies in Finland and Belgium were integrated. A new wholly-owned company was established in Great Britain at the end of the year. The same occurred in the U.S., where a certain amount of cooperation with local partners will be maintained in order to offer competitive financing services. Sales-financing operations were begun in Germany and Australia and preliminary studies leading to the establishment of activities in Spain, France and Japan are under way.

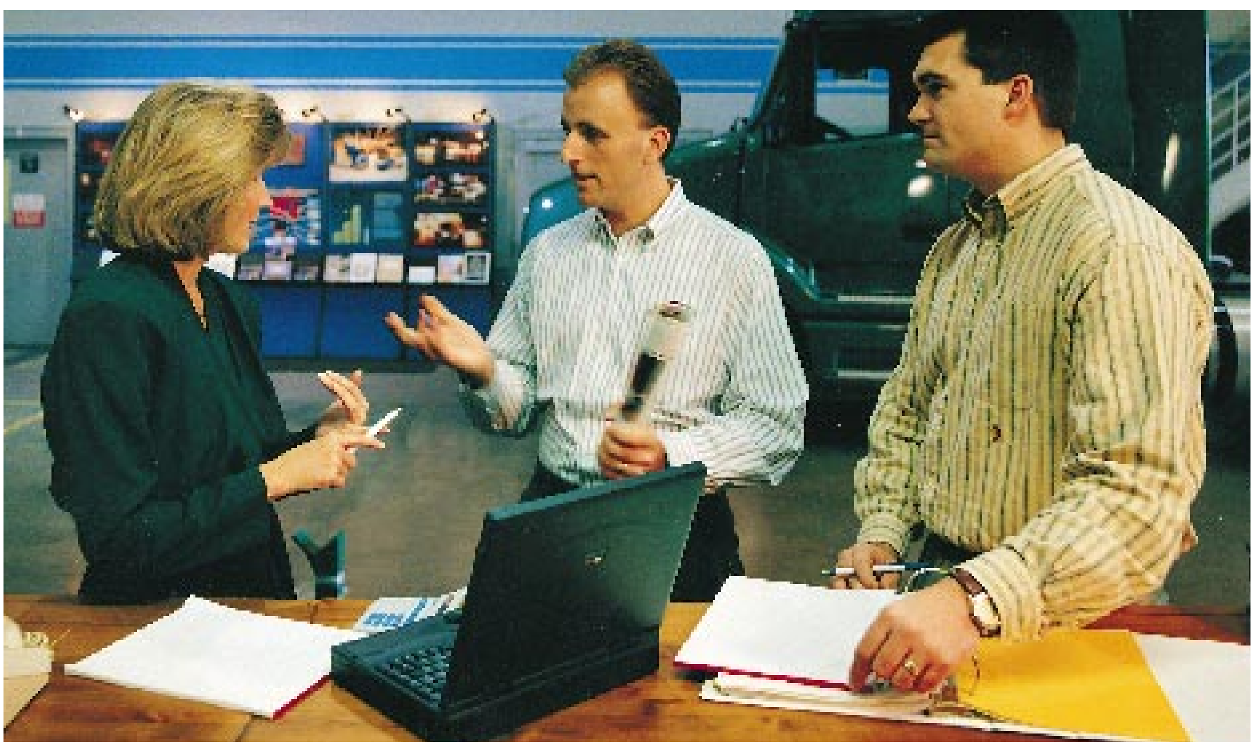
The insurance concept, developed earlier in Belgium through Amazon Insurans NV, is being introduced by stages in a number of European countries, including the Netherlands and Germany.

Volvo Trucks. Demand for full-service leasing has increased sharply in the heavy-truck segment. Full-service leasing today accounts for a large percentage of sales in North America and in the British and French truck markets.

The greater part of Volvo Trucks' sales financing is provided through wholly-owned subsidiaries of Volvo Truck Finance Holding B.V. Operations were expanded in 1996 through the establishment of subsidiaries in Europe, North America and Australia.

Volvo Construction Equipment. Volvo Construction Equipment started to offer sales-financing services in its more important markets during 1996. ■

See page 50 for information on the income and financial position of Volvo's sales-financing operations.



In connection with the launching of the new VN model in North America in the autumn of 1996, Volvo Truck Finance North America, a newly established subsidiary, offers a competitive financing plan.

Finance, insurance, real estate

A number of Volvo Group companies are active in the areas of treasury operations, insurance and real estate. These activities are designed to provide vital support to the automotive operations by offering a broad range of services.

Treasury

Volvo Group Finance Sweden AB with subsidiaries, handles the greater part of the Group's financial transactions. Coordinated financial management offers better opportunities to utilize Volvo's financial assets and cash flows effectively and to manage risks related to financial management in a professional manner.

Financial management is divided into three principal segments: management of assets and liabilities, currency management, and financial support services.

The year 1996 was a successful one, characterized by expansion and growth. Income was among the highest achieved by the Volvo Group Finance Sweden group both in terms of absolute figures and relative to the market index. The program designed to optimize flows of payments and currencies was intensified. The company's presence in the market was strengthened through establishment of a new unit in North America and Volvo Group Finance is now active through subsidiaries and branches in Amsterdam, Geneva, Singapore and New York. The departments for market and economic analysis were expanded in order to further increase the scope and quality of services offered.

Insurance

Försäkrings AB Volvia offers direct-writing automobile insurance to Volvo and Renault car owners in Sweden. Liability insurance is written jointly with Skandia's subsidiary, Dial. Volvia also has cooperation agreements with insurance companies in Norway and Great Britain. Volvia's share of the market for insurance on Volvo and Renault cars in Sweden increased to 33% (32) in 1996.

Volvo Group Insurance Försäkrings AB and its subsidiaries in Luxembourg and Ireland constitute an important part of the Group's risk-management operations. These so-called captive companies reinsure the greater part of the internal risks in the property insurance sector.

Real estate

Danafjord AB's real estate holdings are concentrated in the Torslanda and Arendal sections of Göteborg and consist mainly of office and warehouse properties used for Groupwide purposes.

The real estate holdings in **Fortos Fastigheter AB** were sold during the year for a total of SEK 284 M. ■

	Income (loss) before taxes		Total assets	
	1995	1996	1995	1996
Treasury				
Volvo Group Finance Sweden group	407	593	43,505	50,523
Insurance				
Försäkrings AB Volvia	147	152	2,260	2,528
Volvo Group Insurance Försäkrings group	16	1	584	640
Real estate				
Danafjord group	37	73	1,802	1,888
Fortos Fastigheter AB	(17)	(2)	589	–

Other services

The **Volvo Transport** company, which specializes in the area of transports and logistics, is responsible for providing efficient transport systems for all Volvo companies.

Its operations, conducted in close cooperation with Volvo's product companies and external shippers, comprise both the delivery of materials from suppliers to Volvo's production facilities and the distribution of vehicles and other products to dealers in all Group markets.

Volvo Data is the Group's service company and center of expertise pertaining to information technology. The company provides computer operations and specialized services for all Volvo companies and has local units in Sweden as well as subsidiaries in the U.S., Belgium, Great Britain and Switzerland.

The build-up of the technical infrastructure of the entire Group, based on a common IT strategy, was intensified during 1996. The objective is to employ standardized and integrated technologies to create the environment for the globalization that Volvo is seeking to achieve, through applying its own resources or with an external partner. ■

Personnel

Volvo is a worldwide organization embracing different cultures and men and women from all parts of the world. The ability to involve employees with the proper expertise and experience is a decisive factor in creating a competitive Group. Volvo is therefore active, centrally and locally, in programs designed to heighten employees' knowledge of Group objectives and strategies, and their perception of the Group as a whole – thereby increasing their sense of participation. As part of the active dialog between employees and managers, Volvo conducts an annual attitude survey ("Insight") involving all employees within the Group. The ability to acquire greater knowledge and develop new expertise faster than our competitors is critical in determining Volvo's success. Volvo Aero is among the units that have made the greatest progress in the area of work organization.

Leadership development. During 1996 Volvo began a leadership development program for the Group's 200 senior managers and employees who have been identified and evaluated as potential managers based on the desired leadership characteristics set forth in Volvo's Company Philosophy. The program involves continuing evaluation and development activities.

Equal opportunity. The number of women managers at high levels of the Volvo Group is still small. As part of its equality of opportunity program, and in an attempt to increase the number of women managers, Volvo is conducting its "Management Development for Women" program for the third time. The objective is to strengthen women in their present positions, prepare them for larger responsibilities and expose existing expertise.

A number of women who participated in the earlier programs today hold higher positions than before.

Volvo Euro Dialogue. Volvo's European Group Council is being started in 1997. Approximately 30 employees appointed on a national basis will meet with Volvo's management once a year. A direct dialog is thereby being established between Group management and employees in Volvo's European companies. The purpose of this dialog is to encourage

The objective of all who work at Volvo should be to ensure continuing improvements that benefit the customer.

all Volvo employees to participate actively and assume responsibility for a continuous program of improvement.

Sweden 2000. The “Sweden 2000” project, which is designed to provide increased opportunities in the labor market for young persons and immigrants, has been established in a more permanent form and is now being administered within the framework of the Sweden 2000 Institute. One result of Volvo’s involvement in this project were the action plans to increase variety, developed within the Group during the year, to more effectively utilize the skills of Volvo employees irrespective of gender, ethnic background, religion, age or other factors.

Operational development. A large number of pilot projects designed to focus on objectives – with emphasis on employee participation – are currently being conducted. Approximately 7,000 employees are currently involved in these projects, which are being carried out in the Volvo Cars and Volvo Trucks assembly plants in Göteborg, as well as within Volvo Aero, among other locations.

Youth groups. Twenty-five percent of the employees in the Volvo Group are below the age of 30. The ability to utilize the values and creativity of younger employees is essential if Volvo is to achieve world-class status. Accordingly, a youth conference has been arranged in cooperation between the managements of Group companies and union organizations. Youth groups are also active in a number of Volvo communities.

Profit-related bonus. The Volvo Group’s profit-related bonus systems for the years 1995-1997 is based on the return on capital employed. A bonus of 10%, but not exceeding SEK 350 M, is paid on the required return that exceeds a weighted average of the interest rate on Treasury bills plus 6%, but not lower than 15%.

60-Year Fund. The purpose of the 60-Year Fund is to strengthen the financial position of employees in connection with their retirement on pension. Employees who hold a full share in the Fund receive SEK 140 per month that is deposited in an individual account.

The bonus system and 60-Year Fund both comprise employees in AB Volvo and its wholly owned subsidiaries in Sweden.

Employees	1992	1993	1994	1995	1996
Volvo Cars	28,450	26,800	29,080	31,050	29,600
Volvo Trucks	19,480	17,780	19,790	21,670	21,160
Volvo Buses	2,620	2,610	2,600	3,620	3,750
Volvo Construction Equipment	–	–	–	7,610	7,300
Volvo Penta	1,540	1,420	1,540	1,570	1,420
Volvo Aero	4,290	4,040	3,770	3,890	3,740
Other	3,740	3,350	2,350	2,600	3,350
Automotive operations	**60,120**	**56,000**	**59,130**	**72,010**	**70,320**
Operations being divested	–	17,640	16,420	7,040	10
Total	**60,120**	**73,640**	**75,550**	**79,050**	**70,330**

Additional information on Volvo Group personnel, wages and salaries appears in Note 25 on pages 66–67.

Employees. The number of employees in the Volvo Group at December 31, 1996 was 70,330, a decrease of 8,720 since the preceding year-end. The change was due largely to the fact that Swedish Match (7,000 persons) is no longer part of the Volvo Group. Excluding acquisitions of companies and changes within the Group, the number of employees in Volvo Cars, mainly in production in Sweden, declined by 1,300. Approximately 800 persons, most of them in the U.S. and Brazil, left Volvo Trucks. Salaries and wages amounted to SEK 25,997 M (27,248).

Financial review

Net income of the Volvo Group increased to SEK 12.5 (9.3) billion.

Operating income of SEK 3.6 (7.5) billion from automotive operations was much lower than in the preceding year and was not at an acceptable level.

Sales by operating sector	1992	1993	1994	1995	1996
Volvo Cars	44,598	58,158	73,598	83,340	83,589
Volvo Trucks	25,992	33,955	46,250	51,027	44,275
Volvo Buses	4,451	5,487	6,136	7,695	8,527
Volvo Construction Equipment	–	–	–	6,916 [1]	12,804
Volvo Penta	2,542	2,986	3,742	3,878	3,885
Volvo Aero	3,418	3,627	3,588	3,790	4,143
Other and eliminations	2,001	6,942	614	(2,150)	(3,006)
Automotive operations	**83,002**	**111,155**	**133,928**	**154,496**	**154,217**
Operations being divested[2]	–	–	21,938	17,015	1,843
Total	**83,002**	**111,155**	**155,866**	**171,511**	**156,060**

1 Beginning July 1995. Sales value for the full year 1995 was 13,684.

2 Refers to operations not related to the automotive and transport vehicle industry.

Operating income (loss) before nonrecurring items, by operating sector[1]	1992	1993	1994	1995	1996
Volvo Cars	(1,691)	626	2,771	1,089	1,498
Volvo Trucks	(619)	585	4,051	5,073	878
Volvo Buses	71	313	318	405	331
Volvo Construction Equipment	–	–	–	717 [2]	1,162
Volvo Penta	(76)	125	223	212	(27)
Volvo Aero	305	143	60	103	153
Other and eliminations	108	121	63	(106)	(376)
Automotive operations	**(1,902)**	**1,913**	**7,486**	**7,493**	**3,619**
Operations being divested	–	–	1,885	1,531	91
Total	**(1,902)**	**1,913**	**9,371**	**9,024**	**3,710**

1 Nonrecurring items in 1992, 1993 and 1995 that have been excluded from operating income above amount to:

1,450 in 1992 pertaining to a provision for restructuring costs (of which Cars 807, Trucks 270, Penta 108, Aero 44 and Other and eliminations 221);

1,600 in 1993 pertaining to a reserve for excess value attributable to Volvo Trucks, which was included in Other and eliminations;

1,215 in 1995 pertaining to gain of 3,032 on the sale of subsidiaries and write-down of 1,817 of acquired shares in Volvo Construction Equipment, which is included in Other and eliminations.

2 Beginning July 1995. Operating income for the full year 1995 was 1,679.

Economic activity in the OECD countries increased slightly in 1996 following the sluggishness of the preceding year. But growth in the Gross National Product remained around a modest 2.4%, which is much lower than during the boom economies of the 1980s. The upturn within the OECD was relatively weak, even when compared with other regions. The growth in Southeast Asia was a full 7% and in South America and Eastern Europe it was between 3% and 5%. The growth in economic activity in Sweden was due mainly to a favorable trend of exports. But domestic demand was restrained by an austere financial policy and high unemployment.

A continuing low rate of inflation contributed to the favorable trend of interest rates in the industrialized countries. Despite the high rate of growth in the U.S., the rise in inflation was modest and fears of interest-rate hikes were not realized. The trend of interest rates in western Europe was strongly influenced by the EMU (European Monetary Union) project. Austere financial policies and declining inflation contributed to lower interest rates in most countries. In Sweden, the Riksbank lowered the key rate by more than 4 percentage points, to 4.10%.

The international currency markets were dominated by the continuing strengthening of the U.S. dollar. In western Europe, low and very similar rates of inflation, as well as budgetary cutbacks, were a factor in the small changes in exchange rates. However, the Swedish krona continued to strengthen slightly during the year. The average TCW index (total competitiveness weight index) declined from 127 in 1995 to 116 in 1996.

Volvo's concentration on automotive operations. The concentration on the automotive and transport vehicle industry approved by Volvo's Board of Directors in 1994 was virtually complete at the end of 1996. Since January 1994 shareholdings in operations not related to the automotive industry have been sold for a total of SEK 34 billion, excluding the dissolution of the cross-ownership between Volvo and Renault and including the sale of the holding in Pripps Ringnes in February 1997.

As approved at Volvo's Annual General Meeting on April 24, 1996, the Swedish Match company shares were distributed to Volvo's shareholders on May 13, 1996. Swedish Match shares were then listed on the "O" List of the Stockholm Stock Exchange and in the NASDAQ exchange in the U.S. on May 15. During the second quarter of 1996

Volvo's concentration on automotive operations

Divestments of shareholdings and subsidiaries

1994	Percentage holding	Amount of sale, SEK bns
Investment AB Cardo	44%	3.7
AB Custos	25%	1.7
Hertz Corporation	26%	1.1
Saga Petroleum a.s.	5%	0.5
Cultor Ab	15%	0.7
Other		0.5
		8.2
1995		
Procordia Food, Abba Seafood	100%	3.8
Alfred Berg Holding AB	100%	0.9
Falcon Holding AB	100%	0.7
Cultor Ab	10%	0.6
Partena AB	44%	0.6
Other		0.7
		7.3
1996		
Swedish Match AB	100%	– [1]
Fortos Fastigheter AB	100%	0.3
Pharmacia & Upjohn, Inc.	10%	12.9
Investment AB Bure	18%	0.5
Spira AB	10%	0.1
Other		0.1
		13.9
Total		29.4

Acquisitions of shareholdings and subsidiaries

1994	Acquired interest
Volvo Personvagnar AB	25% [2]
Volvo Lastvagnar AB	45%
Aabenraa Karrosseri A/S	100%
Volvo Busse Deutschland GmbH	100%
Xian Silver Bus Corp.	50%
1995	
Volvo Construction Equipment Corporation	50%
Prévost Car Inc	51%
Groupe Pel-Job	100%
1996	
Merkavim Metal Works Ltd	27%
Volvo Austria GmbH	25%
The AGES Group, ALP	20%

1 Distributed to AB Volvo's shareholders, with an initial market value of SEK 10.1 billion.

2 AB Volvo received 25% of Volvo Car Corporation in exchange for 45% of Renault Véhicules Industriels.

Volvo divested its entire holding of shares in Investment AB Bure (18% of the voting rights and share capital) and Spira AB (9.5% of the voting rights and share capital).

The sale of 50,006,534 shares of Pharmacia & Upjohn, equal to 9.9% of the share capital in the company, was completed on July 23, 1996. The selling price was fixed at USD 40.00, or SEK 262.82, per share and the buyers comprised a large number of institutional investors, mainly in Europe and North America. The Volvo Group's proceeds from the sale amounted to SEK 12.9 billion. Following this sale, Volvo's holding in Pharmacia & Upjohn amounted to 3.9% of the share capital in the company.

In February 1997, AB Volvo and Orkla ASA (Norway) concluded an agreement whereby Volvo is selling its shareholding in Pripps Ringnes AB to Orkla. Volvo's interest amounts to 49% of the shares which, upon conversion of a convertible debenture loan, will increase to 55%. Volvo is receiving SEK 4.7 billion and the transaction results in a capital gain of SEK 3.0 billion in Volvo's consolidated accounts in the first quarter of 1997.

Other changes in the Volvo Group. During the spring of 1996 AVC Intressenter – a holding company owned equally by Volvo Aero and Atlas Copco – completed the sale of VOAC Hydraulics to Parker Hannifin, an American company. Volvo Aero also increased its ownership in The AGES Group, an American company, from 5% to 25%. This holding was increased to 51% in the beginning of 1997.

In January 1997, Volvo took over the Group's import operations in Austria from Wolfgang Denzel KFZ AG. The distribution of Volvo cars and trucks was then integrated with the operations of Volvo Austria GmbH (formerly Steyr Bus GmbH).

Group pension foundations. During the year the Board of Directors of AB Volvo approved the establishment of two foundations – the Volvo Group Pension Foundations for employees. The purpose is to secure pension commitments within the framework of the ITP plan and to adapt the management of pension obligations to international practice. Liquid funds amounting to SEK 4.2 billion were transferred to one of the foundations during 1996.

New Volvo President and Chief Executive Officer. Sören Gyll is leaving his position as President and Chief Executive Officer of Volvo in connection with the Annual General Meeting on April 23, 1997. He will be succeeded on the same date by Leif Johansson who has been President of AB Electrolux since 1991, and Chief Executive Officer since 1994.

Dividend proposal. The Board of Directors recommends that shareholders at the Annual General Meeting approve a dividend of SEK 4.30 per share for 1996, amounting to a total of 1,993. The dividend for 1995 amounted to SEK 4.00 per share, plus one share of Swedish Match for each Volvo share held regardless of series. The total cash dividend amounted to 1,854 and the dividend pertaining to the Swedish Match holding totaled 8,000, equal to the book value in AB Volvo as of the date of the dividend.

Redemption of AB Volvo shares. The Board of Directors of AB Volvo will propose that one out of each 20 Volvo shares outstanding be redeemed. The price will be based on the market price plus a premium. The timetable and terms were announced on the date of publication of this annual report (Swedish version) on March 19.

Sales and income. **Volvo Group sales** for the full year 1996 amounted to 156,060, compared with 171,511 in 1995. Sales attributable to the automotive operations, excluding divestments and acquisitions, decreased by 5%, which was due to smaller volumes of business in Volvo Trucks. The other operating sectors reported higher, or largely unchanged, sales. See table on page 41.

The number of passenger *cars* invoiced was 368,300 (374,600). Sales were weak during the first half of 1996, but increased during the second half of the year as the result of larger shipments of Volvo S40/V40 models and the continuing success of the Volvo 850.

Shipments of Volvo *trucks* declined from the record level of 76,500 vehicles in 1995 to 63,700 in 1996. The decrease was attributable exclusively to operations in North and South America, while deliveries in Europe and other markets were on a level with those a year earlier. Volvo Buses delivered 7,410 *buses and bus chassis*, an increase of 8%.

As a consequence of the decrease in the total market for *construction equipment* – mainly in Germany and the rest of Europe – Volvo Construction Equipment reported lower sales.

Volvo Penta's sales, excluding units divested and acquired, were 2% lower than in the preceding year. Sales of *marine engines* declined, but sales of *industrial engines* were higher as a result of strong demand for generating systems.

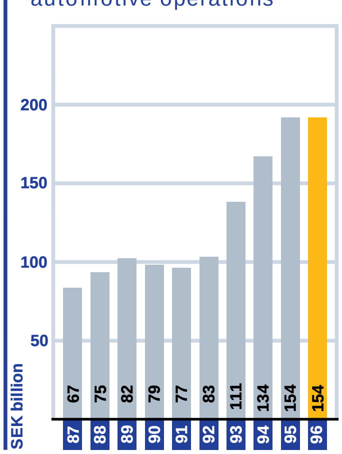
Volvo Aero's sales increased 9%, compared with 1995. The increase was attributable to the Commercial Engines and Engine Services business areas.

Operating income from automotive operations, before nonrecurring items, declined from 7,493 in 1995 to 3,619 in 1996. Volvo Trucks' operating income decreased by 4,195, while Volvo Cars' income improved. Volvo Construction Equipment reported operating income of 1,162 in 1996, compared with 717 for the last six months of 1995. Volvo Aero's income was slightly higher than a year earlier, while income in Volvo Buses declined. Volvo Penta reported a loss in 1996. Factors that affected operating income are shown in the following table.

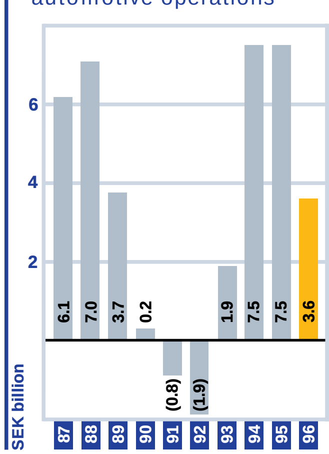
SEK billion	1995	1996
Operating income from automotive operations in preceding year, before nonrecurring items	7.5	7.5
Change in volume and profit margins	5.6	(1.8)
Volvo Construction Equipment	0.7	0.4
Higher research and development costs	(2.5)	(0.7)
Higher operating expenses	(2.3)	(0.9)
Restructuring and phase-out of products, Volvo Trucks, North America	–	(0.7)
Effect of changes in foreign exchange rates	(1.4)	0.8
Other	(0.1)	(1.0)
Operating income for year from automotive operations, before nonrecurring items	**7.5**	**3.6**

As shown on page 41, the sharp decline in operating income was attributable mainly to Volvo Trucks. Income in the European truck operations was satisfactory but the North American operations incurred substantial losses due to lower volume of sales and higher costs of production and product development. Of the total loss of 1,600 in North America, the costs of restructuring operations and phase-out of certain products accounted for 700.

Sales, automotive operations

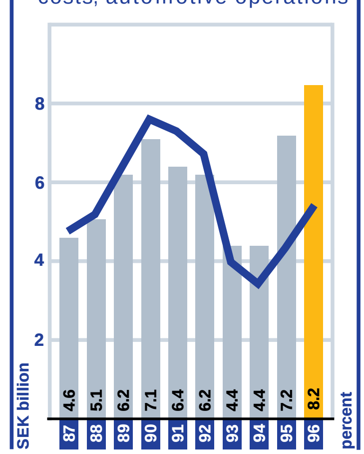


Operating income automotive operations*



* before nonrecurring items

Research and development costs, automotive operations



The curve shows research and development costs as a percentage of sales.

Financial review

The trend of foreign exchange rates, after discounting hedging contracts, had an overall positive impact of 800 on operating income, compared with the preceding year. The impact was favorable in the amount of 1,100 in Volvo Cars and negative in the amount of 300 in the other operating sectors as a whole. The positive effects derived mainly from more favorable exchange rates for outflows in German marks, Dutch guilders and Belgian francs.

Income in 1996 was charged with 300 (285; 350) for the profit-related bonus for Volvo Group employees in Sweden.

Income from equity method investments amounted to 290 (1,402; 2,193). Income included the gain of 352 on the sale of VOAC Hydraulics. Volvo's share of the loss in NedCar – 334 (635; 226) – was reduced, relative to the preceding year, as a result of high sales revenue from the new Volvo S40/ V40 models. The share of income in Pripps Ringnes amounted to 263.

Financial income and expense. Dividends received included the following: Pharmacia & Upjohn, Inc., 327; Borgtornet, 165; Renault SA, 124; SAS Sverige AB (formerly SILA AB), 91; Protorp Förvaltnings AB, 33 and Investment AB Bure, 31.

Income from the sale of shares pertained mainly to the sale of 9.9% of the shares of Pharmacia & Upjohn, Inc., which resulted in a gain of 7,766, and a gain of 394 on the sale of Investment AB Bure.

Net interest income, which improved substantially as a result of the Volvo Group's strong financial position, was distributed as follows:

	1996	1995	1994
Interest income on liquid funds	4,498	3,755	2,928
Interest expense on loans	(3,015)	(3,164)	(3,069)
Interest expense, pension liabilities	(256)	(419)	(434)
Other interest income, net	276	25	50
Net interest income (expense)	**1,503**	**197**	**(525)**

Other financial income and expense in 1996 included foreign exchange losses of 13 on loans (1995: loss of 214, 1994: gain of 104). Foreign exchange differences on loans that hedge net assets in foreign subsidiaries and associated companies amounted to 55 (508; 345) and are credited, after deduction for taxes and minority interests, directly to shareholders' equity.

Tax expense pertained mainly to current taxes in foreign subsidiaries and to Operations being divested. The sale of shareholdings resulted in only a limited tax charge.

Impact of changes in foreign exchange rates on operating income

Operating income in 1996 compared with operating income in 1995 was substantially affected by changes in foreign exchange rates.

Lower average spot rates for most currencies had a negative effect on "inflow" currencies, JPY, GBP and to some extent USD, and a positive effect on outflow currencies, BEF, NLG and DEM. As shown in the accompanying table, the total net negative effect was 450.

However, since Volvo hedges large portions of its payment flows in foreign currency through forward contracts, changes in spot rates do not affect operating income immediately. In 1996 the impact on earnings of forward and options contracts amounted to 1,100 (1995: 0) which resulted in a positive impact of 1,100 on operating income in 1996, compared with 1995.

Changes in spot rates also had an effect in connection with the translation of operating income in foreign subsidiaries and the revaluation of balance sheet items in foreign currency.

The total effect of changes in exchange rates on Group operating income for 1996, compared with 1995, was positive 800, including a gain of 1,100 in Volvo Cars and a loss of 300 in the other operating sectors as a whole.

Total income effect due to changes in foreign exchange rates	Net flow, 1996	Income effect
Effect of changes in spot rates in each currency		
USD	2,000	(30)
JPY	75,400	(790)
GBP	450	(320)
BEF	(25,000)	560
NLG	(1,100)	440
DEM	(1,700)	240
Other		(550)
Effect of changed spot rates, net		(450)
Effect of forward contracts and options contracts[1]		1,100
Translation of foreign subsidiaries' operating income		(290)
Revaluation of balance sheet items in foreign currency		440
Total effect		800

1 Group sales are reported at average current rates and the effect of hedging is included directly in operating costs.

Consolidated income statements

		1996	1996	1995	1995	1994	1994
			1996		1995		1994
Sales			**156,060**		171,511		155,866
Costs and expenses							
Cost of sales		**(126,077)**		(132,693)		(118,876)	
Selling, general and administrative expenses		**(20,922)**	**(146,999)**	(24,138)	(156,831)	(22,512)	(141,388)
Depreciation and amortization	Note 3		**(5,351)**		(5,656)		(5,107)
Operating income before nonrecurring items			**3,710**		9,024		9,371
Nonrecurring items	Note 4		**–**		1,215		–
Operating income	Note 5		**3,710**		10,239		9,371
Income from equity method investments	Note 6		**290**		1,402		2,193
Financial income (expense)							
Dividends received		**789**		351		1,126	
Gain on sales of securities	Note 7	**8,268**		1,180		4,243	
Interest income		**4,774**		3,954		3,083	
Interest expense		**(3,271)**		(3,757)		(3,608)	
Other financial income (expense)	Note 8	**(357)**	**10,203**	(321)	1,407	(30)	4,814
Income before taxes and minority interests			**14,203**		13,048		16,378
Taxes	Note 9		**(1,825)**		(3,741)		(2,783)
Minority interests	Note 10		**99**		(45)		(365)
Net income			**12,477**		9,262		13,230

Financial position

Total assets of the Volvo Group increased by SEK 2.5 billion in 1996. Excluding changes in the composition of the Group – mainly the distribution of the shareholding in Swedish Match to AB Volvo's shareholders, total assets increased by SEK 11.1 billion. Changes in foreign exchange rates had a minor impact on the Group's assets.

Current assets. Liquid funds increased by SEK 12.9 billion as a result of the sale of Pharmacia & Upjohn, Inc. shares and were reduced by SEK 4.2 billion through the payment to Volvo's newly formed pension foundations. (See also Note 20 to the Consolidated financial statements.) Receivables increased by SEK 4.8 billion – after adjustments for changes in composition of the Group – due mainly to increased sales-financing activity. The inventory declined by SEK 0.8 billion, mainly as a result of changes in composition of the Group.

Long-term assets declined by SEK 3.2 billion. Excluding changes in composition of the Group, long-term assets increased by SEK 1.8 billion.

Property, plant and equipment decreased as a result of the distribution of the holding in Swedish Match and increased, after deduction for depreciation, through capital expenditures. The sale of the holding in Pharmacia & Upjohn reduced shares and participations by SEK 5.3 billion. The change in intangible assets was attributable to the reduction in goodwill as a result of the distribution of the holding in Swedish Match.

Capital expenditures for property, plant and equipment amounted to SEK 8.2 billion (6.5; 4.3) and investments in leasing and company vehicles totaled SEK 3.9 billion (2.6; 2.5). See also page 48.

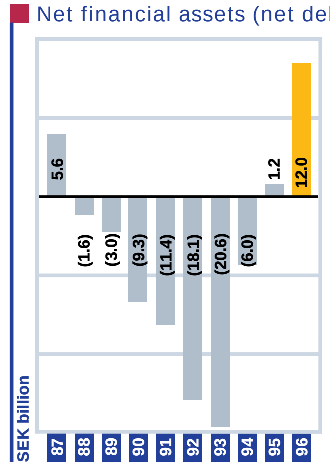
Net financial assets which amounted to SEK 1.2 billion at the beginning of the year, totaled SEK 12.0 billion at December 31. The following table shows details of the change.

SEK billion	
Net financing from year's operations (adjusted for sales-financing companies)	8.2
Capital expenditures excluding sales-financing companies, gross	(8.9)
Proceeds from sales of shares, net	14.1
Cash dividends paid to AB Volvo shareholders	(1.9)
Repayment of loan to Renault	(1.5)
Stipulated infusion of capital to NedCar	(0.6)
Other	1.4
Total increase	**10.8**

Shareholders' equity increased by SEK 6.7 billion. The distribution of Swedish Match shares and payment of the cash dividend to Volvo's shareholders reduced shareholders' equity by SEK 4.1 billion and SEK 1.9 billion, respectively. Net income for the year increased shareholders' equity by SEK 12.5 billion. Shareholders' equity and minority interests increased to 41.4% (37.4; 31.9) of total assets.

Interest-bearing assets and liabilities	1996		1995		1994	
Assets						
Liquid funds	**26,209**		22,926		24,096	
Receivables	**10,362**		5,466		4,465	
Long-term receivables and loans	**8,846**		6,239		4,543	
Less: Assets in sales-financing operations	**(15,830)**	**29,587**	(9,104)	25,527	(7,835)	25,269
Liabilities						
Bank loans	**8,429**		6,346		10,592	
Other loans	**5,834**		5,345		10,963	
Bond loans	**7,955**		6,975		4,317	
Other long-term loans	**9,668**		9,501		7,679	
Accruals for postretirement benefits	**3,150**		6,890		6,097	
Less: liabilities in sales-financing operations	**(17,456)**	**17,580**	(10,775)	24,282	(8,380)	31,268
Total net financial assets (net debt)		**12,007**		1,245		(5,999)

Net financial assets (net debt)



Consolidated balance sheets

		December 31, 1996		December 31, 1995		December 31, 1994	
Assets							
Current assets							
Liquid funds	Note 11	**26,661**		23,306		24,449	
Receivables	Note 12	**31,979**		28,906		30,545	
Inventories	Note 13	**23,148**	**81,788**	23,929	76,141	23,380	78,374
Long-term assets							
Property, plant and equipment, net	Note 14	**31,426**		27,941		28,196	
Investments in shares	Note 15	**12,412**		18,087		18,548	
Long-term receivables and loans	Note 16	**13,256**		10,904		8,919	
Intangible assets	Note 17	**2,277**	**59,371**	5,626	62,558	4,545	60,208
Total assets			**141,159**		138,699		138,582
Liabilities and shareholders' equity							
Current liabilities							
Accounts payable		**11,960**		12,702		13,075	
Advances from customers		**2,514**		2,627		2,623	
Bank loans	Note 18	**8,429**		6,346		10,592	
Other loans	Note 18	**5,834**		5,345		10,963	
Other current liabilities and provisions	Note 18	**29,709**	**58,446**	32,749	59,769	34,959	72,212
Long-term liabilities							
Bond loans	Note 19	**7,955**		6,975		4,317	
Other long-term loans	Note 19	**10,234**		9,910		7,679	
Accruals for postretirement benefits	Note 20	**3,150**		6,890		6,097	
Deferred tax liabilities		**2,994**	**24,333**	3,350	27,125	4,107	22,200
Minority interests	Note 10		**504**		605		838
Shareholders' equity	Note 21						
Restricted equity							
Share capital		**2,318**		2,318		2,220	
Restricted reserves		**14,906**		14,264		14,545	
		17,224		16,582		16,765	
Unrestricted equity							
Unrestricted reserves		**28,175**		25,356		13,337	
Net income for the year		**12,477**		9,262		13,230	
		40,652		34,618		26,567	
Total shareholders' equity			**57,876**		51,200		43,332
Total liabilities and shareholders' equity			**141,159**		138,699		138,582
Assets pledged	Note 22		**6,503**		5,434		6,527
Contingent liabilities	Note 23		**6,188**		7,450		7,581
Capital expenditures approved			**16,800**		17,700		7,600

Financing

Net financing from the year's operations amounted to SEK 3.5 billion (11.1; 12.2). Operating assets increased by SEK 5.9 billion (1.2; 1.7).

Capital expenditures for property, plant and equipment amounted to SEK 8.2 billion (6.5; 4.3) and investments in leasing and company vehicles totaled SEK 3.9 billion (2.6; 2.5).

Volvo Cars' investments relate to the Torslanda plant, Sweden, and changes in preparation for future models, and the Ghent paint-finishing plant to expand capacity. Volvo Trucks' investments comprise programs in the industrial system in the U.S. and in preparations for assembly of the FH series in Brazil. In Europe, Volvo Trucks is implementing measure to increase the capacity of its assembly and components manufacturing operations. Volvo Construction Equipment opened a new components plant in Braås, Sweden, during 1996 for manufacture of articulated haulers.

The self-financing ratio, defined as net financing from the year's operations as a percentage of capital expenditures for property, plant and equipment and investments in leasing and company vehicles, was 29% (122; 181).

Liquid funds were increased by SEK 13.9 billion in 1996 through divestments of shares and participations not attributable to automotive operations, with the divestment of Pharmacia & Upjohn shares accounting for SEK 12.9 billion.

Long-term receivables and loans increased by SEK 2.8 billion (2.0; 1.6), primarily as a result of the greater amount of sales financing.

Financing, dividends, etc. New bond loans totaling SEK 2.2 billion, with maturities of five to nine years, were raised during the year. A new loan in the amount of SEK 0.9 billion was also raised within the framework of the Volvo Euro Medium Term Note program, as well as a loan of DKK 0.3 billion. Amortization during 1997, which is shown as short-term bank loans and other loans, reduced long-term borrowing by SEK 2.7 billion. Dividends amounting to SEK 1.9 billion pertaining to 1995 operations were paid to AB Volvo shareholders in 1996.

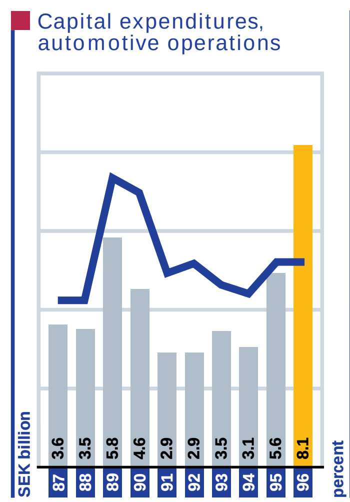
Change in liquid funds. The Group's liquid funds increased by SEK 3.4 billion in 1996. At December 31, 1996, liquid funds amounted to SEK 26.7 billion (23.3; 24.4), equal to 17% (14; 16) of Group sales.

Capital expenditures approved but not yet implemented at December 31, 1996

SEK billion

Volvo Cars	10.6
Volvo Trucks	4.1
Volvo Buses	0.1
Volvo Construction Equipment	0.9
Volvo Penta	–
Volvo Aero	0.9
Other companies and undistributed capital expenditures	0.2
Automotive operations	**16.8**
Operations being divested	–
Total	**16.8**

The greater part of the capital expenditures approved but not yet implemented in Volvo Cars pertain to change-over costs in the Torslanda plant and to tooling costs for future car models.



The curve shows capital expenditures as a percentage of sales.

Statements of changes in consolidated financial position

		1996		1995		1994
Year's operations						
Net income		**12,477**		9,262		13,230
Depreciation and amortization		**5,351**		5,656		5,107
Write-down of shareholdings and fixed assets		–		1,817		574
Income from equity method investments after taxes		**(222)**		(730)		(1,274)
Dividends received from associated companies		**119**		404		160
Gain on sales of securities		**(8,169)**		(1,180)		(4,243)
Gain on sales of subsidiaries		**–**		(3,032)		–
Minority interests after taxes		**(99)**		45		365
Increase in current operating assets:						
Receivables	**(4,777)**		(962)		(3,538)	
Inventories	**(547)**		(516)		(2,687)	
Increase (decrease) in current operating liabilities	**(618)**		570		5,915	
Increase (decrease) in deferred tax liabilities	**23**	**(5,919)**	(267)	(1,175)	(1,373)	(1,683)
Net financing from year's operations		**3,538**		11,067		12,236
Investments (increase)						
Property, plant and equipment, etc:						
Capital expenditures for property, plant and equipment	**(8,200)**		(6,491)		(4,274)	
Investment in leasing and company vehicles	**(3,851)**		(2,585)		(2,495)	
Disposals	**1,958**		1,351		1,460	
Investments in shares, net	**14,080**		1,953		8,182	
Long-term receivables, net	**(2,804)**		(1,953)		(1,563)	
Acquisitions and sales of companies	**(878)**	**305**	(4,420)	(12,145)	–	1,310
Remaining after net investments		**3,843**		(1,078)		13,546
Financing, dividends, etc						
Increase (decrease) in short-term bank loans and other loans	**5,151**		(3,993)		(6,233)	
Increase (decrease) in long-term loans	**(1,844)**		6,166		(2,011)	
Increase (decrease) in minority interests	**45**		(37)		145	
Dividends paid to AB Volvo shareholders	**(1,854)**		(1,512)		(601)	
Dividends paid to minority shareholders	**(33)**		(3)		(132)	
Settlement of loans to Renault	**(1,536)**		–		(1,422)	
Other	**(121)**	**(192)**	46	667	23	(10,231)
Increase (decrease) in liquid funds excluding translation differences		**3,651**		(411)		3,315
Translation differences on liquid funds		**(296)**		(732)		(308)
Increase (decrease) in liquid funds		**3,355**		(1,143)		3,007
Liquid funds, January 1		**23,306**		24,449		21,442
Liquid funds, December 31		**26,661**		23,306		24,449

In the Statement of changes in financial position, the effects of major acquisitions and divestments of subsidiaries in each year, including the distribution of the shareholding in Swedish Match in 1996, have been excluded from other changes in the balance sheet. The effects of changes in foreign exchange rates at translation of foreign subsidiaries have been excluded, since they do not affect cash flow.

Supplementary income statements and balance sheets; sales financing

Condensed income statements	Total 1996	Total 1995	Total 1994	Volvo Group excl sales financing 1996	Volvo Group excl sales financing 1995	Volvo Group excl sales financing 1994	Sales financing 1996	Sales financing 1995	Sales financing 1994
Sales	**156,060**	171,511	155,866	**150,959**	167,216	152,137	**5,101**	4,295	3,729
Operating income (loss)	**3,710**	10,239	9,371	**3,564**	10,157	9,564	**146**	82	(193)
Income from equity method investments	**290**	1,402	2,193	**284**	1,304	2,033	**6**	98	160
Financial income (expense)	**10,203**	1,407	4,814	**10,219**	1,399	4,807	**(16)**	8	7
Income (loss) before taxes and minority interests	**14,203**	13,048	16,378	**14,067**	12,860	16,404	**136**	188	(26)

Condensed balance sheets	Total 1996	Total 1995	Total 1994	Volvo Group excl sales financing* 1996	Volvo Group excl sales financing* 1995	Volvo Group excl sales financing* 1994	Sales financing 1996	Sales financing 1995	Sales financing 1994
Liquid funds	**26,661**	23,306	24,449	**25,986**	23,133	24,095	**675**	173	354
Receivables and inventories	**55,127**	52,835	53,925	**44,864**	46,404	48,126	**10,263**	6,431	5,799
Property, plant and equipment	**59,371**	62,558	60,208	**50,589**	56,664	55,423	**11,786**	7,806	6,480
Total assets	**141,159**	138,699	138,582	**121,439**	126,201	127,644	**22,724**	14,410	12,633
Liabilities	**82,779**	86,894	94,412	**63,115**	74,650	83,609	**19,664**	12,244	10,803
Minority interests	**504**	605	838	**448**	351	703	**56**	254	135
Shareholders' equity	**57,876**	51,200	43,332	**57,876**	51,200	43,332	**3,004**	1,912	1,695
Total liabilities and shareholders' equity	**141,159**	138,699	138,582	**121,439**	126,201	127,644	**22,724**	14,410	12,633

* Sales-financing operations reported in accordance with the equity method. Internal receivables and liabilities related to the sales-financing operations are excluded.

Volvo's sales-financing operations expanded substantially during 1996. Volvo Cars and Volvo Trucks are established with sales-finance companies in a number of the Group's important markets. Volvo Construction Equipment plans to gradually follow the same pattern. The total sales-financing operation is expected to grow geographically and studies related to the establishment of new companies are currently under way in Europe and other regions.

In the supplementary income statements and balance sheets above, all sales-financing activities are separated from Volvo's other operations in order to show how the activities have developed.

Sales and income. The sales value consists mainly of interest income and fees for rental and leasing contracts. Total sales of 5,101 in 1996 was 19% higher than in the preceding year.

Operating income in established sales-financing companies in 1996 was higher than in 1995. Operating income of 146 was charged with costs of establishing operations in a number of markets. These expenses pertain mainly to the initial costs for personnel and data systems in newly formed companies where such costs are not yet covered by interest income, since expansion of the interest-bearing leasing portfolio occurs gradually. Realized credit losses amounted to 53 during 1996.

Operating income in 1994 included losses in the leasing portfolio attributable to the financing of passenger cars in Volvo Car Finance North America Inc.

Income from equity method investments declined in 1996 as a result of credit losses related to the Brazilian operations. Income from other associated companies is specified in Note 6 on page 60.

Financial position. The total assets in Volvo's sales-financing operations increased by more than 50% in 1996, to 22,724, of which short- and long-term receivables accounted for 13,365. The accounts receivable are matched to a high degree by the portfolio of short- and long-term debt with respect to fixed-interest-rate periods and maturities.

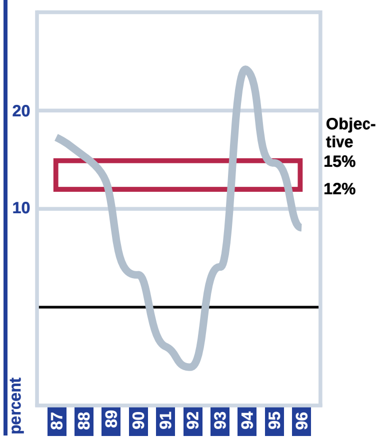
Total assets are expected to continue to increase during the next three years as a result of the continuing expansion of sales financing and increased demand for leasing contracts of various types.

Volvo's objective is to maintain an equity/assets ratio of 10% in its sales-financing operations. The equity/assets ratio in 1996, calculated as shareholders' equity and minority interests as percentage of total assets, was 13% (15; 14).

Financial objectives

Volvo's financial objectives with respect to yield and capital structure were established in December 1995 to implement the strategy adopted in 1994, which is to aggressively rationalize and develop Volvo's automotive and transport vehicle operations and strengthen the Group's balance sheet. The planning is long-term and target figures should be achieved as the average over the course of an economic cycle.

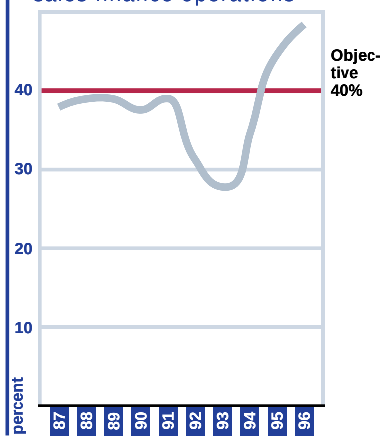
Return on shareholders' equity*



* Excludes nonrecurring operating items and gain on sales of shares.

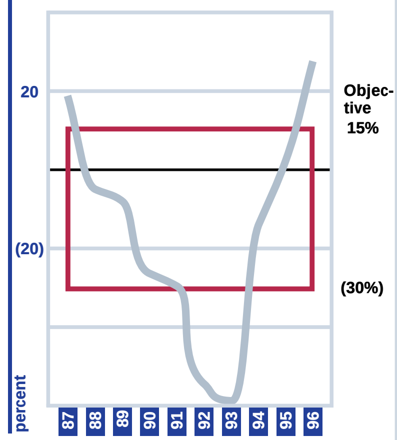
Volvo is to achieve a return of between 12% and 15% on shareholders' equity after tax, which exceeds the average in the industry.

Shareholders' equity and minority interests as percentage of total assets, excluding sales-finance operations



The Group's equity/assets ratio, excluding sales financing, should be not lower than 40%. The equity/assets ratio in the sales-financing operation should be not lower that 10%.

Net financial assets (net debt), as percentage of shareholders' equity and minority interests



The Group should attempt to maintain — but not permanently exceed — a net cash position equal to 15% of shareholders' equity and minority interests. In a more exposed or aggressive situation, net debt should not exceed 30% of shareholders' equity and minority interests.

Financial review

Financial risks

Volvo manages its financial risks within the framework of Groupwide policies pertaining to currency risks, borrowing risks, interest-rate risks and credit risks. These policies serve as the foundation for each Group company's program. The greater part of Volvo's financial transactions with external parties are executed through Volvo Group Finance, the Group's internal bank. Risk management within Volvo Group Finance is conducted in accordance with directives established by the company's board of directors.

Sales-financing operations within Volvo are managed in close cooperation with the marketing organization in each operating sector. However, risk management is clearly detached from current operations and consists of credit risks and residual-value risks.

Currency risks. Currency risk is the risk that movements in foreign exchange rates will have a negative effect on the Group's income and financial position. A substantial percentage of Volvo's sales and production take place outside Sweden. In addition, a large percentage of the Group's suppliers are located outside the country.

Measures are taken within Volvo to reduce the impact of changes in foreign exchange rates in contracted and projected flows of payments (commercial transaction exposure), payment flows related to loans and investments (financial exposure), and in connection with the revaluation of assets and liabilities in foreign currency (translation exposure).

Commercial transaction exposure. Currency risks arise in connection with the translation of sales revenue in foreign currency to the currency in which costs are incurred. The chart on the following page shows the Volvo Group's net commercial flow for the major currencies in 1996.

In accordance with the Group's currency policy, between 40% and 80% of the net flow in each currency is hedged for a period of 12 months, between 20% and 60% for the period from month 13 through month 24, and between zero percent and 40% for the period from month 25 through month 36. The table on the following page shows the amounts of the Group's forward contracts outstanding at year-end 1996, which were purchased to hedge future flows of commercial payments in foreign currency. The contracts pertain to both forward contracts and options which are valued at rates in effect as of December 31, 1996. Hedging through options purchased specifies a right, but not an obligation, to exercise a contract. As a result, when the exchange rate is more favorable than the contract rate, the option will not be exercised.

Financial exposure. The Group's companies operate in local currencies. Financial exposure is avoided by borrowing and investing mainly in the local currency.

Translation exposure. Up to 50% of shareholders' equity (net assets) in foreign subsidiaries and associated companies may be hedged. This is done mainly through loans raised in the same currency as the foreign assets, but forward contracts are also used for hedging. The net assets in Volvo's foreign subsidiaries and associated companies at year-end 1996 amounted to SEK 32 billion, of which 39% were hedged.

Borrowing risks. Volvo's operations require a high degree of financial readiness. This is achieved through a carefully crafted financial structure that provides an appropriate balance between short- and long-term borrowing. Volvo's borrowing is designed to reflect the Group's operations as well as the composition and life of its assets.

Borrowing is mainly in the form of bond issues, commercial paper programs, medium term notes and bank loans in various financial markets. The maturities of the long-term loans have been lengthened in recent years and at December 31, 1996 amounted, on average, to five years. Volvo also has unutilized credit facilities. At year-end 1996, these amounted to SEK 16 billion and had been granted for periods averaging about 6.5 years.

Outstanding loans of the Volvo Group at December 31, 1996 and due-date structure of the portfolio

SEK billion	Loans outstanding	Amortization
1996	32.5	
1997	18.2	14.3
1998	15.7	2.5
1999	10.8	4.9
2000	8.3	2.5
2001	6.9	1.4
2002	5.0	1.9

Interest-rate risks. Interest-rate risk is the risk that changes in interest rates will affect Group earnings adversely. The effects of such changes are reduced by matching the fixed-interest-rate periods for assets and liabilities. Through the use of various derivative instruments, Volvo has structured a fixed-interest-rate period for the Group's interest-bearing loans that is somewhat shorter than the maturity of the loans.

Credit risks. Credit risks are related to customer credits, to the placement of liquid funds and to trading in derivative instruments. Credit risk depends on the creditworthiness of counterparties and is reduced through careful evaluation of their ability to fulfill their obligations.

Customer credits. Customer credits comprise credit granted to agents and dealers as well as loans made to end-customers by sales-financing companies. In addition, an evaluation of the political and economic situation in the purchaser's country is made in connection with export transactions.

At year-end 1996, excluding the sales-finance companies, Volvo's accounts receivable amounted to SEK 11.4 billion. The average age of these receivables was 26 days.

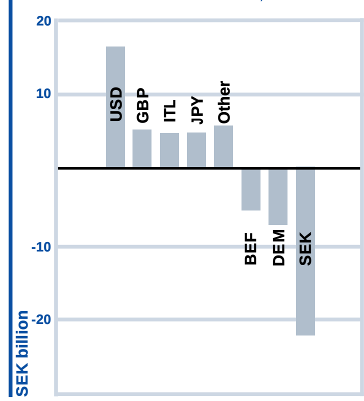
Sales-financing activities require especially thorough credit-checking and continuous follow-up of the customer's financial situation. Total assets in the consolidated sales-financing companies, consisting mainly of current and long-term accounts receivable, amounted to SEK 22.7 billion in 1996. Of this amount, Volvo Car group accounted for SEK 6.7 billion and Volvo Truck group for SEK 13.2 billion.

Placement of liquid funds. The Group's liquid funds are deposited mainly in local cash pools or directly with Volvo Group Finance. The credit risk is thereby concentrated in Volvo's internal bank. Volvo Group Finance invests the funds in the money markets and capital markets.

All placements must meet requirements pertaining to low credit risk and high liquidity.

Derivative instruments. Volvo uses derivative instruments to reduce its currency and interest-rate risks. These instruments, in turn, give rise to counterparty risks, the risk that the counterparty will not fulfill his or her part of a forward or options contract, and that a potential profit will not be realized. The counterparty risks is concentrated in Volvo Group Finance in its role as an in-house bank. Risks are limited through careful credit-checking and the establishment of maximum levels of exposure.

Volvo Group's net commercial flows in various currencies, 1996



Volvo Group forward and options contracts on December 31, 1996, excluding Operations being divested

Table refers to contracts for hedging of future payment flows

Million		Payment in-flows: USD	GBP	ITL	JPY	Payment out-flows: DEM	BEF	Other currencies: Net, expressed in SEK	Total
Due date 1997	amount	1,845	414	713,699	52,529	(1,076)	(24,465)	6,053	
	rate¹	7.35	11.72	0.0043	0.0808	4.92	0.2287		
Due date 1998	amount	696	295	454,670	46,298	(538)	(9,750)	4,460	
	rate¹	7.21	11.18	0.0043	0.0846	4.93	0.2221		
Due date 1999	amount	31	11	94,000	39,154	(176)	(1,016)	2,136	
	rate¹	6.99	10.88	0.0043	0.0695	4.71	0.2208		
Total		2,572	720	1,262,369	137,981	(1,790)	(35,231)	12,649	
of which, option contracts		619	58	12,853	17,774	0	(315)	734	
Translated to actual value, SEK²		18,854	8,296	5,409	10,916	(8,822)	(7,983)	13,510	40,180
Translated to Swedish kronor at year-end rate 1996		17,672	8,362	5,693	8,182	(7,917)	(7,564)	12,649	37,077
Difference between actual and year-end rate		1,182	(66)	(284)	2,734	(905)	(419)	861	3,103
Year-end rate 1996		6.872	11.605	0.00451	0.0593	4.423	0.2145		

1 Average contract rate.

2 Average contract rate and, for options, the more favorable of the year-end rate and contract rate.

Five-year summary

Volvo Group

Condensed consolidated income statements	1992	1993	1994	1995	**1996**
Sales	83,002	111,155	155,866	171,511	156,060
Operating income (loss) before nonrecurring items	(1,902)	1,913	9,371	9,024	3,710
Nonrecurring items	(1,450)	(1,600)	–	1,215	–
Operating income (loss)	(3,352)	313	9,371	10,239	3,710
Income (loss) from equity method investments	96	(1,788)	2,193	1,402	290
Financial income (expense)	(1,493)	(1,167)	4,814	1,407	10,203
Income (loss) before taxes and minority interests	(4,749)	(2,642)	16,378	13,048	14,203
Taxes	138	(468)	(2,783)	(3,741)	(1,825)
Minority interests	1,291	(356)	(365)	(45)	99
Net income (loss)	(3,320)	(3,466)	13,230	9,262	12,477
Income (loss) per share	(8.60)	(8.90)	31.80	20.20	26.90
Income (loss) per share after full conversion, SEK[1]	(7.80)	(8.20)	30.60	20.00	26.90
Income (loss) per share after full conversion, SEK before nonrecurring items and gain on sales of securities [2]	(5.60)	3.30	18.70	15.10	8.50

Condensed consolidated balance sheets					
Liquid funds	21,760	21,442	24,449	23,306	26,661
Receivables and inventories	37,887	48,814	53,925	52,835	55,127
Other assets	57,360	64,260	60,208	62,558	59,371
Total assets	117,007	134,516	138,582	138,699	141,159
Current liabilities	59,386	74,958	72,212	59,769	58,446
Long-term liabilities	23,981	25,784	22,200	27,125	24,333
Minority interests	3,919	6,686	838	605	504
Shareholders' equity	29,721	27,088	43,332	51,200	57,876
Total liabilities and shareholders' equity	117,007	134,516	138,582	138,699	141,159
Share capital	1,940	1,940	2,220	2,318	2,318
Dividend	601	601	1,512	9,854 [3]	1,993 [4]
Employees, December 31	60,120	73,640	75,550	79,050	70,330
Wages, salaries and social costs	16,857	19,489	24,156	27,248	25,997

Key ratios (definitions on page 57)					
Operating margin, %	neg	0.3	6.0	6.0	2.4
Return on capital employed, %	1.1	3.7	23.4	18.0	19.4
Return on shareholders' equity, %	neg	neg	36.5	19.3	23.7
Interest coverage, times	0.2	0.6	5.5	4.6	5.5
Self-financing ratio, %	78	165	181	122	29
Net financial assets (net debt)	(18,117)	(20,592)	(5,999)	1,245	12,007
Net financial assets (net debt) as percentage of shareholders' equity and minority interests	(53.9)	(61.0)	(13.6)	2.4	20.6
Shareholders' equity and minority interests as percentage of total assets	28.8	25.1	31.9	37.4	41.4
Shareholders' equity as percentage of total assets	25.4	20.1	31.3	36.9	41.0
Excluding nonrecurring operating items and gain on sales of shares[2]					
Operating margin, %	neg	1.7	6.0	5.3	2.4
Return on capital employed, %	2.7	9.0	17.3	15.5	10.0
Return on shareholders' equity, %	neg	4.1	24.2	14.7	8.1

1 Calculations are based on the following number of shares outstanding: 1992–1993: 408,408,965, 1994: 435,988,356, 1995–1996: 463.558.252.

2 Also excluding dividend from Protorp Förvaltnings AB (formerly Protorp Intressenter AB) in 1994 and write-off of remaining excess value attributable to Renault in 1993, and gain on sale of VOAC Hydraulics 1996.

3 The cash dividend amounted to 1,854 and the dividend consisting of the shareholding in Swedish Match amounted to 8,000.

4 As proposed by the Board of Directors.

Market areas

	1992	1993	1994	1995	**1996**
Sales					
Europe	51,585	60,936	92,155	102,843	94,411
North America	19,822	31,707	38,917	40,557	36,862
South America	2,369	4,519	7,247	7,634	4,990
Asia	5,243	9,126	12,110	14,426	13,574
Other markets	3,983	4,867	5,437	6,051	6,223
Total	**83,002**	**111,155**	**155,866**	**171,511**	**156,060**
of which, Sweden	11,010	14,325	26,847	25,858	17,432
Capital expenditures for property, plant and equipment					
Europe	2,548	3,226	3,735	5,597	7,288
North America	83	130	379	595	655
Other markets	284	109	160	299	257
Total	**2,915**	**3,465**	**4,274**	**6,491**	**8,200**
of which Sweden	2,046	2,788	2,868	4,503	5,617

Operating sectors

Sales and operating income before nonrecurring items, distributed by operating sector are shown on page 41.

	1992	1993	1994	1995	**1996**
Research and development costs					
Volvo Cars	3,346	2,462	2,502	4,561	4,901
Volvo Trucks	2,258	1,365	1,399	1,760	2,078
Volvo Buses	251	240	265	306	343
Volvo Construction Equipment [1]	–	–	–	221	555
Volvo Penta	166	154	148	177	183
Volvo Aero	129	144	111	96	93
Other	28	21	22	30	36
Automotive operations	**6,178**	**4,386**	**4,447**	**7,151**	**8,189**
Operations being divested	–	–	157	138	20
Total	**6,178**	**4,386**	**4,604**	**7,289**	**8,209**
Capital expenditures for property, plant and equipment					
Volvo Cars	1,562	2,072	1,596	2,540	4,425
Volvo Trucks	912	725	979	2,072	2,589
Volvo Buses	101	64	54	124	199
Volvo Construction Equipment [1]	–	–	–	204	286
Volvo Penta	24	35	96	79	67
Volvo Aero	199	157	170	180	173
Other	117	412	227	387	403
Automotive operations	**2,915**	**3,465**	**3,122**	**5,586**	**8,142**
Operations being divested	–	–	1,152	905	58
Total	**2,915**	**3,465**	**4,274**	**6,491**	**8,200**
Investments in leasing and company vehicles	**1,352**	**1,678**	**2,495**	**2,585**	**3,851**
Operating margin before nonrecurring items, %[2]					
Volvo Cars	neg	1.1	3.8	1.3	1.8
Volvo Trucks	neg	1.7	8.8	9.9	2.0
Volvo Buses	1.6	5.7	5.2	5.3	3.9
Volvo Construction Equipment [1]	–	–	–	12.3	9.1
Volvo Penta	neg	4.2	6.0	5.5	neg
Volvo Aero	8.9	3.9	1.7	2.7	3.7
Return on operating capital before nonrecurring items, %[2]					
Volvo Cars	neg	4	21	8	12
Volvo Trucks	neg	8	>25	>25	10
Volvo Buses	5	18	22	18	12
Volvo Construction Equipment [1]	–	–	–	>25	23
Volvo Penta	neg	11	19	17	neg
Volvo Aero	22	11	5	13	19
Cash flow from operations[2]					
Volvo Cars	(2,041)	3,010	3,506	521	(2,442)
Volvo Trucks	1,095	(815)	3,035	904	(1,477)
Volvo Buses	(512)	115	652	(345)	29
Volvo Construction Equipment [1]	–	–	–	873	828
Volvo Penta	17	(102)	(11)	219	250
Volvo Aero	480	(13)	473	439	(83)

1 Research and development costs and capital expenditures for Volvo Construction Equipment in 1995 pertain to the period July 1–December 31. The operating margin and return on operating capital are based on full-year values in 1995.

2 See definitions of key ratios on page 57.

Notes to Consolidated financial statements

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the two preceding years; the first figure is for 1995 and the second figure is for 1994.

1 Accounting principles

Principles of consolidation

The consolidated accounts comprise the Parent Company, all subsidiaries and associated companies. Subsidiaries are defined as companies in which Volvo holds more than 50% of the voting rights. Subsidiaries in which Volvo's holding is temporary are not consolidated, however. Associated companies are companies in which Volvo has long-term holdings equal to at least 20% but not more than 50% of the voting rights.

The consolidated accounts are prepared in accordance with the principles set forth in Recommendation RR01:91 of the Swedish Financial Accounting Standards Council.

All acquisitions of companies are reported in accordance with the purchase method.

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

Holdings in associated companies are reported in accordance with the equity method. The Group's share of reported income before taxes in such companies, adjusted for minority interests, is included in the consolidated income statement, reduced in appropriate cases by amortization of excess values. The Group's share of reported taxes in associated companies, as well as estimated taxes in allocations, are included in Group 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 company's income after tax, reduced by amortization of excess values and by the amount of dividends received.

Foreign currencies

In preparing the consolidated financial statements, all items in the income statements of foreign subsidiaries (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 with restricted or unrestricted reserves. The difference arising in the consolidated balance sheet as a result of the translation of net income in foreign subsidiaries to Swedish kronor at average rates is charged or credited to unrestricted reserves. Movements in exchange rates change the book value of foreign associated companies. This difference affects restricted reserves directly.

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

Financial statements of subsidiaries operating in highly inflationary economies are translated to Swedish kronor using the temporal 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 year-end exchange rates. In the individual Swedish Group companies, unrealized exchange gains on long-term receivables and liabilities are allocated to an exchange reserve. In the consolidated accounts, this is divided into a Deferred tax liability and Equity in untaxed reserves.

When valuing outstanding forward exchange contracts, provision is made for unrealized losses to the extent that the latter exceed unrealized gains. In calculating the size of unrealized losses, a portion of the amounts secured through forward contracts is excluded; this consists of amounts for which there is substantial assurance that the currency flow from commercial transactions will cover forward contracts. Unrealized gains in excess of unrealized losses are not credited to income.

In valuing loans whose original currency denomination has been changed as a result of currency swap contracts, the amount of the loans in Swedish kronor is calculated based on the currencies in which the loans are to be repaid.

Exchange 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 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 before taxes and minority interests in the year they arise.

The more important exchange rates employed are shown on the following page.

Inventories

Inventories are posted at the lower of cost, in accordance with the first-in, first-out method (FIFO), or net realizable value. Adequate provision has been made for obsolescence.

Capital expenditures for property, plant and equipment

Capital expenditures for property, plant and equipment includes investments in buildings, machinery and equipment, as well as in long-term intangible assets. Investments in leasing and company vehicles are not included.

Depreciation and amortization

Depreciation is based on the historical cost of the assets, reduced in appropriate cases by write-downs, and estimated economic life. Capitalized type-specific tools are generally depreciated over 2 to 5 years. The depreciation period for leasing vehicles and company vehicles is normally 3 to 5 years. Machinery is generally depreciated over 5 to 10 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 compensates these companies for part of the development costs incurred before Volvo Aero entered the project. These costs are capitalized and depreciated over 5 to 10 years.

Exchange rates

Country	Currency	Average rate 1996	1995	1994	Year-end rate 1996	1995	1994
Belgium	BEF	0.217	0.242	0.231	0.215	0.226	0.235
Denmark	DKK	1.158	1.274	1.216	1.156	1.200	1.226
Finland	FIM	1.463	1.636	1.484	1.482	1.529	1.573
France	FRF	1.312	1.430	1.394	1.312	1.360	1.395
Italy	ITL	0.00436	0.00439	0.00480	0.00451	0.00421	0.00459
Japan	JPY	0.0618	0.0765	0.0757	0.0593	0.0648	0.0749
Netherlands	NLG	3.982	4.447	4.252	3.941	4.150	4.301
Norway	NOK	1.040	1.126	1.095	1.066	1.052	1.103
Great Britain	GBP	10.486	11.281	11.821	11.605	10.330	11.650
Germany	DEM	4.462	4.981	4.768	4.423	4.644	4.817
United States	USD	6.712	7.140	7.717	6.872	6.672	7.463

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 extra depreciation, which is included in untaxed reserves. Consolidated reporting of these items is described below under the heading Allocations, deferred tax liability, untaxed reserves.

Goodwill is included in intangible assets and amortized on a straight-line basis over 5 to 20 years. The goodwill amounts pertaining to Volvo Construction Equipment and Prévost are being amortized over 20 years, due to the holdings' long-term and strategic importance. The goodwill amounts pertaining to Swedish Match were amortized, as planned, over periods of 20 years up to the date of the divestment in May 1996.

Research and development costs and warranty expenses

Research and development expenses are charged to operating expenses as incurred.

Estimated costs for product warranties are charged to cost of sales when the products are sold.

Nonrecurring items

Nonrecurring items are reported separately in the income statement. They pertain mainly to income and expenses attributable to major changes in the composition of the Group. To show the results of the Volvo Group's continuing operations, "Operating income before nonrecurring items" is also reported. This deviates from Recommendation RR4 of the Swedish Financial Accounting Standards Council, which states that such an income/loss term is not compatible with the premise upon which the Recommendation is based.

Allocations, deferred tax liability, untaxed reserves

Tax laws in Sweden and certain other countries allow companies to defer payment of taxes through allocations to untaxed reserves.

The individual Group companies (including AB Volvo) report untaxed reserves as a separate balance sheet item. In the income statements, allocations to and withdrawals from untaxed reserves are reported under the heading Allocations to untaxed reserves. The reported tax expense is based on income after allocations.

In the consolidated balance sheet, untaxed reserves are divided into deferred tax liability in untaxed reserves, which is reported as a long-term liability, and equity in untaxed reserves, which is included in shareholders' equity. The deferred tax liability in untaxed reserves is calculated based on the anticipated tax rate for the immediately following year in each country. Calculation of the amount of tax liability takes into account that a portion of the untaxed reserves may be withdrawn without tax consequences by utilizing tax-loss carryforwards. Deferred tax receivables resulting from future tax-loss carryforwards exceeding deferred tax liability are not reported.

No allocations to untaxed reserves are reported in the consolidated statements of income. Group tax expense is calculated as the sum of reported tax expense for each Group company, adjusted for the effect of allocations to, and withdrawals from, untaxed reserves. This adjustment is offset by the annual change in the item Deferred tax liability in untaxed reserves in the consolidated balance sheet. The Group's tax expense is also affected by the Group's share of tax expenses in associated companies and by consolidated adjustments, primarily the elimination of internal profits. The Group's reported tax expense thereby becomes attributable mainly to reported income (loss) before taxes and minority interests.

New Act governing annual reports effective in 1997

A new Annual Report Act (ÅRL) became effective in Sweden on January 1, 1996. As of that date, the act applied to credit institutions and insurance companies. The new regulations became applicable to other companies, including Volvo, effective in the fiscal year beginning January 1, 1997 or later. The act involves the adaptation of Swedish accounting legislation to the accounting rules applied within the European Union. See also pages 70-71.

Definitions of key ratios

Operating margin

Operating income divided by sales.

Return on capital employed

Income divided by average total assets less average noninterest-bearing current liabilities. Income includes operating income, income from equity method investments, dividends received, gain (loss) on sale of securities and interest income.

Return on operating capital

Operating income divided by average operating capital. Operating capital consists of operating assets (inventories, receivables and long-term assets) reduced by noninterest-bearing current liabilities. This ratio is used only for Volvo's operating sectors, not for the Group as a whole.

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

Interest coverage
Income divided by interest expense. Income includes operating income, income from equity method investments, dividends received, gain (loss) on sale of securities and interest income.

Self-financing ratio
Net financing from year's operations (see Statement of Changes in Financial Position) divided by capital expenditures for property, plant and equipment and investments in leasing and company vehicles.

Net financial assets (net debt)
Short- and long-term interest-bearing liabilities (including accruals for postretirement benefits) reduced by liquid funds and long-term interest-bearing receivables. Net debt in Volvo's sales-financing companies is not included since interest expense in these companies is charged against operating income and does not affect consolidated net interest expense.

Percentage of total assets
Shareholders' equity and minority interests divided by total assets.

Percentage of shareholders' equity
Shareholders' equity divided by total assets.

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

Cash flow from operations
Operating income charged with a standard tax (28%), increased by depreciation, adjusted for changes in working capital and reduced by net investments. Working capital consists of noninterest-bearing current assets and liabilities, excluding tax claims/liabilities. This key ratio is applied solely to the operating sectors, not to the Group as a whole.

2 Acquisitions and divestments of shares in subsidiaries

Parent Company shareholdings in subsidiaries at December 31, 1996 are shown on page 79. Significant acquisitions, formations and divestments of companies are shown below.

Volvo Car Finance Holding AB
At year-end 1995 Volvo Car Corporation established a wholly owned subsidiary, Volvo Car Finance Holding AB, to coordinate the sales-financing operations in the Volvo Car group.

The company is the parent company of Volvo Rahoitus Suomi Oy, Volvo Auto Leasing Deutschland GmbH, Modular Finance BV, Volvo Car Finance UK Ltd., and Volvo Car Finance Australia Ltd. All of the subsidiaries conduct sales-financing operations for Volvo's customers in their respective countries: Finland, Germany, Belgium, Great Britain and Australia.

Volvo Rahoitus Suomi Oy (formerly Devoco Oy)
In 1996 Volvo Car Corporation acquired 50% of the share capital in Volvo Rahoitus Oy, following which Volvo Car Corporation's holding amounts to 75%. The remaining 25% interest is held by Volvo Truck Finance Holding. The company finances transactions involving both cars and trucks for customers and dealers in Finland.

Volvo India PVT Ltd
Volvo India PVT Ltd was formed in 1996. The company, which is owned 100% by Volvo Truck Corporation, will produce trucks, beginning in 1998.

Volvo Truck Latvia SIA
Volvo Truck Latvia SIA was formed in 1996. The company, which is owned 100% by Volvo Truck Corporation, markets trucks in Latvia.

Volvo Pakistan Ltd
Volvo Pakistan Ltd, in which Volvo Truck Corporation has a 51% interest, was formed in 1996. Beginning in 1997, the company will manufacture trucks and be responsible for sales in Pakistan.

Volvo Austria GmbH
In November 1996 Volvo Bus Corporation acquired the remaining 25% shareholding in Steyr Bus GmbH from Steyr-Daimler-Puch Ag. The company, whose name was changed to Volvo Austria GmbH on January 1, 1997, is now owned 100% by Volvo Bus Corporation. Effective January 1, 1997, the new distribution structure in Austria has been coordinated in Volvo Austria. In the new structure, Volvo has taken over Denzel's importer operations in Austria and integrated them in Volvo's European marketing and distribution network for cars, trucks and buses.

Fortos Fastigheter AB
During 1996, all of the shares of Fortos Fastigheter AB were sold to Fabege AB. The sale resulted in a capital gain of 39 in the Group. In addition, newly issued Fabege shares were received. (See also Note 15, page 62.)

Swedish Match AB
As approved at Volvo's Annual General Meeting on April 24, 1996, all the shares of the wholly owned subsidiary Swedish Match AB were distributed to Volvo's shareholders in May 1996.

Volvo Construction Equipment Corporation
In April 1995, AB Volvo acquired the outstanding shares of Volvo Construction Equipment Corporation (formerly VME) from Clark Equipment Company in the U.S. In connection with the acquisition, the shareholding was written down by SEK 1.8 billion, which is estimated to equal the excess value in Volvo Construction Equipment that was attributable to the "Volvo" brand name at the date of acquisition. The remaining excess value, SEK 0.9 billion, is being amortized over 20 years. The company was consolidated as of June 30, 1995. Volvo's holding in the company in the first half of 1995 was reported in accordance with the equity method.

Groupe Pel-Job
Volvo Construction Equipment acquired all of the shares of Groupe Pel-Job, a French company, in December 1995. The group manufactures mini excavators (less than 6 tons total weight) and other light construction equipment.

Prévost Car Inc.

Volvo Bus Corporation acquired Prévost Car Inc., a Canadian manufacturer of tourist buses, in June 1995. Thereafter, 49% of the shares were sold to Henlys Group plc, Great Britain, which owns the Plaxton company (bus bodies). Prévost Car Inc. was consolidated as of June 30, 1995. An excess value amounting to SEK 0.4 billion, which is being amortized over 20 years, arose in connection with the consolidation.

Volvo Bus Poland Company Ltd

Volvo Bus Poland Company Ltd was formed in June 1995. The company, which is owned 55% by Volvo Bus Corporation and 45% by Carrus Oy, a Finnish body manufacturer, produces buses used in urban and intercity traffic.

Danabäck AB (formerly Pleiad Real Estate AB)

In 1995 Volvo concluded an agreement with the other shareholders of Pleiad Real Estate AB covering acquisition of all of the company's shares. Thereafter, properties unrelated to Volvo were divested and the name of the company was changed to Danabäck AB.

Falcon Holding AB

In December 1995 Volvo sold Falcon Holding AB to a Nordic consortium consisting of Spira Invest AB (Sweden), Carlsberg A/S (Denmark) and OY Sinebrychoff (Finland). The sale resulted in a capital gain of 217 in the consolidated accounts.

Procordia Food and Abba Seafood

In September 1995 Volvo sold the Procordia Food and Abba Seafood companies to Orkla ASA (Norway). The contract with Orkla resulted in a capital gain of SEK 2.3 billion in the Volvo Group.

Alfred Berg Holding AB

In April 1995 all of the shares of Alfred Berg Holding AB were sold to ABN AMRO Bank NV in the Netherlands. The sale was effected at a price of 300 after Volvo had received a dividend of 366 from Alfred Berg. In addition, a supplemental purchase price of 614 was established. Of this amount, 14 was received in 1995 and 200 in 1996. The remaining portion will be paid in installments of 200 each in 1997 and 1998. A capital gain of 515 was reported in the 1995 accounts.

BCP Branded Consumer Products AB

As of January 1, 1994, Volvo's holding in BCP amounted to 73.6% of the share capital in the company and 85.4% of the voting rights. In June 1994 Volvo acquired an additional 26.1% interest through a public offering to BCP's shareholders, following which Volvo's holding amounted to 99.7% of BCP's share capital. The remaining shares were acquired through compulsory redemption.

In connection with the agreement with Orkla, BCP AB was transferred to the Pripps Ringnes Group, of which it is now the parent company.

Volvo Trucks de Mexico SA de CV

Volvo Trucks de Mexico was formed in 1994. The company, which is owned 100% by Volvo Truck Corporation, markets trucks.

Aabenraa Karrosseri A/S

Aabenraa Karrosseri A/S (Denmark) was formed in August 1994. The new company took over from Aabenraa Karrosserifabrik A/S assets, liabilities and rights pertaining to the manufacture of bodies for Volvo Buses. The company is owned 100% by Volvo Truck Corporation.

Volvo Busse Deutschland GmbH

(formerly Drögmöller Karosserien GmbH)
All shares of Drögmöller Karosserien GmbH (Germany) were acquired in August 1994. The company, renamed Volvo Busse Deutschland GmbH, manufactures bodies for buses and markets Volvo buses in Germany. The company is owned 100% by Volvo Bus Corporation.

Other acquisitions and divestments

Other changes during the years 1994-1996 in addition to those reported above are discussed in Note 12 to AB Volvo's financial statements.

3 Depreciation and amortization

	1996	1995	1994
Leasing and company vehicles	1,037	1,003	839
Machinery and equipment	3,536	3,723	3,456
Buildings	470	505	472
Land improvements	42	38	43
Total depreciation	5,085	5,269	4,810
Goodwill	195	315	226
Patents	8	18	20
Aircraft engine costs	63	54	51
Total amortization	266	387	297
Total depreciation and amortization	**5,351**	**5,656**	**5,107**

4 Nonrecurring items

Operating income in 1995 includes nonrecurring items amounting to 1,215 pertaining to gains on the sale of Procordia Food and Abba Seafood, 2,300; Alfred Berg Holding, 515; and Falcon Holding, 217; as well as a write-down of acquired shares in Volvo Construction Equipment, 1,817.

5 Operating income

Cost of sales includes research and development costs amounting to 8,209 (7,289; 4,604) and 300 (285; 350) for bonuses to Volvo Group employees in Sweden.

6 Income from equity method investments

Volvo's share of the earnings of associated companies before taxes, after deduction for amortization of excess values in appropriate cases, amounted to 290 (1,402; 2,193).

	Income (loss) from equity method investments			Dividends received		
	1996	1995	1994	1996	1995	1994
Netherlands Car BV	(334)	(635)	(226)	–	–	–
AutoNova AB	(84)	–	–	–	–	–
AB Catena	11	80	12	23	12	–
AVC Intressenter AB	381	71	41	–	–	–
Pripps Ringnes AB	263	–	–	88	–	–
Sales-financing companies						
AB Volvofinans	66	65	68	4	2	2
Volvo Car Finance Inc.	42	24	16	–	–	–
VOCS Finance Ltd	31	36	38	–	–	–
Transbanco Banco de Investimento SA	(133)	9	37	–	–	–
Other companies	47	79	48	4	38	5
Holdings no longer reported as equity method investments						
Volvo Construction Equipment NV (former VME Group NV)[1]	–	478	788	–	96	–
Pharmacia AB[2]	–	1,155	1,286	–	181	153
Other companies	–	40	85	–	75	–
Total	**290**	**1,402**	**2,193**	**119**	**404**	**160**
Taxes attributable to associated companies	(68)	(672)	(919)			
Associated companies' contribution to Group income after taxes	**222**	**730**	**1,274**			

For practical reasons, most of the associated companies are included in the Volvo Group accounts with a certain time lag, normally one quarter.

1 In April 1995, AB Volvo acquired the outstanding shares of Volvo Construction Equipment Corporation. The company is reported as a subsidiary as of June 30, 1995.

2 Pharmacia was reported as an associated company up to and including September 30, 1995. In October 1995 the shareholding in Pharmacia was exchanged for shares in Pharmacia & Upjohn Inc., after which the holdings where reported at cost.

7 Gain on sales of securities

	1996	1995	1994
Pharmacia & Upjohn, Inc.	7,766	–	–
Investment AB Bure	394	–	–
Holberg Industries Inc.	41	–	–
Partena AB	–	707	–
NordicTel Holdings AB	–	176	89
Cultor Ab	–	166	139
UST Inc.	–	75	75
Investment AB Cardo	–	–	2,597
AB Custos	–	–	916
Saga Petroleum a.s.	–	–	347
Other	67	56	80
Total	**8,268**	**1,180**	**4,243**

8 Other financial income (expense)

Other financial income (expense) includes exchange losses amounting to 13 (loss 214; gain 104).

9 Taxes

Income before taxes and minority interest was distributed as follows:

	1996	1995	1994
Sweden	10,476	4,449	7,967
Outside Sweden	3,437	7,197	6,218
Associated companies	290	1,402	2,193
Total	**14,203**	**13,048**	**16,378**

Tax expense was distributed as follows:

	1996	1995	1994
Current taxes:			
Sweden	(615)	(18)	(817)
Outside Sweden	(1,532)	(2,400)	(2,221)
Subtotal	(2,147)	(2,418)	(3,038)
Deferred taxes:			
Sweden	574	(176)	974
Outside Sweden	(184)	(475)	200
Subtotal	390	(651)	1,174
Associated companies	(68)	(672)	(919)
Total taxes	**(1,825)**	**(3,741)**	**(2,783)**

Tax expense pertains mainly to current taxes in foreign subsidiaries and Operations being divested. Sales of securities have resulted in only limited tax expense.

Provision has been made for estimated tax charges that may arise as a result of tax audits in AB Volvo and its Swedish subsidiaries. Deductions claimed for which no provision has been deemed necessary are equal to a tax expense of 528 (940; 910). This amount is included among contingent liabilities.

At December 31, 1996, the Group had tax-loss carryforwards amounting to approximately 5,900. Of this amount, approximately 3,000 has been recognized in calculating deferred tax liabilities.

The Swedish corporate income tax rate is 28%. The table below shows the principal reason for the difference between this rate and the Group's tax rate, based on income before taxes and minority interests.

	1996, %	1995, %
Swedish corporate income tax rate	28	28
Difference in tax rate in various countries	1	4
Capital gains/losses	(22)	(8)
Utilization of tax-loss carryforwards	(4)	(7)
Losses for which no benefit has been recognized	8	1
Non deductable expenses	3	3
Amortization of goodwill	0	5
Other, net	(1)	1
Tax rate for the Group, excluding equity method	**13**	**27**
Equity method	0	2
Tax rate for the Group	**13**	**29**

10 Minority interests

Minority interests in income (loss) and in equity consist mainly of General Motors' participation in Volvo GM Heavy Truck Corporation (13%), Henlys Group's participation in Prévost Car Inc. (49%) and minority interests in the BCP Group (26%) up to and including June 1994.

11 Liquid funds

	1996	1995	1994
Cash and banks	2,928	3,449	3,527
Time deposits in banks	2,156	4,040	5,044
Marketable securities	21,577	15,817	15,878
Total	**26,661**	**23,306**	**24,449**

Marketable securities consist mainly of interest-bearing securities issued by the Swedish Government and Swedish financial institutions and are stated at the lower of cost or market value. Investments in shares at year-end 1996 amounted to 452 (380; 353).

At December 31, 1996, marketable securities held in connection with interest arbitrage transactions, amounting to 2,893 (5,642; 6,352) were netted against corresponding loans and did not affect total assets.

12 Receivables

	1996	1995	1994
Trade bills	1,242	811	499
Accounts receivable	14,118	15,054	14,778
Prepaid expenses and accrued income	3,288	4,393	3,731
Advances to suppliers	236	227	236
Leasing receivables	7,048	3,689	3,230
VAT receivables	1,375	1,250	747
Other receivables	4,672	3,482	7,324
Total net of 1,037 (1,034; 929) in allowances for doubtful accounts	**31,979**	**28,906**	**30,545**

A small portion of the receivables extends over a period of more than one year but may be used as security for bank loans, as required.

13 Inventories

Inventories at year-end amounted to:

	1996	1995	1994
Finished products	14,477	14,159	13,189
Production materials, etc	8,671	9,770	8,827
Securities	–	–	1,364
Total	**23,148**	**23,929**	**23,380**

14 Property, plant and equipment

	Cost			Accumulated depreciation			Book value		
	1996	1995	1994	1996	1995	1994	1996	1995	1994
Leasing and company vehicles	7,712	5,083	4,678	1,838	1,450	1,303	5,874	3,633	3,375
Machinery and equipment	37,787	36,548	37,735	26,133	25,224	24,718	11,654	11,324	13,017
Buildings	13,166	14,065	14,275	5,728	5,776	5,898	7,438	8,289	8,377
Land improvements	987	1,010	996	516	535	488	471	475	508
Land	1,129	1,381	1,374	—	—	—	1,129	1,381	1,374
Construction in progress	4,860	2,839	1,545	—	—	—	4,860	2,839	1,545
Total	**65,641**	**60,926**	**60,603**	**34,215**	**32,985**	**32,407**	**31,426**	**27,941**	**28,196**

Capital expenditures for property, plant and equipment and investments in intangible assets amounted to 8,200 (6,491; 4,274). Investments in leasing and company vehicles amounted to 3,851 (2,585; 2,495).

Capital expenditures approved but not yet implemented at year-end amounted to SEK 16.8 billion (17.7; 7.6).

Replacement cost (unaudited information)

At year-end 1996, the replacement cost of buildings, machinery and equipment, based on methods of calculation applied by Volvo and which in certain cases involves the use of indexes, was estimated at SEK 40.8 billion after calculated depreciation. The corresponding value shown in the Volvo Group balance sheet was SEK 25.6 billion. Calculated depreciation based on the present replacement cost amounted to SEK 5.7 billion in 1996. The corresponding depreciation in the consolidated income statement, which is based on historical cost, was SEK 4.0 billion.

15 Investments in shares

A specification of Group holdings of shares and participations appears on page 78. Call options with a total exercise price of 5 (5; 5) have been issued on shares with book values of 2 (2; 2).

The Volvo Group has transactions with some of its associated companies. As of December 31, 1996, the Group's net receivables to associated companies amounted to 6,909 (5,814; 4,204).

The market value of Volvo's holdings of securities in listed companies as of December 31, 1996 was 10,921, equal to a reserve of 1,840 compared with book value. See table below.

Volvo's holdings of listed shares and other securities, December 31, 1996

	Book value	Market value
Pharmacia & Upjohn, Inc.	2,082	5,523
Renault SA	6,356	3,980
AB Catena	435	1,004
Other holdings of listed securities	208	414
Total	**9,081**	**10,921**

As of December 31, 1996, the market value of the Renault holding was 2,376 less than the book value of the shares in the Group accounts. A write-down has not been deemed to be required since the decline in market value is not considered to be permanent.

Merkavim Metal Works Ltd.

In January 1996 Volvo Buses acquired 26.5% of the share capital and voting rights in Merkavim Metal Works Ltd (Israel). The company produces tourist, intercity and city buses, as well as articulated buses and minibuses.

The AGES Group, ALP

During 1996 Volvo Aero increased its holding in The AGES Group, ALP, Air Ground Equipment Sales, an American company, from 5% to 25%. In January 1997 the holding was further increased to 51% and AGES thereby became a subsidiary of Volvo Aero Corporation.

Fabege AB

In November 1996, Volvo concluded an agreement covering the sale of buildings to Fabege AB. In December Fabege paid two thirds of the purchase price in cash and the remaining third in the form of newly issued Fabege shares. Volvo's holding in the company amounted thereafter to 8.3% of the share capital and 7.5% of the voting rights.

Pharmacia & Upjohn, Inc. / Pharmacia AB

At year-end 1994, Volvo held 27.5% of the share capital in Pharmacia and 27.8% of the voting rights in the company.

Following the conversion of debentures in 1995, Volvo's holding amounted to 27.3% of the share capital and 27.8% of the voting rights.

In October 1995 the Pharmacia shares were exchanged for shares in the newly formed Pharmacia & Upjohn, Inc. As of December 31, 1995, Volvo held 13.8% of the share capital and voting rights in Pharmacia & Upjohn.

In July 1996 Volvo sold 50,006,534 Pharmacia & Upjohn, Inc. shares. The capital gain amounted to 7,766 and Volvo's holding thereafter amounted to 3.9% of the share capital and voting rights.

Investment AB Bure

In November 1993, Volvo obtained 8% of the share capital and voting rights in Investment AB Bure through the acquisition of

BCP Branded Consumer Products AB. AB Volvo acquired additional shares in 1993 and 1994. At the end of both 1994 and 1995 Volvo's holding in Investment AB Bure amounted to 17.7% of the share capital and voting rights.

In June 1996 Volvo sold its entire holding, realizing a capital gain of 394.

Spira AB

At year-end 1995, Volvo's holding in Spira AB amounted to 9.5% of the share capital and voting rights.

The entire holding was sold in April 1996, with a resulting capital gain of 10.

Pripps Ringnes AB

The Pripps Ringnes AB beverage group was formed in September 1995 through an agreement with Orkla ASA (Norway). Volvo owns 49% and a convertible debenture loan which at conversion increases the ownership interest to 55%. In February 1997, Volvo and Orkla concluded an agreement whereby Volvo is selling its holding in Pripps Ringnes AB to Orkla. Volvo is receiving a total of SEK 4.7 billion and the transaction will result in a capital gain of SEK 3.0 billion in the Volvo Group in the first quarter of 1997.

Pleiad Real Estate AB

At year-end 1994, Volvo held 25% of the share capital and 40% of the voting rights in Pleiad Real Estate AB.

During 1995 Volvo repurchased the properties owned by Pleiad that are used in Volvo's operations in Göteborg. See also Note 2 to the consolidated financial statements.

Partena AB

Through its acquisition of BCP Branded Consumer Products AB in November 1993, Volvo obtained 35% of the share capital and 37% of the voting rights in Partena AB. Following the acquisition of additional shares in 1994 and 1995, Volvo held 44% of the share capital in Partena AB. The holding was sold in December 1995, resulting in a gain of 707.

AutoNova AB

During 1995 Volvo Car Corporation and TWR Group Ltd, Great Britain, formed a jointly owned company, AutoNova AB, to manufacture so-called niche cars: more exclusive models built in small series. Volvo Car Corporation owns 49% of the shares in AutoNova. Operations are located in Volvo Cars' plant in Uddevalla.

NordicTel Holdings AB

At year-end 1994, Volvo's holding amounted to 8% of the share capital and voting rights.

The entire holding was sold in March 1995, yielding a gain of 176.

Cultor Ab

Through acquisition of BCP Branded Consumer Products AB in November 1993, Volvo acquired 25.1% of the share capital and 20.4% of the voting rights in Cultor Ab, a Finnish company. In April 1994, 14.7% of the equity and 18.9% of the voting rights were sold. The capital gain was 139. At year-end 1994, Volvo's holding in Cultor Ab amounted to 10.4% of the share capital and 1.5% of the voting rights in the company.

The entire shareholding in Cultor Ab was sold in August 1995, yielding a capital gain of 166.

UST Inc. (formerly U.S. Tobacco Inc.)

Through the acquisition of BCP Branded Consumer Products AB in November 1993, Volvo obtained 1% of the share capital and voting rights in UST Inc., an American tobacco company. Volvo sold part of its holding in the second half of 1994, with a total capital gain of 75. At December 31, 1994, Volvo held 0.8% of the capital and voting rights in UST Inc.

Volvo sold its remaining holding in UST Inc. in the beginning of 1995. The capital gain amounted to 75.

Régie Nationale des Usines Renault SA (Renault SA)

In November 1994 Volvo sold Renault shares equal to 8% of the share capital and voting rights in the company. Volvo's remaining holding, following an issue of new shares by Renault, amounts to 11.4% of the share capital and voting rights.

Renault Véhicules Industriels

In March 1994, Volvo exchanged its holding in Renault Véhicules Industriels (45% of the share capital and voting rights) for Renault's holding in Volvo Car Corporation.

AB Custos

In February 1994, Volvo sold its entire holding of shares in AB Custos. The capital gain amounted to 916.

Investment AB Cardo

In April 1994, Volvo sold its entire holding of shares and warrants in Investment AB Cardo. The capital gain was 2,597.

Protorp Förvaltnings AB (formerly Protorp Intressenter AB)

Volvo wrote down the book value of its holding in Protorp by 488 in 1994 and by 2 in 1996, following payments of dividends by Protorp. In addition, a write-down of 247 was made in connection with the repayment of a shareholder contribution.

Volvo's holding in Protorp Förvaltnings AB amounts to 43.0% of the share capital and 33.3% of the voting rights in the company. The holding is reported at cost.

Saga Petroleum a.s.

In March 1994 Volvo sold its entire holding in Saga Petroleum a.s. The capital gain amounted to 347.

Hertz Corporation

In April 1994, Volvo sold its entire holding in Hertz Corporation. The sale was effected at the book value shown in the consolidated accounts.

16 Long-term receivables and loans

	1996	1995	1994
Leasing receivables	5,993	3,432	3,040
Loans	3,169	2,811	1,531
Other long-term receivables	4,094	4,661	4,348
Total	**13,256**	**10,904**	**8,919**

Other long-term receivables include noninterest-bearing debenture loans issued to associated companies in a nominal amount of 2,759 (2,905; 3,010).

17 Intangible assets

	Cost			Accumulated amortization			Book value		
	1996	1995	1994	1996	1995	1994	1996	1995	1994
Goodwill	3,002	6,251	5,052	839	820	732	2,163	5,431	4,320
Patents	70	161	167	18	84	73	52	77	94
Aircraft engine costs	1,115	1,108	1,067	1,053	990	936	62	118	131
Total	**4,187**	**7,520**	**6,286**	**1,910**	**1,894**	**1,741**	**2,277**	**5,626**	**4,545**

At year-end 1996, goodwill totaling, 3,002 pertained mainly to Volvo Construction Equipment, 2.079. The change in goodwill amounts is attributable in 1996 to distribution of the holdings in Swedish Match AB and in 1995, to the acquisition of the outstanding shares of Volvo Construction Equipment Corporation and Prévost Car Inc. and the divestment of Procordia Food and Abba Seafood. With respect to development of aircraft engines, see Note 1 under the heading Depreciation and amortization.

18 Current liabilities

Noninterest-bearing liabilities accounted for 44,183 (48,078; 50,657), or 76% (80; 70) of the Group's total current liabilities.

Secured bank loans at year-end 1996 amounted to 641 (443; 1,250). The corresponding amount for other current liabilities was 2,778 (3,657; 6,175).

Bank loans include current maturities, 2,082 (1,706; 3,103), of long-term debt. Other loans include current maturities of long-term debt, 651 (482; 2,258), and commercial papers, 1,757 (4,518; 6,402). Other loans in 1994 included convertible debenture loans in the amount of 1,609 that fell due for payment in 1995.

At year-end the unused portion of committed credit lines, which may be used without restrictions, amounted to approximately SEK 16 billion (17; 24). Of these facilities, approximately SEK 14.2 billion in 1996 consisted of stand-by borrowing facilities with varying maturities up to the end of year 2003.

Balance sheet amounts for other current liabilities and allocations are as follows:

	1996	1995	1994
Trade bills	13	63	50
Taxes	1,436	1,689	2,440
Wages, salaries and withholding taxes	3,710	3,469	3,253
Other liabilities	12,929	12,879	14,500
Accrued expenses and prepaid income	11,621	14,649	14,716
Total	**29,709**	**32,749**	**34,959**

Other liabilities in 1995 and 1994 include the liability of approximately FRF 1.1 billion to Renault SA pertaining to the balance of the payment for Volvo Truck Corporation.

At year-end 1996, short-term loans amounting to 2,893 (5,642; 6,352) raised in connection with interest-arbitrage transactions were netted against corresponding placements and did not affect total liabilities.

19 Long-term debt

	1996	1995	1994
Bond loans	7,955	6,975	4,317
Other long-term loans	10,234	9,910	7,679
Total	**18,189**	**16,885**	**11,996**

Of the above long-term borrowing, 1.109 (780; 1.702) was secured.

Long-term debt matures as follows:

1998	2,498
1999	4,883
2000	2,507
2001	1,438
2002	1,903
2003 or later	4,960
Total	**18,189**

Bond loans: In 1996 bond loans totaling 2,222 were issued in the international capital market by Volvo Group Finance Europe BV and Volvo Group Finance Treasury Asia Ltd. Of the new bond loans, FRF 1,000 M falls due for payment in 2005 and USD 75 M falls due for payment in 2001.

Two loans with due dates in 1999 were amortized during 1996 in the amounts of FRF 100 M and USD 45 M. In addition the loan of USD 75 M raised during 1996 was amortized in the amount of USD 31 M.

Other long-term loans: A loan of SEK 93 M within the framework of Volvo's Swedish Medium Term Note program of SEK 3,000 M was repaid in 1996. SEK 909 M distributed over a total of 8 loans was issued within the framework of Volvo's Euro Medium Term Note program USD 1,000 M. A loan in a nominal amount of DEM 250 M with a final due date in the year 2000 was amortized in the amount of DEM 6 M. A loan in a nominal amount of USD 125 M with a final due date in 2001 was amortized in the amount of USD 35 M. Two loans were repaid: one in the amount of USD 30 M with a final due date in the year 2000, and one in the amount of CHF 32.5 M with a final due date in 1997. Volvo Group Finance Sweden AB arranged a private placement loan in the amount of DKK 300 M that falls due for payment in 2002. Volvo Group Finance Europe BV raised three loans totaling NLG 50 M that fall due for payment in 2004. Nonconvertible debenture loans in the Group amounted to 259 (253; 33).

20 Accruals for post-retirement benefits

	1996	1995	1994
Accrual for pensions	1,937	6,090	5,285
Accruals for health care benefits	1,213	800	812
Total	**3,150**	**6,890**	**6,097**

Accruals for pensions and health care benefits correspond to the actuarially calculated value of all statutory and voluntary obligations. Pensions falling due within one year are included. The Swedish Group companies have insured their pension obligations with third parties.

Group pension costs in 1996 amounted to 3,446 (3,030; 2,632). The greater part consists of continuing payments to independent organizations that administer pension plans.

In May 1996 two Groupwide pension foundations for employees were formed to secure commitments in accordance with the ITP plan. The Volvo Group 1995 Employee Pension Foundation pertains to pension funds earned up to 1995 and the Volvo Group 1996 Employee Pension Foundation pertains to funds earned beginning in 1996. In July 1996 4,244 was transferred to the Volvo Group 1995 Employee Pension Foundation. The capital value of pension obligations at year-end 1996 amounted to 4,405.

Assets in pension foundations, which are valued at market, exceeded pension obligations by 110.

21 Shareholders' equity

The share capital of the Parent Company is divided into two classes of shares: A and B. Both classes 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.

At December 31, 1996, the share capital of AB Volvo (par value SEK 5 per share) consisted of the number of shares shown in the accompanying table.

	Total shares	Nominal amount
A-shares	142,151,130	711
B-shares	321,407,122	1,607
Total	463,558,252	2,318

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, 1996 amounted to 18,126.

Specification of restricted reserves	1996	1995	1994
Equity in untaxed reserves	6,725	6,843	7,855
Other restricted reserves	8,181	7,421	6,690
Total	**14,906**	**14,264**	**14,545**

Changes in shareholders' equity	1996	1995	1994
Balance, December 31 of the preceding year	51,200	43,332	27,088
Cash dividend	(1,854)	(1,512)	(601)
Distribution of shareholding in Swedish Match	(4,117)	–	–
Net income	12,477	9,262	13,230
New issue of shares	–	–	4,700
Conversion of convertible debentures	–	1,608	66
Translation differences	(135)	(1,844)	(695)
Exchange differences on loans	40	366	249
Accumulated translation difference on the Renault holding[1]	–	–	(734)
Other changes	265	(12)	29
Balance, December 31 each year	**57,876**	**51,200**	**43,332**

1 The difference pertains to the sale of Renault shares and affected consolidated capital gain in connection with the sale.

Change in unrestricted equity	1996	1995	1994
Balance, December 31 of the preceding year	34,618	26,567	13,466
Cash dividend	(1,854)	(1,512)	(601)
Distribution of shareholding in Swedish Match	(4,117)	–	–
Net income	12,477	9,262	13,230
Effect of equity method of accounting[1]	(373)	(818)	(2,295)
Transfer between unrestricted and restricted equity, translation differences, etc	(99)	1,119	2,767
Balance, December 31 each year	**40,652**	**34,618**	**26,567**

1 Mainly net income from equity method investments, less dividends received from associated companies

22 Assets pledged

	1996	1995	1994
Property, plant and equipment – mortgages	544	552	1,093
Chattel mortgages	362	372	380
Receivables	922	863	1,276
Inventories	36	372	630
Cash, marketable securities	2,636	1,624	1,537
Other	2,003	1,651	1,611
Total	**6,503**	**5,434**	**6,527**

The liabilities for which the above assets were pledged amounted at year-end to 4,527 (4,881; 9,128). Pledged net assets in subsidiaries are included in Other 1,750 (1,519; 1,445).

23 Contingent liabilities

	1996	1995	1994
Discounted bills	368	530	495
Guarantees:			
Bank loans and trade bills – associated companies	316	256	115
Bank loans – customers and others	1,873	1,804	737
Recourse obligations	515	1,252	1,746
Other contingent liabilities	3,116	3,608	4,488
Total	**6,188**	**7,450**	**7,581**

The amount shown for guarantees to customers and others pertaining to bank loans, 1,873 (1,804; 737) includes the unutilized portion of credit facilities, 11 (40; 88). Recourse obligations pertain to receivables that have been transferred (sales-financing operations), less reduction for recognized credit risks. Other contingent liabilities include 528 (940; 910) related to claims in connection with the tax audit of AB Volvo and its Swedish subsidiaries, for which provisions were not deemed necessary. In addition, a suit against Volvo Car Corporation in Puerto Rico pertaining to the model designations of passenger cars has been recorded as a contingent liability.

24 Leasing

Future leasing commitments are not generally capitalized but are accounted for as operating leases. At December 31, 1996, future rental costs for noncancellable operating leases amounted to 7,269 (7,122; 4,339). Rental expenses in 1996 amounted to 1,782 (1,401; 1,266). At year-end, future rental income from noncancellable leases amounted to 13,051 (9,509; 7,107) of which 12,745 (8,488; 6,625) pertains to sales financing. Future rental costs and income from noncancellable leases are distributed as follows:

	Rental costs	Rental income
1997	1,733	4,356
1998	1,483	4,177
1999	1,077	2,717
2000	849	1,258
2001	701	420
2002 and later	1,426	123
Total	**7,269**	**13,051**

25 Personnel

In accordance with a resolution adopted at the Annual General Meeting, the fee paid to the Board of Directors is a fixed amount of SEK 2,475,000, to be distributed as decided by the Board. The Chairman of the Board, Bert-Olof Svanholm, receives a fee of SEK 850,000.

During 1996, Sören Gyll, President and Chief Executive Officer, received SEK 6,095,000 in salary and other benefits amounting to SEK 562,000. A payment of SEK 1,983,800 was also made to a pension fund on behalf of Sören Gyll, equal to the bonus to which Sören Gyll was entitled in accordance with a bonus system established by the Volvo Board in 1993. Sören Gyll has decided to leave his position as President and Chief Executive Officer at the Annual General Meeting on April 23, 1997. He will continue to serve the Group up to December 31, 1997 and will then retire on pension. During the period between the ages of 57 and 65, he will receive a pension amounting to 70% of his salary, and upon reaching the age of 65 he will receive a pension amounting to 50% of his pension-qualifying salary.

Leif Johansson will assume the position of President and Chief Executive Officer on April 23, 1997. His annual salary is SEK 7,500,000. He can receive a bonus amounting to a maximum of 30% of his annual salary. However, the maximum bonus payable for 1997 is SEK 1,000,000. He is also eligible to receive a company car and company housing. Leif Johansson is eligible for pension at age 55. During the period between the ages of 55 and 65, he would receive a pension equal to 70% of his pension-qualifying salary, and a pension amounting to 50% of his pension-qualifying salary after reaching the age of 65. Leif Johansson has a twelve month notice of termination from AB Volvo and six months on his own initiative. If Leif Johansson's employment is terminated by AB Volvo, he is entitled to a severance payment equal to two years' salary, plus bonus.

The Group Executive Committee, members of the executive committees of subsidiaries and a number of key persons receive bonuses in addition to salaries. Bonuses are based on the performance of the Volvo Group and/or of the executive's company, in accordance with the bonus system established by the Volvo Board in 1993 and revised in 1996. A bonus may, in principle, amount to a maximum of 25%, 35%, 40% or 50% of an executive's annual salary. In addition, a maximum of SEK 50,000 may be paid in cases where individual objectives have been met.

The employment contracts of certain senior executives contain provisions for severance payments when employment is terminated by the Company, as well as rules governing pension payments to executives who take early retirement. The rules governing early retirement provide that, when employment is terminated by the Company, an employee is entitled to severance pay equal to the employee's monthly salary for a period of 12 to 24 months, depending on age at date of severance. In certain contracts, replacing contracts concluded earlier, an employee is entitled to severance payments amounting to the employee's monthly salary for a period of 30 to 42 months. In agreements concluded after the spring of 1993, severance pay is reduced, in the event the employee gains employment during the severance period, in an amount equal to 75% of income from new employment. An early-retirement pension may be received when the employee reaches age 60. From that date until reaching the normal retirement age, the retiree will receive 70% of the pension-qualifying salary.

Options program for senior executives

In February 1996, Skandia and Trygg-Hansa (insurance companies) offered approximately 100 senior executives in the Volvo Group an opportunity to acquire call options on AB Volvo's Series B shares. At the close of the subscription period approximately 90% of the executives had accepted the offer. The call options, which expire March 3, 2001, entitle the holder to acquire one Volvo Series B share for each option held. The option price, based on a market valuation, was fixed at SEK 21.15 and the exercise price is SEK 200. Members of the Group Executive Committee were offered an opportunity to acquire 6,000 or 10,000 options each. Other senior executives could acquire 4,000 or 6,000 options each. A total of 514,000 options were subscribed.

A complete specification is available at no cost from
AB Volvo, S-405 08 Göteborg, Sweden.

Personnel and personnel costs by country	Average number of employees			Wages and salaries, etc		
	1996	1995	1994	1996	1995	1994
AB Volvo	448	409	297	172.1	154.3	144.3
Subsidiaries in Sweden	43,293	41,133	35,714	10,774.6	9,671.5	7,878.4
Total Sweden	**43,741**	**41,542**	**36,011**	**10,946.7**	**9,825.8**	**8.022.7**
Subsidiaries outside Sweden						
Norway	139	190	132	45.,7	67.7	44.1
Denmark	282	285	209	125.1	100.9	64.3
Finland	795	879	14	194.5	225.7	3.6
Germany	1,174	1,055	699	380.3	320.8	165.4
Netherlands	753	741	778	199.2	230.3	207.0
Belgium	6,079	5,899	5,591	1,625.0	1,636.7	1,478.4
Great Britain	2,660	2,123	2,240	580.9	569.9	527.2
France	1,267	715	625	319.2	216.8	175.5
Switzerland	347	349	363	140.2	156.9	142.4
Austria	245	238	246	86.8	81.5	74.0
Italy	374	372	349	107.6	98.5	92.1
Spain	372	309	266	102.1	87.9	74.6
Poland	282	171	39	15.3	11.3	4.0
United States	4,967	4,881	4,753	1,388.1	1,490.0	1,574.0
Canada	1,951	1,629	423	365.6	340.0	118.5
Brazil	1,534	1,904	1,592	292.7	354.5	276.0
Peru	269	320	260	44.6	39.4	34.5
Japan	447	436	424	214.6	245.4	235.4
Korea	198	6	6	2.3	1.4	1.1
Singapore	141	92	74	38.5	23.3	20.5
Malaysia	612	611	547	35.9	32.3	26.6
Thailand	636	502	463	28.0	22.8	20.3
Pakistan	66	–	–	0.1	–	–
Kazakstan	39	–	–	1.0	–	–
Australia	687	616	549	127.2	112.0	105.2
Other countries	119	84	53	31.6	15.0	8.9
Total outside Sweden	**26,435**	**24,407**	**20,695**	**6,492.1**	**6,481.0**	**5,473.6**
Operations being divested	1,729	14,420	17,401	272.5	2,672.2	3,541.6
Board of Directors and senior executives	–	–	–	318.0	385.3	422.7
Total	**71,905** [1]	**80,369** [1]	**74,107** [1]	**18,029.3**	**19.364,3**	**17,460.6**

Board of Directors and senior executives, SEK M	Salaries and other remunerations			of which bonuses		
	1996	1995	1994	1996	1995	1994
AB Volvo	20.7	17.5	15.4	5.4	3.7	3.4
Subsidiaries in Sweden	51.6	42.9	36.8	6.6	7.5	4.3
Subsidiaries outside Sweden	226.9	212.9	168.4	21.9	26.0	5.2
Operations being divested	18.8	112.0	202.1	6.9	38.5	108.0
Total	**318.0**	**385.3**	**422.7**	**40.8**	**75.7**	**120.9**

1 Of whom women 18% (22; 24).

Financial information in accordance with generally accepted accounting principles in the United States (U.S. GAAP)

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

Volvo also submits an annual report (Form 20-F) to the Securities & Exchange Commission (SEC) in the United States.

Application of U.S. GAAP would have the following approximate effect on consolidated net income and shareholders' equity of the Volvo Group:

Net income	1996	1995	1994
Net income in accordance with Swedish accounting principles	12,477	9,262	13,230
Items increasing (decreasing) reported net income:			
Foreign currency translation (A)	(89)	5,457	3,432
Income taxes (B)	494	(523)	(234)
Tooling costs (C)	(312)	(633)	(1,028)
Business combinations (D)	(529)	355	(546)
Shares and participations (E)	176	(116)	(97)
Interest costs (F)	15	2	2
Leasing (G)	49	49	41
Debt and equity securities (H)	(147)	368	(129)
Other (I)	(95)	111	82
Minority interests	–	2	2
Tax effect of above U.S. GAAP adjustments	178	(1,399)	(633)
Net increase (decrease) in net income	(260)	3,673	892
Approximate net income in accordance with U.S. GAAP	**12,217**	**12,935**	**14,122**
Approximate net income per share, SEK in accordance with U.S. GAAP	**26.40**	**28.20**	**34.60**
Weighted average number of shares outstanding (in thousands)	463,558	457,984	408,721

Shareholders' equity	1996	1995	1994
Shareholders' equity in accordance with Swedish accounting principles	57,876	51,200	43,332
Items increasing (decreasing) reported shareholders' equity:			
Foreign currency translation (A)	3,660	3,920	(1,537)
Income taxes (B)	1,398	904	1,427
Tooling costs (C)	–	312	945
Business combinations (D)	2,558	6,070	5,715
Shares and participations (E)	(90)	(266)	(151)
Interest costs (F)	503	487	484
Leasing (G)	(91)	(140)	(187)
Debt and equity securities (H)	1,604	10,472	1,296
Other (I)	583	682	548
Tax effect of above U.S. GAAP adjustments	(1,726)	(4,782)	(919)
Net increase in shareholders' equity	8,399	17,659	7,621
Approximate shareholders' equity in accordance with U.S. GAAP	**66,275**	**68,859**	**50,953**

Significant differences between Swedish and U.S. accounting principles.

A. Foreign currency translation. In consolidation, valuation of outstanding forward exchange contracts covering future flows of foreign currencies, Volvo makes a provision for unrealized losses to the extent that such losses exceed unrealized gains. Unrealized gains in excess of unrealized losses are not credited to income. In accordance with U.S. GAAP, these forward exchange contracts are valued at market price through fictive closing. Gains and losses arising therefrom are included in income. Unrealized gains on forward contracts in 1996 were estimated at 3,660 (3,920; loss 1,537).

B. Income taxes. Volvo applies the liability method of accounting for income tax in accordance with U.S. GAAP (SFAS 109). Under the liability method, deferred tax receivables and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of Volvo's assets and liabilities at tax rates expected to be in effect when such amount are realized or settled.

In 1994 and 1995 tax expense calculated in accordance with Swedish principles was lower than in accordance with U.S. GAAP due to the utilization of tax-loss carryforwards and the difference in tax effect of temporary differences that were reported earlier in accordance with U.S. GAAP.

Tax expense for 1996 was lower under U.S. GAAP due to loss carryforwards on the years operations exceeding utilized loss carryforwards under Swedish GAAP.

C. Tooling costs. Up to and including 1992, Volvo expensed all tooling costs in the year incurred. In accordance with U.S. GAAP, all significant tooling costs are capitalized and depreciated over a period not exceeding five years. Effective in the 1993 accounts, Volvo has applied this accounting method and is capitalizing type-specific tools. Adjustments under this point pertain to depreciation of capitalized tooling costs in accordance with U.S. GAAP prior to 1993.

D. Business combinations. There are differences between Swedish reporting and U.S. GAAP in the method of accounting for certain acquisitions, particularly in the recognition and amortization of excess values and accounting for the tax benefits related to utilization of loss carryforwards of purchased subsidiaries.

Volvo's earnings in 1993 include a provision for an excess value related to Volvo Trucks which resulted from the exchange of shares with Renault. In accordance with U.S. GAAP, the corresponding excess value should be reported as a fixed asset (goodwill) which is being amortized over a period of five years.

In accordance with U.S. GAAP, the acquisition of BCP Branded Consumer Products AB (BCP) resulted in a gain, before taxes, of 1,320 in 1993. The gain was attributable to the exchange of Pharmacia shares for BCP shares. The transaction is reported in Volvo's 1993 financial statements as an exchange of shares that did not affect income.

In 1994 Volvo acquired the remaining outstanding BCP shares. For U.S. GAAP purposes, an excess value (goodwill) of 5,280 was recognized, based on the fair value of Volvo shares exchanged for the acquired BCP shares in June 1994. For Swedish GAAP purposes, the acquisition resulted in a smaller excess value amounting to 2,500, based on the fair value of Volvo shares in October 1993. During 1995 Volvo sold some shares attributable to the BCP acquisition. Of original goodwill of 5,280, approximately 20% was charged against the capital gain.

All shareholdings attributable to the BCP acquisition were divested in 1996; through the distribution of Swedish Match.

In 1995 AB Volvo acquired the outstanding 50% of the shares of Volvo Construction Equipment Corporation (formerly VME) from Clark Equipment Company in the U.S. In connection with the acquisition, an excess value (goodwill) of SEK 2.8 billion was reported. The shareholding was written down by SEK 1.8 billion, the portion of the excess value estimated to be attributable to the Volvo brand name at the date of acquisition. In accordance with U.S. GAAP, the excess value of SEK 2.8 billion should be amortized over the economic life (20 years).

E. Shares and participations. In calculating Volvo's share of earnings and shareholders' equity in associated companies in accordance with U.S. GAAP, account has been taken to the differences between the accounting of these companies – in accordance with Volvo's principles – and U.S. GAAP. The differences relate mainly to accounting for and amortization of excess values, accounting for utilized tax-loss carryforwards and, prior to 1992, accounting for tooling costs.

F. Interest costs. In accordance with U.S. GAAP, interest costs incurred in connection with the financing of the construction of property and other qualifying assets are capitalized and amortized over the economic life of the pertinent assets.

G. Leasing. Certain leasing transactions are reported differently in accordance with Volvo's accounting principles, compared with U.S. GAAP. The differences relate to sale-leaseback transactions.

H. Debt and equity securities. Effective January 1, 1994, in connection with accounting in accordance with U.S. GAAP, Volvo adopted the new accounting principle for debt and equity securities (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 values, and for all debt securities. These investments are to be classified as either "held-to-maturity" securities that are reported at cost, "trading" securities that are reported at fair value with unrealized gains or losses included in earnings, or "available-for-sale" securities, reported at fair value, with unrealized gains or losses included in shareholders' equity.

The cumulative effect of adopting SFAS 115 as of January 1, 1994 amounted to 7 and is included in income for 1994.

As of December 31, 1996, unrealized gains after deducting for unrealized losses in "available-for-sale" securities amounted to 1,512 (10,233; 1,425). The increase between 1994 and 1995 pertains mainly to reclassification of the holding in Pharmacia from an associated company, reported in accordance with the equity method, to a marketable security. During 1996 a large part of the interest in Pharmacia & Upjohn was sold, which explains the decrease compared to 1995. Sale of "available-for-sale" securities in 1996 provided approximately SEK 13.6 billion (1.9; 8.5) and the capital gain, before tax, on sales of these securities amounted to approximately SEK 8.3 billion (1.2; 0.7).

I. Other. Includes adjustments pertaining to pension costs.

Volvo's financial reporting in accordance with the new Annual Report Act

The new Annual Report Act is to be applied by Swedish limited liability companies and certain trading companies as of January 1, 1997. Accordingly, the Act will affect Volvo's external reporting beginning with the report on operations in the first quarter of 1997.

To facilitate the changeover to the new form of presentation, income statements and balance sheets for the years 1994–1996 are shown below as they are intended to be presented, effective in 1997, in accordance with the Annual Report Act.

Income statement

The new Act makes it possible for companies to choose between two forms of presentation, one based on reporting by type of cost and the other based on reporting by type of function. Volvo plans to apply the latter form of presentation.

The income statement format does not contain a separate item for depreciation. Depreciation will be shown in notes to the financial statements beginning with the accounts for 1997.

Balance sheet

The new Act provides for only a single form of presentation for the balance sheet. This differs substantially from the earlier legislation, in part because the items are presented in reverse order of liquidity, and in part because the "liabilities" item is divided into "provisions" and "liabilities."

Key ratios

Adaptation to the new Act does not cause any change in the content of the income concept in the income statement except for Gross income, which is new and which is reported after Cost of sales. This results in reporting Gross margin openly. Since the sales figure does not change, all key ratios will be largely unchanged. Interest coverage, which is changed marginally due to a change in the content of Interest income, is an exception.

Adjustments of figures for earlier years and quarters

As occurs in connection with other major changes in accounting principles, figures for earlier years have been adjusted to conform with the new principles and forms of presentation. Adjusted quarterly figures will be presented beginning with the interim report for first-quarter 1997 operations, as well as in the "Financial & Operating Statistics" broschure which will be issued April 10, 1997.

Consolidated income statements

	1996	1995	1994
Net sales	**156,060**	171,511	155,866
Cost of sales	**(121,249)**	(128,529)	(115,092)
Gross income	**34,811**	42,982	40,774
Research and development expenses	**(8,271)**	(7,343)	(4,652)
Selling expenses	**(14,895)**	(17,418)	(15,737)
Administrative expenses	**(6,685)**	(7,399)	(7,711)
Other operating income	**5,086**	4,168	3,317
Other operating expenses	**(6,336)**	(5,966)	(6,620)
Operating income before nonrecurring items	**3,710**	9,024	9,371
Nonrecurring items	**–**	1,215	–
Operating income	**3,710**	10,239	9,371
Income from investments in associated companies	**314**	2,119	5,861
Income from other investments	**9,007**	788	1,667
Interest income and similar credits	**4,817**	3,996	3,051
Interest expenses and similar charges	**(3,271)**	(3,757)	(3,608)
Other financial income and expenses	**(374)**	(337)	36
Income after financial items	**14,203**	13,048	16,378
Taxes	**(1,825)**	(3,741)	(2,783)
Minority interests	**99**	(45)	(365)
Net income	**12,477**	9,262	13,230

Consolidated balance sheets

	December 31, 1996		December 31, 1995		December 31, 1994	
Assets						
Non-current assets						
Intangible assets		**2,277**		5,626		4,545
Tangible assets						
Property, plant and equipment	**26,458**		25,094		25,991	
Assets under operating leases	**4,968**	**31,426**	2,847	27,941	2,205	28,196
Financial assets						
Shares and participations	**12,412**		18,087		18,548	
Long-term sales-finance receivables	**5,831**		4,161		3,534	
Other long-term receivables	**7,425**	**25,668**	6,743	28,991	5,385	27,467
Total non-current assets		**59,371**		62,558		60,208
Current assets						
Inventories		**23,148**		23,929		23,380
Short-term receivables						
Sales-finance receivables	**9,721**		6,175		5,817	
Other receivables	**22,258**	**31,979**	22,731	28,906	24,728	30,545
Marketable securities		**21,577**		15,817		15,878
Cash and bank accounts		**5,084**		7,489		8,571
Total current assets		**81,788**		76,141		78,374
Total assets		**141,159**		138,699		138,582
Shareholders' equity and liabilities						
Shareholders' equity						
Restricted equity						
Share capital	**2,318**		2,318		2,220	
Restricted reserves	**14,906**	**17,224**	14,264	16,582	14,545	16,765
Unrestricted equity						
Unrestricted reserves	**28,175**		25,356		13,337	
Net income for the year	**12,477**	**40,652**	9,262	34,618	13,230	26,567
Total shareholders' equity		**57,876**		51,200		43,332
Minority interests		**504**		605		838
Provisions						
Provisions for postemployment benefits	**3,150**		6,890		6,097	
Deferred taxes	**3,055**		3,350		4,107	
Other provisions	**11,933**	**18,138**	11,252	21,492	9,807	20,011
Non-current liabilities						
Bond loans	**7,955**		6,975		4,317	
Other loans	**10,234**	**18,189**	9,910	16,885	7,679	11,996
Current liabilities						
Loans	**14,263**		11,691		21,555	
Trade payables	**11,960**		12,702		13,075	
Other current liabilities	**20,229**	**46,452**	24,124	48,517	27,775	62,405
Shareholders' equity and liabilities		**141,159**		138,699		138,582
Assets pledged		**6,503**		5,434		6,527
Contingent liabilities		**6,188**		7,450		7,581

AB Volvo
Board of Directors' Report

Amounts in SEK millions unless otherwise stated.

During 1996 the shares of Volvo Personvagnar AB (Volvo Car Corporation) were sold to AB Fortos, without affecting income, for 6,546. The name of AB Fortos was then changed to Volvo Personvagnar Holding AB.

Sotrof AB was acquired from Volvo Personvagnar Holding AB for 9,854. Sotrof AB owns, among other assets, the Volvo Group's remaining shareholding in Pharmacia & Upjohn, Inc.

Volvo Bus Corporation was acquired from Volvo Truck Corporation for 154.

Eighty percent of the shares of Volvo Construction Equipment North America were acquired from Volvo Construction Equipment NV for 1,054, following which the holding was conveyed as a shareholder contribution to VNA Holding Inc., a newly formed holding company for part of the operations in North America.

As approved by the 1996 Annual General Meeting of AB Volvo, the shares of Swedish Match AB were distributed to AB Volvo's shareholders. The book value of the shares at date of distribution was 8,000.

The shareholding in Protorp Förvaltnings AB was written down by 247 in connection with the repayment of share capital, and by 2 in connection with a dividend received.

Capital expenditures for property, plant and equipment amounted to 35 (17; 11). Sales to Group companies totaled 545 (474; 427) and purchases from Group companies amounted to 136 (74; 71).

Income

Parent Company income consists mainly of financial income and expense, administration expenses, and allocations.

Dividends from subsidiaries amounted to 720 and dividends from non-Group companies totaled 184.

Allocations include Group contributions received in the amount of 997 net.

Investments in shares

The total book value of shares and participations in subsidiaries amounted to 46,893 (42,110; 32,683) of which 46,891 (42,108; 32,681) 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 75,380 (55,913; 40,375), or 28,487 (13,803; 7,692) more than book value.

Shares and participations in non-Group companies included 897 (897; 1,833) in associated companies that are reported in accordance with the equity method in the consolidated accounts. The portions of shareholders' equity in associated companies accruing to AB Volvo totaled 834 (757; 2,400). Shareholdings and participations in non-Group companies included listed shares of Renault SA and AB Catena with a book value of 6,724. The market value of these holdings at December 31, 1996 was 4,984. A write-down has not been deemed to be required since the decline in market value is not considered to be permanent.

AB Volvo
income statements

		1996	1995	1994
Sales		**559**	488	440
Cost and expenses		**(912)**	(863)	(636)
Depreciation	Note 1	**(17)**	(14)	(12)
Operating loss before non-recurring items		**(370)**	(389)	(208)
Nonrecurring items	Note 2	**–**	(1, 817)	–
Operating loss		**(370)**	(2,206)	(208)
Financial income (expense)				
Dividends received	Note 3	**904**	2,061	3,532
Gain on sales of securities, net	Note 4	**–**	–	3,569
Interest income	Note 5	**233**	532	583
Interest expense	Note 5	**(1,048)**	(1,250)	(1,096)
Other financial income (expense)	Note 6	**234**	438	(186)
Income (loss) before allocations and taxes		**(47)**	(425)	6,194
Allocations	Note 7	**943**	3,601	1,754
Income before taxes		**896**	3,176	7,948
Taxes	Note 8	**2**	–	30
Net income		**898**	3,176	7,978

Net debt

Net debt amounted to 15,838 (10,984; 4,085).

Shareholders' equity

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 28,443, equal to 51% of total assets. The comparable figure as of year-end 1995 was 68%.

Employees

The number of employees at year-end was 468 (452; 393). Wages, salaries and social costs amounted to 324 (272; 240). Information on the average number of employees and on wages and salaries appears on page 67.

AB Volvo balance sheets

		Dec 31 1996	Dec 31 1995	Dec 31 1994
Assets				
Liquid funds	Note 9	**6**	1,590	5,262
Accounts receivable from subsidiaries		**1,971**	3,484	897
Other receivables	Note 10	**56**	113	122
Total current assets		**2,033**	5,187	6,281
Property, plant and equipment	Note 11	**97**	82	79
Investments in shares – subsidiaries	Note 12	**46,893**	42,110	32,683
Other investments in shares	Note 13	**7,025**	7,317	8,230
Long-term receivables due from subsidiaries		**–**	158	2,565
Other long-term receivables		**105**	105	372
Total long-term assets		**54,120**	49,772	43,929
Total assets		**56,153**	54,959	50,210
Liabilities and shareholders' equity				
Accounts payable		**36**	52	31
Loans from subsidiaries		**7,067**	1,198	530
Other amounts due to subsidiaries		**11,322**	2,884	1,393
Other loans	Note 14	**2**	34	1,644
Other current liabilities and provisions	Note 14	**396**	1,964	2,096
Total current liabilities		**18,823**	6,132	5,694
Amounts due to subsidiaries	Note 15	**8,606**	10,958	9,640
Other long-term loans		**1**	2	36
Accruals for pensions	Note 16	**280**	487	447
Total long-term liabilities		**8,887**	11,447	10,123
Untaxed reserves	Note 17	**758**	739	1,024
Shareholders' equity	Note 18			
Share capital (463,558,252 shares, par value SEK 5)		**2,318**	2,318	2,220
Legal reserve		**7,241**	7,241	5,731
Total restricted equity		**9,559**	9,559	7,951
Retained earnings		**17,228**	23,906	17,440
Net income		**898**	3,176	7,978
Total unrestricted equity		**18,126**	27,082	25,418
Total shareholders' equity		**27,685**	36,641	33,369
Total liabilities and shareholders' equity		**56,153**	54,959	50,210
Assets pledged	Note 19	**1,217**	1,153	1,153
Contingent liabilities	Note 20	**64,650**	57,441	58,515
Capital expenditures approved		**7**	14	15

AB Volvo statements of changes in financial position

	1996	1995	1994
Operations			
Net income	**898**	3,176	7,978
Depreciation	**17**	14	12
Write-down of shareholdings	**–**	1,817	–
Changes in untaxed reserves	**19**	(285)	(544)
Decrease (increase) in current operating assets:			
Receivables	**1,570**	(2,578)	1,237
Increase (decrease) in current operating liabilities:			
Accounts payable	**(16)**	21	(30)
Amounts due to subsidiaries	**8,438**	1,491	604
Other current liabilities	**(1,568)**	(132)	(462)
Net financing from year's operations	**9,358**	3,524	8,795
Investments (increase)			
Investments in shares and participations, net	**(4,491)**	(10,331)	(7,843)
Property, plant and equipment, net	**(32)**	(17)	(4)
Long-term receivables, net	**158**	2,674	1,550
Net after investments	**4,993**	(4,150)	2,498
Financing, dividends, etc			
Increase (decrease) in short-term loans	**5,837**	(942)	(2,132)
Increase (decrease) in long-term loans	**(2,353)**	1,284	(1,158)
Increase (decrease) in accruals for pensions	**(207)**	40	(191)
Increase in shareholders' equity as a result of conversions and new issue of shares	**–**	1,608	4,766
Dividend to shareholders:			
Cash dividend	**(1,854)**	(1,512)	(601)
Distribution of Swedish Match	**(8,000)**	–	–
Increase (decrease) in liquid funds	**(1,584)**	(3,672)	3,182

Notes to financial statements

Amounts in SEK M unless otherwise specified. The amounts within parentheses pertain to the preceding two years; the first figure is for 1995 and the second figure is for 1994.

Accounting principles

The accounting principles applied by Volvo are described on page 56. The income statements for prior years have been restated with respect to the interest portion of pension costs, which is reported as an interest expense. Earlier, the interest portion was included in operating income, which has increased by 23 (29; 47) due to the change in method of accounting. Effective in 1995, guarantee commissions from subsidiaries are included in Other financial income (expense). Earlier, this item was included in cost and expenses.

1 Depreciation

Depreciation pertained to machinery and equipment, 16 (14; 12), and buildings, 1 (0; 0).

2 Nonrecurring items

Income in 1995 was charged with 1,817 pertaining to a write-down of acquired shares in Volvo Construction Equipment Corporation.

3 Dividends received

Dividends included 720 (1,734; 2,288) from subsidiaries 28 (109; 153) from associated companies, which are reported in the consolidated accounts in accordance with the equity method and 156 (218; 1,091) from other companies.

Dividends were reduced through write-downs of shareholdings totaling 20 (217; 564).

4 Gains on sales of securities, net

Capital gains in 1994 included mainly gains on the sale of shareholdings in Investment AB Cardo, 2,540; AB Custos, 860; Hertz Corporation, 259; and NordicTel Holdings AB, 85. Costs of 191 were reported for a guarantee to Volvo Car Corporation in connection with the sale of Volvo Cars of North America Inc.

5 Interest income (expense)

Interest income of 233 (532; 583) included interest of 192 (521; 532) from subsidiaries, and interest expense totaling 1,048 (1,250; 1,096) included 1,007 (1,158; 857) paid to subsidiaries.

6 Other financial income (expense)

Unrealized exchange gains on long-term receivables and liabilities in foreign currencies are allocated to an exchange reserve. Exchange differences on borrowings and lendings, including forward contracts related to loans, amounted to 368 (462; 76). Since these loans are largely designed to hedge net assets in foreign currencies, most of the translation differences do not affect consolidated income. Other exchange differences are included in operating expenses.

Other financial income (expense) also includes costs of confirmed credit facilities, costs of loans and costs of listing Volvo shares on various stock exchanges. Income in 1996 was charged with costs of 112 for listing Swedish Match shares publicly. Effective in 1995, guarantee commissions from subsidiaries, formerly included in operating loss, are also included in the amount of 40 (41; –). Expenses in 1994 included a write-down of 234 of the shareholding in Näringslivskredit NLK AB.

7 Allocations

	1996	1995	1994
Group contributions received	2,578	5,460	1,384
Group contributions granted	(1,581)	(2,144)	(1)
Shareholder contributions	–	–	(94)
Reversal of tax equalization reserve	89	446	361
Reversal of/allocation to exchange reserve	(108)	(159)	186
Allocation to extra depreciation	0	(2)	(3)
Write-downs of shareholdings	(35)	–	(79)
Total	943	3,601	1,754

Write-downs of shares in subsidiaries have been made due to Group contributions received.

8 Taxes

Taxes of 2 (0; 30) in 1996 pertained to repaid profit-sharing tax, and in 1994 to a reduced provision for anticipated tax increases related to prior years.

A tax audit has been completed within AB Volvo. Provision has been made for estimated tax expenses that may arise as a consequence thereof. Claims for which provisions are not deemed necessary amount to a tax expense of 339 (343; 0), which is included in contingent liabilities.

9 Liquid funds

	1996	1995	1994
Cash in banks	6	6	–
Temporary investments placed with subsidiaries	–	1,584	5,262
Total	6	1,590	5,262

10 Other receivables

	1996	1995	1994
Accounts receivable	15	9	15
Prepaid expenses and accrued income	23	100	33
Other receivables	18	4	74
Total	56	113	122

The reserve for doubtful accounts amounted at year-end to 0 (0; 1).

11 Property, plant and equipment

	Cost			Accumulated depreciation			Book value		
	1996	1995	1994	1996	1995	1994	1996	1995	1994
Machinery and equipment	175	163	148	100	92	80	75	71	68
Buildings	17	10	9	2	2	2	15	8	7
Land	4	3	3	–	–	–	4	3	3
Construction in progress	3	–	1	–	–	–	3	–	1
Total	199	176	161	102	94	82	97	82	79

The assessed value of buildings was 4 (3; 3) and of land and land improvements, 10 (4; 4). During the year a total of 35 (17; 11) was invested, including 25 (16; 7) in machinery and equipment 9 (1; 3) in buildings and land 1 (0; 1).

12 Investments in shares – subsidiaries

Holdings of shares and participations are specified on page 79.

All shares of Swedish Match AB were acquired from AB Fortos for 8,000 following which the shares were distributed to AB Volvo's shareholders. Volvo Car Corporation was sold for 6,546 to AB Fortos, whose name was then changed to Volvo Personvagnar Holding AB. Sotrof AB, whose holdings include the remaining shares of Pharmacia & Upjohn Inc., was acquired from Volvo Personvagnar Holding for 9,854. The value of Volvo Personvagnar Holding increased by 27 in connection with costs of the compulsory redemption of shares of BCP Branded Consumer Products AB.

A holding company, VNA Holding Inc., was formed for part of the North American operations. The company acquired Volvo GM Heavy Truck Corporation from Volvo Truck Corporation, and Volvo Penta of the Americas Inc. from AB Volvo Penta. AB Volvo purchased 80% of the shares of Volvo Construction Equipment North America Inc. from Volvo Construction Equipment NV for 1,054, following which the holding was conveyed to VNA Holding Inc. as a shareholder contribution. A share reserve of 500 was transferred from the holding in Volvo Truck Corporation to VNA Holding Inc. The book value of VNA Holding Inc. at December 31, 1996 amounted to 556.

The value of the holding of shares in Volvo Truck Corporation acquired from Renault SA in 1994 declined by 67 in connection with payment of the remaining portion of the purchase price.

Volvo Bus Corporation was purchased from Volvo Truck Corporation for 154. The holding was written down by 35 at year-end.

Shareholder contributions that increased book values were made to Volvo Aero Corporation, 295; Volvo Bus Corporation, 63; and Rossareds Fastighets AB, 2.

The holding in Olofström AB (formerly Tvåsteget AB) was written down by 18 in connection with receipt of a dividend.

1995: The outstanding 50% of the shares of Volvo Construction Equipment Corporation were acquired for 4,081, following which the holding was written down by 1,817, representing the excess value in acquired shares attributable to the Volvo brand name. Volvo's original holding, 318, was transferred from Shares in non-Group companies.

Shareholder contributions that increased book values were made to Volvo Car Corporation, 5,000; AB Fortos (now Volvo Personvagnar Holding), 1,720; Volvo Aero Corporation, 106; Volvo Penta Corporation, 61; and Försäkrings AB Volvia, 37.

Volvo Transport Corporation, 88, and Volvo Data Corporation, 54 were acquired in intra-Group transactions.

Holdings in subsidiaries were written down in a total amount of 222, of which 217 was related to receipt of dividends.

1994: Shares of BCP Branded Consumer Products AB were acquired through a public offering to BCP's shareholders and were valued at 4,700. The value of the holding was also increased by costs of 22 in connection with the acquisition, by intra-Group purchases, 5, and by 57 representing the remaining outstanding shares of BCP that were acquired through compulsory redemption. Shares in BCP amounting to 10,202, and in Alfred Berg Holding AB, amounting to 490, were utilized for a non-cash payment to AB Fortos (now Volvo Personvagnar Holding), which also received a shareholder contribution of 273. Following additional non-cash payments in the form of shares with a total book value of 6,072 in non-Group companies, the book value of AB Fortos amounted to 17,037.

The remaining Volvo Car Corporation shares were received from Renault SA in exchange for Volvo's 548 holding in Renault V.I. Renault's holdings of Volvo Truck Corporation shares were acquired and booked at 5,678.

Companies within the finance and insurance operations (Volvo Group Finance Sweden Corporation, Volvo Group Insurance Försäkrings AB and Försäkrings AB Volvia) were acquired from Volvamus (now Celero Support AB) for a total of 3,175. Additional shares were acquired from subsidiaries for 674 and shares with a book value of 209 were sold to subsidiaries.

Shareholder contributions that increased book values were made to Volvo Aero Corporation, 349; and Volvo Penta Corporation, 148. Holdings of shares in subsidiaries were written down by 165.

13 Other investments in shares

Holdings of shares and participations are specified on page 79.

Call options have been written for shares with book values of 3 (3; 3) at a total exercise price of 5 (5; 5).

The shares of Protorp Förvaltnings AB were written down by 247 in connection with the repayment of share capital, and by 2 in connection with the receipt of dividends.

A shareholder contribution of 1 was made to Dansk Mobiltelefon AB, following which all of the company's shares, with a book value of 42, were sold.

AB Volvo subscribed for shares issued by Euroventures Nordica II BV, 2, and the holding in Euroventures BV was reduced by 4 in connection with the reduction of the company's share capital.

A shareholder contribution of 5 was made to Näringslivskredit NLK AB, following which the holding was written down in the same amount.

1995: The shares of Danabäck AB (formerly Pleiad Real Estate AB) with a book value of 618 were sold to Danafjord AB in connection with Danafjord's acquisition of the remaining shares outstanding.

The holding in Volvo Construction Equipment Corporation was transferred to Investments in shares – subsidiaries.

Shares of Innovationskapital AB were acquired for 8.

Shareholder contributions were made to Dansk Mobiltelefon, 16, and to Näringslivskredit NLK AB, 5, following which the holding in NLK was written down by 5.

AB Volvo subscribed for new shares issued by Euroventures Nordica II BV, 2, and the holding in Euroventures BV was reduced by 4 in connection with the reduction in the company's share capital.

1994: AB Volvo exchanged its holding in Renault V.I., 548, for Renault's holding in Volvo Car Corporation. Renault SA shares with a book value of 4,053 were sold. The value was reduced by 9 in connection with an exchange gain related to the payment to Renault of the price adjustment of FRF 1 billion.

The entire holdings in Pharmacia AB 5,777, Investment AB Bure 102, Svensk Interkontinental Lufttrafik AB, (now SAS Sverige AB) 97, NordicTel Holdings AB 70, Spira AB 25 and Atle AB 1 were conveyed to AB Fortos in the form of non-cash payments.

Shares of AB Custos, Investment AB Cardo and Protorp Förvaltnings AB (formerly Protorp Intressenter AB) were acquired from Volvo Group Credit Sweden for a total of 718. AB Custos shares booked at 878 and Investment AB Cardo shares booked at 1,070, as well as Investment AB Cardo warrants, 90, were sold. The holding in Protorp Förvaltnings AB was written down by 478 in connection with receipt of a dividend. The 870 holding in Hertz Corporation was sold.

Shareholder contributions were made to NordicTel Holdings AB 45, Näringslivskredit NLK AB 25, Dansk Mobiltelefon AB 17 and Euroventures Nordica BV 6. The holding in Näringslivskredit NLK AB was written down by 234.

14 Current liabilities

Other loans include current maturities of long-term debt, 2 (34; 1,644), including in 1994 the full amount, 1,609, of convertible debenture loans.

Other current liabilities and provisions include:

	1996	1995	1994
Tax liabilities	93	92	87
Wages, salaries and withholding taxes	46	38	32
Other liabilities	132	1,681	1,719
Accrued expenses and prepaid income	125	153	258
Total	396	1,964	2,096

Other liabilities in 1995 and 1994 included a debt of approximately FRF 1.1 billion to Renault SA pertaining to the balance of the purchase price for Volvo Truck Corporation shares. This debt was paid in 1996. Current liabilities amounting to 1 (1,603; 1,644) are secured.

15 Amounts due to subsidiaries

Long-term liabilities to subsidiaries comprise loans totaling 8,606 (10,958; 9,640) from Volvo Group Finance.

16 Accruals for pensions

The accrued pension costs approximate the actuarially calculated value of statutory and voluntary pension obligations. Of the amount reported, 12 (231; 208) pertains to contractual obligations within the framework of the PRI (Pension Registration Institute) system.

In May 1996 two Groupwide pension foundations for employees were formed to secure commitments in accordance with the ITP plan. The Volvo Group 1995 Employee Pension Foundation pertains to pension funds earned through 1995 and the Volvo Group 1996 Employee Pension Foundation pertains to funds earned beginning in 1996. In July 1996, 224 was transferred from AB Volvo to the Volvo Group 1995 Employee Pension Foundation.

AB Volvo's pension costs in 1996 amounted to 102 (75; 60).

The capital value of all AB Volvo's pension obligations at year-end 1996 amounted to 551, which has been secured in part through Provision for pensions and in part through funds in pension foundations. The Company's share of reported capital in the pension foundations amounted to 271.

17 Untaxed reserves

The composition of, and changes in, untaxed reserves:	December 31, 1994	Allocations 1995	December 31, 1995	Allocations 1996	December 31, 1996
Tax equalization reserve	889	(446)	443	(89)	354
Exchange reserve	108	159	267	108	375
Accumulated extra depreciation					
Machinery and equipment	27	2	29	0	29
Total	1,024	(285)	739	19	758

18 Shareholders' equity

	Restricted equity			
	Share capital	Legal reserve	Unrestricted equity	Total share-holders' equity
December 31, 1993	1,940	1,245	18,041	21,226
Dividend			(601)	(601)
Conversion of debenture loans	4	62		66
New issue of shares	276	4,424		4,700
Net income 1994			7,978	7,978
December 31, 1994	2,220	5,731	25,418	33,369
Dividend			(1,512)	(1,512)
Conversion of debenture loans	98	1,510		1,608
Net income 1995			3,176	3,176
December 31, 1995	2,318	7,241	27,082	36,641
Cash dividend			(1,854)	(1,854)
Distribution of shareholding in Swedish Match			(8,000)	(8,000)
Net income 1996			898	898
December 31, 1996	2,318	7,241	18,126	27,685

The distribution of share capital by class of shares is shown in Note 21 to the consolidated financial statements, on page 65.

19 Assets pledged

	1996	1995	1994
Mortgages on fixed assets	1	–	–
Investments			
in Volvo Truck Corporation	1,211	1,149	1,149
in companies outside the Volvo Group	5	4	4
Total	1,217	1,153	1,153

Liabilities for which the above assets were pledged amounted to 1 (1,603; 1,644) at year-end.

20 Contingent liabilities

Of the contingent liabilities amounting to 64,650 (57,441; 58,515), 64,046 (56,795; 58,216) pertained to subsidiaries.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 59,465 (42,754; 45,292), of which guarantees on behalf of subsidiaries total 59,460 (42,749; 45,287).

At December 31, 1996, the utilized portion amounted to 19,918 (22,154; 21,190), including 19,313 (21,508; 20,891) pertaining to subsidiaries.

Investments

Group holdings of shares and participations in non-Group companies		December 31, 1996 Number of shares thousands	Percentage holding[1]	Par value millions		Book value SEK M[2]	Dec 31, 1995 Book value SEK M[2]
Shares in associated companies, equity method of accounting							
Pripps Ringnes AB, Sweden		124,283	49	SEK	124	1,507	1,458
AVC Intressenter AB, Sweden		6,750	50	SEK	675	587	206
AB Catena, Sweden[3]		11,673	37	SEK	233	435	407
AB Volvofinans, Sweden		500	50	SEK	50	399	350
The AGES Group, ALP, United States		–	25	USD	8	244	–
VOCS Finance Ltd, Great Britain		0	49	GBP	1	157	123
SM Motors Pte Ltd, Singapore		8,000	40	SGD	8	84	80
AutoNova AB, Sweden		490	49	SEK	490	45	27
Xian Silver Bus Corp., China		0	50	USD	4	27	24
Harvest Technology Partners LP, United States		–	21	USD	3	24	24
Merkavim Metal Works Ltd, Israel		34	27	ILS	34	18	–
Société Charolaise de Participations, France[4]		353	50	FRF	35	13	10
EBP Olofström AB, Sweden		0	30	SEK	3	6	–
VKR-Kiinteistöt Oy Ab, Finland		0	40	FIM	4	6	6
Expar Incorporated, United States		1	50	USD	1	4	3
SveviaFin Spa, Italy		2	50	ITL	499	2	3
First Rent a Car AB, Sweden		0	45	SEK	0	1	–
Borgtornet Invest AB, Sweden		250	50	SEK	0	1	0
Transbanco Banco de Investimento SA, Brazil		134,000	50/33	BRL	0	0	67
Netherlands Car BV, The Netherlands		184	33	NLG	184	0	0
Synergos A/S, Norway		–	–	–	–	–	322
Volvo Car Finance Inc., United States		–	–	–	–	–	200
Arnold André GmbH & Co HG, Germany		–	–	–	–	–	82
Verimation AB, Sweden		–	–	–	–	–	10
Other investments[8]						0	34
Total book value, associated companies[5]						3,560	3,436
Shares and participations in other companies							
Régie Nationale des Usines Renault SA, France[3]		27,207	11	FRF	408	6,356	6,356
Pharmacia & Upjohn, Inc., United States[3]		19,759	4	USD	0	2,082	7,338
Fabege AB, Sweden[3]		71,700	8	SEK	71	102	–
SAS Sverige AB (formerly Svensk Interkontinental Lufttrafik AB), Sweden[3]	Series A Series B	1,672 1,655					
	Total	3,327	5	SEK	33	98	98
Brunnsta Industrihus KB, Sweden		0	100/50	SEK	38	38	38
Swedish Motor Corp., Thailand		6,975	19	THB	70	22	23
Protorp Förvaltnings AB (formerly Protorp Intressenter AB), Sweden		11	43/33	SEK	1	12	260
Verimation AB, Sweden[3]		193	10	SEK	5	7	–
Investment AB Bure, Sweden		–	–	–	–	–	129
Holberg Industries Inc., United States		–	–	–	–	–	90
Spira AB, Sweden		–	–	–	–	–	73
The AGES Group, ALP, United States		–	–	–	–	–	53
Dansk Mobiltelefon AB, Sweden		–	–	–	–	–	41
Other investments[8]						135	152
Total shares and participations in other companies						8,852	14,651
Book value as per consolidated balance sheet						12,412	18,087

AB Volvo's holdings of shares and participations

	December 31, 1996				Dec 31, 1995
	Percentage holding[1]		Par value millions	Book value SEK M	Book value SEK M
Swedish subsidiaries					
Volvo Personvagnar Holding AB (formerly AB Fortos), Göteborg	100	SEK	32,085	18,784	18,757
Volvo Truck Corporation, Göteborg	100	SEK	377	8,420	7,987
Volvo Bus Corporation, Göteborg	100	SEK	65	181	–
Volvo Penta Corporation, Göteborg	100	SEK	80	421	421
Volvo Aero Corporation, Trollhättan	100	SEK	140	1,647	1,352
Sotrof AB, Göteborg	100	SEK	566	9,854	–
Volvo Group Finance Sweden Corporation, Göteborg	100	SEK	500	2,348	2,348
Försäkringsaktiebolaget Volvia, Göteborg	100	SEK	5	601	601
Volvo Group Insurance Försäkrings AB, Göteborg	100	SEK	30	182	182
Danafjord AB, Göteborg	100	SEK	300	508	508
Volvo Transport Corporation, Göteborg	100	SEK	5	88	88
Volvo Data Corporation, Göteborg	100	SEK	5	54	54
Rossareds Fastighets AB (formerly Karmansbo Bruks AB), Göteborg	100	SEK	20	26	24
Eddo Restauranger AB, Göteborg	20/56[6]	SEK	1	2	2
Volvo Group Credit Sweden AB, Göteborg	100	SEK	400	486	486
Köpings Mekaniska Verkstads AB, (formerly Carcorp Förvaltnings AB), Göteborg	100	SEK	30	36	36
Bilbiten Väst AB (formerly Förvaltnings AB Malmöhus), Göteborg	100	SEK	19	23	23
Olofström AB, (formerly Tvåsteget AB), Göteborg	100	SEK	1	1	19
Volvo Car Corporation, Göteborg (sold to Volvo Personvagnar Holding AB)	–	–	–	–	6,546
Other Swedish subsidiaries[8]				15	16
Subsidiaries outside Sweden					
Volvo Construction Equipment NV, Amsterdam, The Netherlands	100	NLG	260	2,582	2,582
VNA Holding Inc., Greensboro, United States	100	USD	0	556	–
Volvo North America Corp, New York, United States	100	USD	0	34	34
Volvo Norge A/S, Kolbotn, Norway	100	NOK	100	17	17
A/S Masten, Kolbotn, Norway	100	NOK	10	10	10
Volvo East Asia (Pte) Ltd, Singapore	100	SGD	4	9	9
VECO Holding SA, Paris, France	100	FRF	8	8	8
Other subsidiaries outside Sweden[8]				0	0
Total book value, subsidiaries[7]				46,893	42,110
Non-Group companies					
Régie Nationale des Usines Renault SA, France[3]	11	FRF	408	6,080	6,080
AB Catena, Sweden[3]	37	SEK	233	644	644
AB Volvofinans, Sweden	50	SEK	50	253	253
Euroventures BV, The Netherlands	5/–	NLG	10	17	21
Protorp Förvaltnings AB (formerly Protorp Intressenter AB), Sweden	43/33	SEK	1	12	260
Näringslivskredit NLK AB, Sweden	33/48	SEK	59	0	0
Dansk Mobiltelefon AB, Sweden	–	–	–	–	41
Other investments[8]				19	18
Total book value, non-Group companies				7,025	7,317

1 Where two percentage figures are shown, the first refers to share capital and the second to voting rights.
2 Associated companies are reported in accordance with the equity method. Other companies are reported at cost.
3 The market value of the holdings is shown on page 62.
4 Holds 75% of the share capital and voting rights in Heuliez Bus SA.
5 Volvo's calculated share of the net worth of associated companies amounts to 3,560 (3,436) of which shareholders' equity (including equity in untaxed reserves) amounts to 3,061 (2,929) and excess value amounts to 499 (507).
6 Including shares owned indirectly by AB Volvo, the holding amounts to 100%.
7 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 75,380 (55,913).
8 A complete specification of AB Volvo's and the Group's holdings of shares and participations can be obtained at no cost from AB Volvo, S-405 08 Göteborg, Sweden.

Proposed disposition of unappropriated earnings

Group

As shown in the consolidated balance sheet at December 31, 1996, unrestricted equity amounted to SEK 40,652 M (34,618). Of this amount, SEK 252 M is estimated to be appropriated to restricted equity.

AB Volvo	SEK M
Retained earnings brought forward	17,228
Net income for 1996	898
Total	18,126

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 4.30 per share	1,993
Retained earnings to be carried forward	16,133
Total	18,126

Göteborg, February 19, 1997

Bert-Olof Svanholm

Per-Olof Eriksson	Håkan Frisinger	Tom Hedelius
Sören Mannheimer	Björn Svedberg	Sören Gyll
Lars-Göran Larsson	Olle Ludvigsson	Verner Pedersen

Auditors' report for AB Volvo

We have examined the Annual Report, the consolidated financial statements, the accounting records and the administration by the Board of Directors and the President for the year 1996.

In our opinion, the financial statements on pages 41 through 79 give a true and fair view of the Group's and Parent Company's income for the year 1996, and of the financial position at December 31, 1996.

Parent Company

The financial statements have been prepared in conformity with the Swedish Companies Act.

We recommend that the Annual General Meeting:

adopt	the statement of income and the balance sheet
approve	the disposition of earnings as proposed by the Board of Directors and the President, and
discharge	the members of the Board of Directors and the President from liability for their administration during 1996.

Group

The consolidated financial statements have been prepared in conformity with the Swedish Companies Act.

We recommend that the Annual General Meeting adopt the consolidated statement of income and the consolidated balance sheet.

February 20, 1997

Ragne Billing Authorized Public Accountant	Nils Brehmer Authorized Public Accountant

Board of Directors and Auditors

Board members elected by Annual General Meeting

Bert-Olof Svanholm
Chairman. Born 1935. Master of Engineering.

Chairman of the Board of the Swedish National Association of Engineering Industries, Chalmers University of Technology and President of the Royal Swedish Academy of Engineering Sciences. Member of the Boards of A Ahlström Oy, Finland and Swedish Employers' Confederation.

Member of Volvo Board and Chairman since 1994.

Holdings: 7,500 Volvo A shares.

Per-Olof Eriksson
Born 1938. Master of Engineering, Hon. Dr. of Technology.

Chairman of the Board of Svenska Kraftnät. Member of the Boards of Sandvik AB, AB Custos, Svenska Handelsbanken, SSAB Svenskt Stål AB, Preem Petroleum AB, AB SKF, Skanska AB, Assa Abloy, NV Koninklijke Sphinx Gustavsberg, The Netherlands, Royal Institute of Technology and Federation of Swedish Industries. Member of the Royal Swedish Academy of Engineering Sciences.

Member of Volvo Board since 1994.

Holdings: 1,000 Volvo B shares.

Håkan Frisinger
Born 1928. Master of Engineering, Hon. Dr. of Technology.

Chairman of the Board of Atle AB, IRO AB and Swedwood Holding BV, The Netherlands. Member of the Boards of Sten A Olsson's Foundation for Research and Culture, Catella AB, Erik Penser Fondkommission AB, Ernström Holding AB, Ingka Holding BV, The Netherlands and PLM AB. Member of the Royal Swedish Academy of Engineering Sciences. President, AB Volvo, 1983–1987. President, Volvo Car Corporation, 1978–1983.

Member of Volvo Board since 1994. Deputy member, 1981–1984; regular member, 1984–1987.

Holdings: 1,000 Volvo A shares.

Tom Hedelius
Born 1939. Master of Business Administration, Hon. Dr. of Economics.

Chairman of the Board of Svenska Handelsbanken and Bergman & Beving AB. Vice Chairman of the Boards of AGA AB, Telefonaktiebolaget LM Ericsson and AB Industrivärden. Member of the Boards of Svenska Cellulosa Aktiebolaget SCA and SAS Sverige AB.

Member of Volvo Board since 1994.

Holdings: 2,000 Volvo A shares.

Sören Mannheimer
Born 1934. Bachelor of Laws. Chairman of the National Pension Insurance Fund, Fourth Fund and Chalmers University of Technology Managing Board. Member of the Board of Svenska Mässan 1977–1992 and since 1995.

Member of Volvo Board, 1986–1994 and since 1994.

Holdings: 100 Volvo B shares.

Björn Svedberg
Born 1937. Master of Engineering, Hon. Dr. of Technology. President and Chief Executive Officer of Skandinaviska Enskilda Banken.

Chairman of the Board of Telefonaktiebolaget LM Ericsson and ABB AB. Member of the Boards of Asea Brown Boveri Ltd, SAS Sverige AB and STORA.

Member of Volvo Board since 1994.

Holdings: 4,000 Volvo B shares.

Sören Gyll
Born 1940. President of AB Volvo and Chief Executive Officer of the Volvo Group. Member of the Volvo Board since 1992.

Board members designated by employee organizations

Lars-Göran Larsson
Born 1947. Representative for organization of salaried employees (PTK). With Volvo since 1974.

Member of the Volvo Board since 1994.

Holdings: 44 Volvo A shares.

Olle Ludvigsson
Born 1948. Representative for plant trade union organizations (LO). With Volvo since 1968. Deputy member of the Volvo Board, 1983–1988; regular member since 1988.

Holdings: 105 Volvo shares, including 55 Volvo B shares.

Verner Pedersen
Born 1952. Representative for plant trade union organizations (LO). With Volvo since 1975. Member of the Board of Volvo Aero Corporation.

Deputy member of the Volvo Board, 1991–1995; regular member since 1995.

Deputy members of the Board

Claes Andersson
Born 1953. Representative for plant trade union organizations (LO). With Volvo since 1972.

Deputy member of the Volvo Board since 1996.

Lars-Erik Berg
Born 1950. Master of Engineering. Representative for organization of salaried employees (PTK).
With Volvo since 1975.

Deputy member of the Volvo Board since 1995.

Holdings: 800 Volvo B shares.

Secretary to the Board

Fred Bodin
Born 1947. Senior Vice President of AB Volvo. Secretary to the Volvo Board.

Auditors

Ragne Billing
Authorized Public Accountant, KPMG Bohlins AB.

Nils Brehmer
Authorized Public Accountant, Öhrlings Coopers & Lybrand AB.

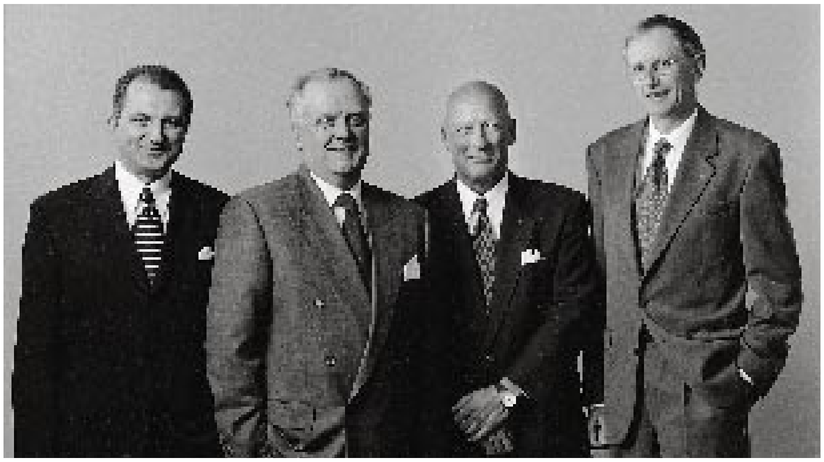
Deputy Auditors

Anders Ivdal
Authorized Public Accountant, KPMG Bohlins AB.

Olle Gunnarsson
Authorized Public Accountant, Öhrlings Coopers & Lybrand AB.

Group Executive Committee

President and Executive Vice Presidents



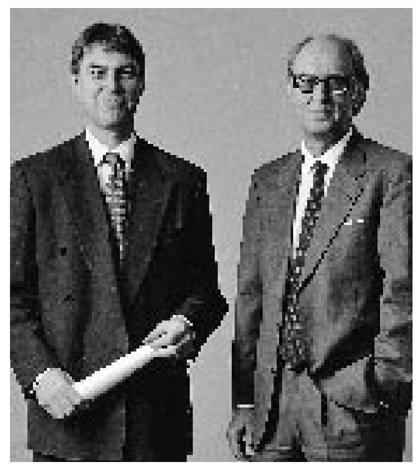
Per-Erik Mohlin   Sören Gyll   Sten Langenius   Lennart Jeansson

Leif Johansson, President of AB Volvo and Volvo Group CEO as of April 23, 1997.

Presidents/Heads of operating sectors

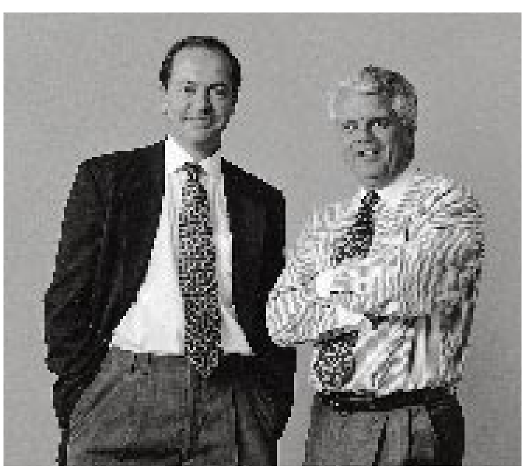
Bengt Ovlinger   Tuve Johannesson

Björn Larsson   Karl-Erling Trogen



Anders Hellman   Arne Wittlöv

Senior Vice Presidents/Heads of Staffs



Jan Engström   Fred Bodin

Lars Anell   Leif Åke Nilsson   Claes Malmros

President and Executive Vice Presidents

Sören Gyll

Born 1940. President of AB Volvo and Chief Executive Officer of the Volvo Group since 1992.

Member of the Boards of Pharmacia & Upjohn, Inc., AB Catena, SAS Sverige AB, the Federation of Swedish Industries and Swedish Employers' Confederation.

Member of the Royal Swedish Academy of Engineering Sciences, the National Board of the Swedish Association of Engineering Industries and the Board of the Swedish Works Association.

Holdings: 17,495 Volvo shares, including 3,545 B shares; 10,000 options.

Lennart Jeansson

Born 1941. Master of Business Administration. Executive Vice President of AB Volvo since 1990 and Deputy CEO since 1995. Member of Group Executive Committee since 1986.

President of Volvo Car Corporation, 1990–1993. With Volvo since 1966.

Member of the Boards of AGA AB, AB Catena and Storebrand ASA.

Holdings: 26,279 Volvo shares, including 25,575 B shares; 10,000 options.

Sten Langenius

Born 1934. Executive Chairman of the Board of Volvo Construction Equipment Corporation since 1995. Executive Vice President of AB Volvo and member of Group Executive Committee since 1990.

President of Volvo Truck Corporation, 1976–1994. With Volvo since 1976. Chairman of the Regional Bank Board, Western Sweden Regional Bank, Nordbanken, member of the Boards of Gunnebo AB.

Holdings: 5,179 Volvo shares, including 3,760 B shares; 10,000 options.

Per-Erik Mohlin

Born 1946. Master of Engineering. Executive Vice President of AB Volvo since 1995 and member of Group Executive Committee since 1994.

President of Volvo Car Corporation, 1994–1995 and Volvo Aero Corporation, 1989–1993. With Volvo since 1985.

Chairman of the Institute for Quality Development SIQ. Member of the Board of Federation of Swedish Industries and Swedish Association of Engineering Industries.

Holdings: 2,329 Volvo shares, including 2,235 B shares; 10,000 options.

Presidents/Heads of operating sectors

Anders Hellman

Born 1955. Master of Engineering. President of Volvo Penta Corporation. Member of Group Executive Committee since 1995. With Volvo since 1985.

Holdings: 100 Volvo A shares; 6,000 options.

Tuve Johannesson

Born 1943. Master of Business Administration. President of Volvo Car Corporation. Member of Group Executive Committee since 1995.

President of Volvo Construction Equipment Corporation, 1988-1995. With Volvo since 1995.

Member of the Board of Cardo AB.

Holdings: 7,000 Volvo B shares; 10,000 options.

Björn Larsson

Born 1943. President of Volvo Bus Corporation. Member of Group Executive Committee since 1995. With Volvo since 1964.

Holdings: 330 Volvo shares, including 280 B shares; 6,000 options.

Bengt Ovlinger

Born 1944. President of Volvo Construction Equipment Corporation. Member of Group Executive Committee since 1995. With Volvo 1969-1980 and since 1995.

Holdings: 310 Volvo B shares; 6,000 options.

Karl-Erling Trogen

Born 1946. Master of Engineering. President of Volvo Truck Corporation. Member of Group Executive Committee since 1994.

President of Volvo GM Heavy Truck Corporation, 1991–1994. With Volvo since 1971.

Holdings: 9,190 Volvo B shares; 10,000 options.

Arne Wittlöv

Born 1940. Master of Engineering, Hon. Dr. of Technology. President of Volvo Aero Corporation. Member of Group Executive Committee since 1995; adjunct member since 1993. With Volvo since 1984.

Holdings: 1,714 Volvo shares, including 1,670 B shares; 6,000 options.

Senior Vice Presidents/ Heads of Staffs

Lars Anell

Born 1941. Master of Business Administration. Senior Vice President of AB Volvo. Member of Group Executive Committee, responsible for information, since 1994. With Volvo since 1994.

Holdings: 200 Volvo B shares; 10,000 options.

Fred Bodin

Born 1947. Bachelor of Laws. Senior Vice President of AB Volvo. Member of Group Executive Committee and Legal Counsel since 1993. With Volvo since 1981.

Secretary to the Board of AB Volvo since 1994.

Holdings: 44 Volvo A shares; 10,000 options.

Jan Engström

Born 1950. Master of Business Administration. Senior Vice President of AB Volvo. Member of Group Executive Committee, responsible for economy and finance, since 1993. With Volvo since 1973.

Member of the Board of Investment AB Bure.

Holdings: 1,114 Volvo shares, including 965 B shares; 10,000 options.

Claes Malmros

Born 1952. Bachelor of Laws. Senior Vice President of AB Volvo. Member of Group Executive Committee, responsible for strategic matters and business development, since 1995. With Volvo since 1986.

Holdings: 135 Volvo A shares; 10,000 options.

Leif Åke Nilsson

Born 1942. Senior Vice President of AB Volvo. Member of Group Executive Committee, responsible for personnel matters, since 1994. With Volvo since 1994.

Holdings: 10,000 options.

Leif Johansson

Born 1951. Master of Engineering.

Appointed President of AB Volvo and Chief Executive Officer, effective April 23, 1997.

President of AB Electrolux, 1991–1997, Chief Executive Officer, 1994–1997.

Chairman of the Board of Gränges AB.

Member of the Boards of the Federation of Swedish Industries and the Swedish Association of Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences.

The Volvo share

The value of the Volvo shares rose slightly more than 10% in 1996, amounting to a market value at December 31, 1996 of SEK 69.6 billion, equal to 4.1% (5.3) of the total market value of companies listed on the Stockholm Stock Exchange. The highest price for the Series B shares, SEK 165, was recorded on May 7, and the lowest price, SEK 124, on January 11.

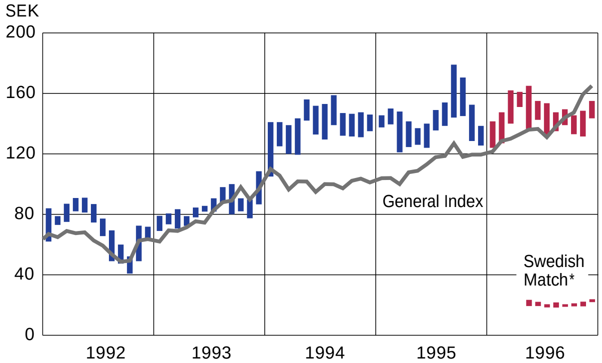
Turnover

Most trading in Volvo shares is carried out in Stockholm, London and on the NASDAQ exchange in the U.S. (See table below.) The Stockholm Stock Exchange accounted for the largest volume of trading, averaging 1.35 million shares per trading day. The turnover of Volvo shares on the NASDAQ exchange has increased 437% during the past three years and the number of outstanding American Depositary Receipts (ADRs, equivalent to an equal number of Series B shares) has risen from 22.5 million to 31.3 million.

Net exports

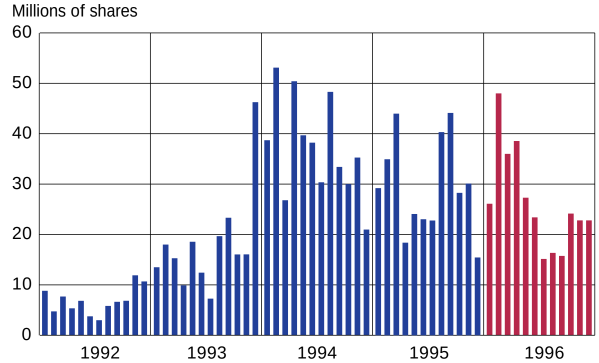
1996 was another year in which foreign investors were net buyers of Volvo shares. The net value of exports amounted to SEK 1.4 billion. Foreign ownership of AB Volvo shares increased from 37.6% to 42.0% of the capital. This is fully in line with AB Volvo's objectives with respect to foreign ownership. Since more than 90% of AB Volvo's sales are to customers outside Sweden, international acquisition of equity in the Company is a natural development.

Trend of price of Volvo Class B shares on the Stockholm Stock Exchange (High and low price per month)



* After distribution to Volvo's shareholders in May 1996.

Number of Volvo Class B shares traded on the Stockholm Stock Exchange



Per-share data

	1992	1993	1994	1995	1996
Dividend, SEK	1.55	1.55	3.40	4.00[1]	4.30[2]
Share price at year-end, SEK (B share)	68.20	107.60	140.00	136.00	150.50
Shareholders' equity, SEK[3]	77	70	98	110	125
Direct return, % (B share)[4]	2.3	1.4	2.4	2.9	2.9
Effective return, % (B share)[5]	13	60	32	±0	14
Price/earnings ratio (B share)[6]	neg	neg	4	7	6
EBIT-multiple[7]	neg	36	7	7	16
Payout ratio, %[8]	neg	neg	11	20	16
Income as percentage of average shareholders' equity	neg	neg	36,5	19,3	23,7
Number of shareholders	163,800	147,300	182,700	206,700	176,800

Average daily turnover of Volvo shares on the Stockholm Stock Exchange

	1992	1993	1994	1995	1996
A shares	66,270	130,385	213,630	92,414	94,366
B shares	676,135	912,625	1,839,960	1,447,434	1,260,576
Total	742,405	1,043,010	2,053,590	1,539,848	1,354,942

Number of Volvo shares traded in Stockholm, London and the United States

Millions	1992	1993	1994	1995	1996
Stockholm	186.3	262.8	519.6	386.5	340.1
London	178.9	150.7	287.5	232.8	301.0
USA NASDAQ (ADR)	9.4	11.5	19.0	73.5	83.0

1 Plus one Swedish Match share per Volvo share, à SEK 21.74.

2 Proposed by the Board of Directors.

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

4 Dividend divided by share price at year-end.

5 Share price at year-end including dividend paid during the year divided by share price at beginning of the year.

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

7 Market value plus financial net assets, net debt and minority interest divided by operating income.

8 Dividend divided by income per share.

Dividend

In addition to the cash dividend paid for 1995, the shareholding in Swedish Match was distributed to Volvo's shareholders in 1996. Swedish Match was then listed on the Stockholm Stock Exchange, and on NASDAQ in the form of ADRs. The value of the dividend, calculated as a weighted average of the first ten trading days for Swedish Match shares on the Stockholm Exchange, was SEK 21.74 per Volvo share.

The Board of Directors' objective is that Volvo's dividend plus the increase in value of the Volvo shares should exceed the average for the industry.

Share capital and voting rights

At December 31, 1996, the share capital of AB Volvo amounted to SEK 2,318 M, represented by 463,558,252 shares, each with a par value of SEK 5 per share. The share capital consists of Series A shares that carry rights to one vote each and Series B shares that carry rights to one tenth of a vote each. The total number of voting rights is 174,291,842.2.

Trading in derivatives

Volvo's shares can also be traded through call and put options, in the form of futures and as stock loans, via the options exchange operated by OM Stockholm AB. During 1996 468,682 Volvo call options were traded, as well as 213,875 put options, 4,790 futures and 810 stock loans. Thus, nearly 69 million Volvo shares were affected by some form of trading in derivatives.

Beta value

The beta value of Volvo's shares, which is 1.20 (1.38), shows that the changes in prices of Volvo shares, on both the upside and downside, are 20% greater than the average for the Stockholm Stock Exchange as a whole. These measurements are made for the most recent four-year period.

The largest shareholders in AB Volvo, December 31, 1996

	Number of shares	% of voting rights	% of share capital
The National Pension Insurance Fund, Fourth Fund managing board	21,958,990	7.9	4.7
Régie Nationale des Usines Renault SA	13,360,190	7.7	2.9
Sparbanken saving funds	22,185,200	6.6	4.8
S-E-Banken saving funds	9,017,843	5.1	1.9
Svenska Handelsbanken pension fund	8,700,000	5.0	1.9
Försäkringsbolaget SPP (pension funds)	18,441,417	4.7	4.0
Skandia-Gruppen (insurance group)	15,156,158	4.3	3.3
Trygg-Hansa Försäkring (insurance)	11,270,911	3.5	2.4
AMF Pensionsförsäkrings AB	12,964,970	3.3	2.8
Nordbanken saving funds	9,638,800	3.2	2.1
Parcitas Investments SA	4,975,000	2.9	1.1
Fidelity Investments	39,962,300	2.3	8.6
The National Pension Insurance Fund, Fifth Fund managing board	3,575,030	2.1	0.8
Folksam incl AMF (insurance group)	3,700,000	1.6	0.8
SB Foundation	2,725,000	1.6	0.6

Swedish Match

In Sweden the taxation on distribution of the shareholding in Swedish Match is subject to the provisions of the so-called Lex ASEA. Accordingly, the dividend is not taxable in Sweden until the cash value of the Swedish Match shares is realized. The earlier acquisition value of Volvo shares should be divided into 88% Volvo and 12% Swedish Match.

Distribution of shares, December 31, 1996

Based primarily on data supplied by VPC AB

Volvo shareholders owning	Number of shareholders	%	Number of shares	Share of capital, %
1– 500 shares	145,130	82.1	20,032,110	4.3
501– 1,000 shares	16,740	9.5	12,771,980	2.8
1,001– 2,000 shares	8,490	4.8	12,381,790	2.7
2,001– 5,000 shares	4,390	2.5	13,686,210	3.0
5,001– 10,000 shares	1,070	0.6	7,575,680	1.6
10,001– 20,000 shares	440	0.2	6,205,710	1.3
20,001– 50,000 shares	230	0.1	7,268.230	1.6
50,001–100,000 shares	100	0.1	7,452,480	1.6
100,001– shares	260	0.1	376,184,080	81.1
Total	176,850	100.0	463,558,252	100.0

Listing of Volvo shares location and year

Stockholm	1935
London	1972
Frankfurt am Main, Düsseldorf, Hamburg	1974
Paris	1984
USA (NASDAQ)	1985
Brussels, Antwerp	1985
Tokyo	1986
Zürich, Basel, Geneva	1987

Shareholder information

Printed information

Volvo's printed information for shareholders consists of the Annual Report, the Environmental Report, the Financial & Operating Statistics brochure, the report on the year's operations, quarterly interim reports and Form 20-F (prepared primarily for the Securities & Exchange Commission in the U.S. and for American shareholders.)

Publication dates are shown on the following page.

CD ROM

Volvo's multimedia presentation on a CD ROM is directed to shareholders, members of the financial community and other persons who are interested in the Volvo Group and its products. It is both a fact bank and an interactive experience. The disc provides information on a number of aspects of Volvo and the user determines the areas he or she wants to explore.

Business Volvo is presented as a company. Information is provided on the Group's operations, visions and basic values.

Products A presentation of Volvo's products that range from passenger cars, trucks, buses and construction equipment to engine components.

Worldwide This section shows Volvo's plants throughout the world, describes sales in the various markets, shows the distribution of Group employees and provides the addresses of the nearest importers, etc.

Personnel Volvo has more than 70,000 employees. Various employee and organizational development projects are presented, together with the Group's structure, management and employee data.

Financials Financial information covering an 11-year period is presented here. An interactive section also allows the user to simulate investments in stocks and understand how financial data is interrelated.

History A cavalcade of Volvo's history. Texts and pictures pertaining to 200 decisive events. All of the Board of Directors' reports since 1927 and other information dealing with each year.

The CD is available in a version for PCs (Windows®) or Macintosh computers.

Internet

The latest Volvo news is also available on the Internet
Address: http://www.volvo.se

Publication dates

Annual Report 1996	March 19, 1997
Volvo Environmental Report 1996	March 19, 1997
Volvo Financial and Operating Statistics 1996	April 10, 1997
Report on first three months 1997	April 23, 1997
Volvo, CD ROM*	May 1997**
Form 20-F , U.S. GAAP 1996	May 31, 1997
Report on first six months 1997	July 22, 1997
Report on first nine months 1997	October 22, 1997
Report on 1997 operations	February, 1998
Annual Report 1997	March 1998

* Requires PC with 486 processor, 33 Mhz (at least 8 MB RAM. Windows® 3.1 or Windows® 95 and sound card) or Macintosh System 7 or higher (at least an 040 processor and 8 MB RAM).

** Available in English only.

The reports shown in boldface type are sent directly to all shareholders who have advised Volvo that they wish to receive financial information. These reports are available in both Swedish and English. The Annual Report is also available in French.

All reports, as well as the CD ROM may be ordered from:

AB Volvo
Publications
Dept. 7940 ARUN
S-405 08, Göteborg, Sweden
Telefax: +46-31 54 57 72
E-mail: vtab.volvoinf@memo.volvo.se

volvo.se

Annual General Meeting

The Annual General Meeting of AB Volvo will be held in Göteborg, in Lisebergshallen (entrance from Örgrytevägen), on Wednesday, April 23, 1997, at 2:00 p.m.

Notice

Shareholders who wish to participate must:

be recorded in the share register maintained by Värdepapperscentralen VPC AB (Swedish Securities Register Center) not later than April 11, 1997,

give notice of intention to attend not later than 12:00 noon, Friday, April 18, 1997

- by telephone, +46-20 39 14 50, beginning April 1, or via Volvo's switchboard, +46-31 59 00 00.
- by mail addressed to AB Volvo (publ), Legal Department, S-405 08 Göteborg, Sweden.

When giving notice, shareholders should state their

- Name
- Personal number (registration number)
- Address and telephone number

Shareholders whose shares are held in the trust department of a bank or by a brokerage firm should request that the shares be temporarily registered in the shareholder's name several banking days prior to April 11, 1997.

April 28 has been proposed as the record date for payment of dividends, which are expected to be distributed on May 6.

Volvo's Nominating Committee

The following persons were named members of Volvo's Nominating Committee at the 1996 Annual General Meeting:

Thomas Halvorsen
Bo Eklöf
Bert-Olof Svanholm
Lars-Erik Pettersson

The Nominating Committee is responsible for submitting to the Annual General Meeting the names of candidates to serve as members of the Board of Directors, auditors and deputy auditors. One person shall be co-opted to the Committee as the representative of shareholders with small holdings of AB Volvo shares.

Addresses

AB Volvo
S-405 08 Göteborg, Sweden
Tel: +46 31 59 00 00

Volvo Cars

Volvo Car Corporation
S-405 08 Göteborg, Sweden
Tel: +46 31 59 00 00

Volvo Car Corporation Engine
S-541 87 Skövde, Sweden
Tel: +46 500 47 40 00

Volvo Car Corporation Transmission
Box 961,
S-731 29 Köping, Sweden
Tel: +46 221 220 00

Volvo Car International AB
S-405 08 Göteborg, Sweden
Tel: +46 31 59 00 00

Volvo Personbilar Sverige AB
S-405 08 Göteborg, Sweden
Tel: +46 31 66 01 00

Volvo Personbiler Norge AS
Postboks 1,
N-1411 Kolbotn, Norway
Tel: +47 66 81 85 00

Volvo Personvogne Danmark A/S
Postbox 176
DK-2605 Brøndby, Denmark
Tel: +45 43 45 51 11

Volvo Auto Oy
Edesvägen 1
SF-01610 Vanda, Finland
Tel: +358 9 50 44 51

Volvo Cars Europe Industry NV
John Kennedylaan 25
B-9000 Ghent, Belgium
Tel: +32 92 50 21 11

Volvo Cars Europe Marketing NV/SA
Zelliksesteenweg 12
B-1082 Brussels, Belgium
Tel: +32 2 482 57 11

Volvo Cars Belgium
Zelliksesteenweg 30
B-1082 Brussels, Belgium
Tel: +32 2 482 51 11

Volvo Deutschland GmbH
Postfach 502101
D-50981 Cologne, Germany
Tel: +49 22 19 39 30

Volvo Nederland Personenauto BV
Postbus 16
NL-4153 ZG Beesd,
The Netherlands
Tel: +31 345 68 8888

Volvo Automobiles France SA
3, Rue de la Nouvelle France
F-78130 Les Mureaux,
France
Tel: +33 1 30 91 27 99

Volvo Car UK Limited
Globe Park, Marlow,
Buckinghamshire SL7 1YQ
Great Britain
Tel: +44 1 628 47 79 77

Volvo Car Ireland Limited
Killakee House
The Square
Tallaght
Dublin 24, Ireland
Tel: + 353 1 462 11 22

Volvo Automobile (Schweiz) AG
Postfach 217
CH-3250 Lyss, Switzerland
Tel: +41 32 387 84 00

Volvo Italia SpA
Via Enrico Mattei, 66
I-40138 Bologna, Italy
Tel: +39 51 53 76 11

Volvo España SA
Paseo de la
Castellana 130
E-28046 Madrid, Spain
Tel: +34 1 566 61 00

Volvo Auto Polska Ltd
Ul. Ostrobramska 101
PL-04-041 Warszaw, Poland
Tel: +48 22 672 47 80

Volvo Auto Czech, s.r.o.
Stepánská 57/630
CZ-110 00 Praha 1,
Czech Republic
Tel: +42 2 61 21 37 50

Volvo Cars of North America, Inc.
7 Volvo Drive, P O Box 915
Rockleigh, NJ 07647,
United States
Tel: +1 201 768 7300

Volvo Canada Ltd
175, Gordon Baker Road,
North York, Ontario
Canada M2H 2N7
Tel: +1 416 493 3700

Volvo Car Argentina
Avda Libertado 520
1638 Vicente Lopez
Buenos Aires, Argentina
Tel: + 541 796 52 25

Volvo Otomobil Ticaret Ltd, Sti
Haci Izzet Pasa Sok. 36/6,
kat 2
TR-80090 Gümüssuyu,
Istanbul, Turkey
Tel: +90 212 249 2488

Volvo Car Asia (Pte) Ltd
1 Temasek Avenue
22-01 Millenia Tower
Singapore 039192
Tel: +65 22 13 111

Swedish Motor Assemblies Sdn Bhd
Peti Surat 7009
Persiaran Dato Menteri
Bangunan Pej Pos Besar
40670 Shah Alam, Malaysia
Tel: +60 3 559 14 21

Volvo Thailand Ltd
1527 Sukhumvit 71 Road,
Suangluang
Bangkok 10250, Thailand
Tel: +66 23 19 98 20-3

Thai-Swedish Assembly Co Ltd
P O Box 155, Prakanong
Post Office
Bangkok 10110, Thailand
Tel: +66 233 81 931

Volvo Cars Japan Corporation
CS Tower 4F
11–30 Akasaka 1-Chome,
Minato-ku, Tokyo 107, Japan
Tel: +81 3 5562 7974

Volvo Car Australia Pty Ltd
PO Box 1033,
Chatswood,
NSW 2067, Australia
Tel: +61 2 417 0011

Volvo Trucks

Volvo Truck Corporation
S-405 08 Göteborg, Sweden
Tel: +46 31 66 60 00

Volvo Truck Parts Corporation
S-405 08 Göteborg, Sweden
Tel: +46 31 66 03 00

Volvo Truck Corporation Umeå Plant
Box 1416
S-901 24 Umeå, Sweden
Tel: +46 31 90 70 70 00

Volvo Truck Components Corporation
S-541 87 Skövde, Sweden
Tel: +46 500 47 40 00

Volvo Lastvagnar Sverige AB
S-405 08 Göteborg, Sweden
Tel: +46 31 66 01 00

Volvo Lastebiler og Busser Norge AS
Pb 1,
N-1411 Kolbotn, Norway
Tel: +47 66 81 85 00

Volvo Lastvogne og Busser
Danmark A/S
Postbox 176, Ringager 6
DK-2605 Brøndby, Denmark
Tel: +45 43 45 51 11

Volvo Kuorma- ja linja-autot Oy Ab
Edesvägen 1
SF-01610 Vanda 61, Finland
Tel:+358 9 50 4451

Volvo Europa Truck NV
P O Box 10
B-9041 Ghent, Belgium
Tel: +32 92 50 42 11

Volvo Trucks Belgium NV
Zelliksesteenweg 30
B-1082 Brussels, Belgium
Tel: +32 2 482 51 11

Volvo Trucks (Deutschland) GmbH
Postfach 2040, Dieselstr. 8
D-63128 Dietzenbach,
Germany
Tel: +49 6074 8040

Volvo Truck en Bus Nederland BV
Postbus 30
NL-2740 AA Waddinxveen,
The Netherlands
Tel: +31 182 622 222

Volvo Véhicules Industriels France SA
144, Avenue Roger Salengro
F-92370 Chaville, France
Tel: +33 1 47 09 40 00

Volvo Truck and Bus Ltd
Wedgnock Lane,
Warwick CV34 5YA,
Great Britain
Tel: +44 1 926 40 17 77

Volvo Trucks (Schweiz) AG
Postfach 217
CH-3250 Lyss, Switzerland
Tel: +41 32 387 81 00

Volvo Veicoli Industriali SpA
Corso Europa, 2
I-24040 Zingonia (Bergamo),
Italy
Tel: +39 35 88 91 11

Volvo Truck Poland Co
Ul. Ostrobramska 101
PL-02-041 Warszaw, Poland
Tel: +48 22 672 48 34

Volvo Trucks España, SA
Ctra. de la Coruna,
Km 11-5 Procion, 1-3
E-28023 Madrid, Spain
Tel: +34 1372 78 00

Volvo GM Heavy Truck Corporation
P O Box 26115,
Greensboro, NC 27402-6115,
United States
Tel: +1 910 393 2000

Volvo GM Canada Heavy Truck Corporation
6490 Vipond Drive
Mississauga, Ontario
Canada L5T 1W8
Tel: +1 905 795 1555

Volvo Trucks de Mexico SA de CV
Prolongacion Paseo
de la Reforma 600
Primer Piso – 121,Santa Fe
01210 Mexico D.F. – Mexico
Tel: +52 5 2593011

Volvo do Brasil Veículos Ltda
Caixa Postal 7981,
81260-900 Curitiba, PR,
Brazil
Tel: +55 41 317-8111

Volvo Peru SA
P O Box 815,
Lima 100, Peru
Tel: +51 1 49 43 500

Volvo Truck & Bus (Thailand) Co Ltd
1739 Soi Poonsin, 2nd Floor
Bang-chak, Phrakanong
Bangkok 10260,
Thailand
Tel: + 66 2 399 0900

Volvo Trucks Japan Corporation
CS Tower 6F
1-11-30 Akasaka 1-Chome
Minato- ku
Tokyo 107, Japan
Tel: +81 3 556 324 95

Volvo Truck Australia Pty Ltd
350, Eastern Valley Way
P O Box 1033
Chatswood NSW 2067
Australia
Tel: +61 2 9903 9200

Volvo Buses

Volvo Bus Corporation
S-405 08 Göteborg, Sweden
Tel: +46 31 66 80 00

Volvo Bus Corporation Borås Plant
Box 200
S-503 08 Borås, Sweden
Tel: +46 33 23 20 00

Säffle Karosseri AB
Box 59
S-661 22 Säffle, Sweden
Tel: +46 533 466 00

Volvo Busse Deutschland GmbH
Postfach 1544
D-74005 Heilbronn
Germany
Tel: +49 7 131 15740

Aabenraa Karrosseri A/S
Dronning Margarethes vej 75
DK-62 00 Åbenrå,
Denmark
Tel: +45 74 62 12 14

Volvo Austria GmbH
Zweite Haidequerstraße 3,
PO Box 377
A-1111 Wien, Austria
Tel: +43 1 760 64

Volvo Bus Poland Co
Ul. Mydlana 2
PL-51-502 Wroclaw, Poland
Tel: +48 71 34 50 700

Volvo Bus Asia Pacific (Pte) Ltd
1 Temasek Avenue
#22-01 Millenia Tower
Singapore 039192
Tel: +65 221 31 11

Prévost Car Inc
35 Gagnon Blvd
Sainte-Claire (Quebec)
Canada GOR 2V0
Tel: +418 883 3391

Volvo Construction Equipment

Volvo Construction Equipment Corporation
Chaussée de La Hulpe 130
B-1000 Brussels, Belgium
Tel: +32 2 674 76 11

Volvo Wheel Loaders AB
S-631 85 Eskilstuna, Sweden
Tel: +46 16 15 10 00

Volvo Construction Equipment Components AB
S-631 85 Eskilstuna, Sweden
Tel: +46 16 15 10 00

Volvo Construction Equipment International AB
S-631 85 Eskilstuna, Sweden
Tel: 016-15 10 00

Volvo Anläggningsmaskiner Norden AB
S-631 85 Eskilstuna, Sweden
Tel: +46 16 15 10 00

Volvo Construction Equipment Parts AB
S-631 85 Eskilstuna, Sweden
Tel: +46 16 15 10 00

Volvo Construction Equipment Promotion AB
S-631 85 Eskilstuna, Sweden
Tel: +46 16 15 10 00

Volvo Construction Equipment Cabs AB
S-694 82 Hallsberg, Sweden
Tel: +46 582 831 00

Volvo Articulated Haulers AB
S-351 83 Växjö, Sweden
Tel: +46 470 77 95 00

Volvo Excavators AB
Box 115
S-241 22 Eslöv, Sweden
Tel: +46 413 670 00

Volvo Construction Equipment GB Ltd
Duxford
Cambridge CB2 4QX
Great Britain
Tel: +44 1223 83 66 36

Zettelmeyer GmbH
Max-Planck-Strasse 1
D-54329 Konz-Könen, Germany
Tel: +49 6501 84 01

Volvo Baumaschinen Deutschland GmbH
Max-Planck-Strasse 7
D-54329 Konz-Könen, Germany
Tel: +49 6501 84 02

Volvo Matériels TP France SA
BP 117, F-78192 Trappes
France
Tel: +33 1 30 69 28 28

Groupe Pel-Job
PAE les Glaisins 2, BP 410
F-74944 Annecy-le-Vieux
France
Tel: +33 4 50 64 06 73

Volvo Maquinaria de Construcción España SA
Apartado de Correos 85
E-28800 Alcalá de Henares,
Madrid, Spain
Tel: +34 1 889 59 11

Volvo Construction Equipment North America, Inc
One West Pack Square
Asheville, NC 28801,
United States
Tel: +1 704 257 25 00

Euclid-Hitachi Heavy Equipment, Inc
22221 St Clair Avenue
Cleveland, OH 44117-2522
United States
Tel: +1 216 383 34 99

Volvo Equipamentos de Construção Ltda
PO Box 1771
13010-910 Campinas-SP
Brazil
Tel: +55 192 55 63 33

Volvo Construction Equipment Australia Pty, Ltd
PO Box 6400
Parramatta BC NSW 2150
Australia
Tel: +61 2 968 34 999

Volvo Penta

Volvo Penta Corporation
S-405 08 Göteborg, Sweden
Tel: +46 31 23 54 60

Volvo Penta Norden AB
Box 216
S-421 52 Västra Frölunda,
Sweden
Tel: +46 31 68 64 00

Volvo Penta Central Europe GmbH
Postfach 9013
D-24151 Kiel 17, Germany
Tel: +49 431 3994-0

Volvo Penta U.K. Ltd
Otterspool Way,
Watford, WD2 8HW Herts
Great Britain
Tel: +44 1 923 22 85 44

Volvo Penta France SA
1, rue de la Nouvelle France
BP 49
F-78130 Les Mureaux, France
Tel: +33 1 34 92 88 70

Volvo Penta Italia SpA
Via Copernico 20
I-20090 Trezzano SUL
Naviglio, Milan, Italy
Tel: +39 2 48 43 01

Volvo Penta España SA
Paseo de la Castellana 130,
E-28046 Madrid, Spain
Tel: +34 1 566 61 00

Volvo Penta of the Americas Inc
1300 Volvo Penta Drive,
Chesapeake, VA
23320, United States
Tel: +1757 436 2800

Volvo Penta Latinoamerica SA
Casilla 815
Lima 100, Peru
Tel: + 51 1 49 43 500

Volvo Penta Asia (Pte) Ltd
1 Temasek Avenue
22-01 Millenia Tower
Singapore 039192
Tel: + 65 22 13 111

Volvo Penta Japan Corporation
CS Tower 6F
11-30 Akasaka 1-Chome
Minato-ku Tokyo 107, Japan
Tel: +81 3 5562 7838

Volvo Aero

Volvo Aero Corporation
S-461 81 Trollhättan, Sweden
Tel: +46 520 940 00

Volvo Aero Support AB
S-732 82 Arboga, Sweden
Tel: +46 589 810 00

Volvo Aero Engine Services AB
Box 218
S-161 26 Bromma, Sweden
Tel: +46 8 799 21 00

Volvo Aero Engine Services Arboga AB
Box 1005
S-732 26 Arboga, Sweden
Tel: +46 589 850 00

Volvo Aero Turbines AB
Box 9508
S-200 39 Malmö, Sweden
Tel: +46 40 31 16 00

Volvo Aero Turbines (UK) Ltd
PO Box 422
Coventry CV34YX, Great Britain
Tel: +44 1 203 30 89 00

Volvo Group Representation
Av de Tervuren 12
B-1040 Brussels, Belgium
Tel: +32 2 743 15 00

Volvo North America Corporation
535 Madison Avenue, 25th Floor
New York, NY 10022,
United States
Tel: +1 212 754 3300

Volvo East Asia (Pte) Ltd
1 Temasek Avenue
#22-01 Millenium Tower
Singapore 039192
Tel: +65 221 31 11

AB Volvo (publ)
S-405 08 Göteborg, Sweden
Telephone +46 31 59 00 00

Graphic design, Solberg AB. Photos, Ulf Owenede and others.
Printing, Falkenbergs Tryckeri AB. AB Volvo, Public and Investor Relations, 635-2154, 53.000. 97-04.