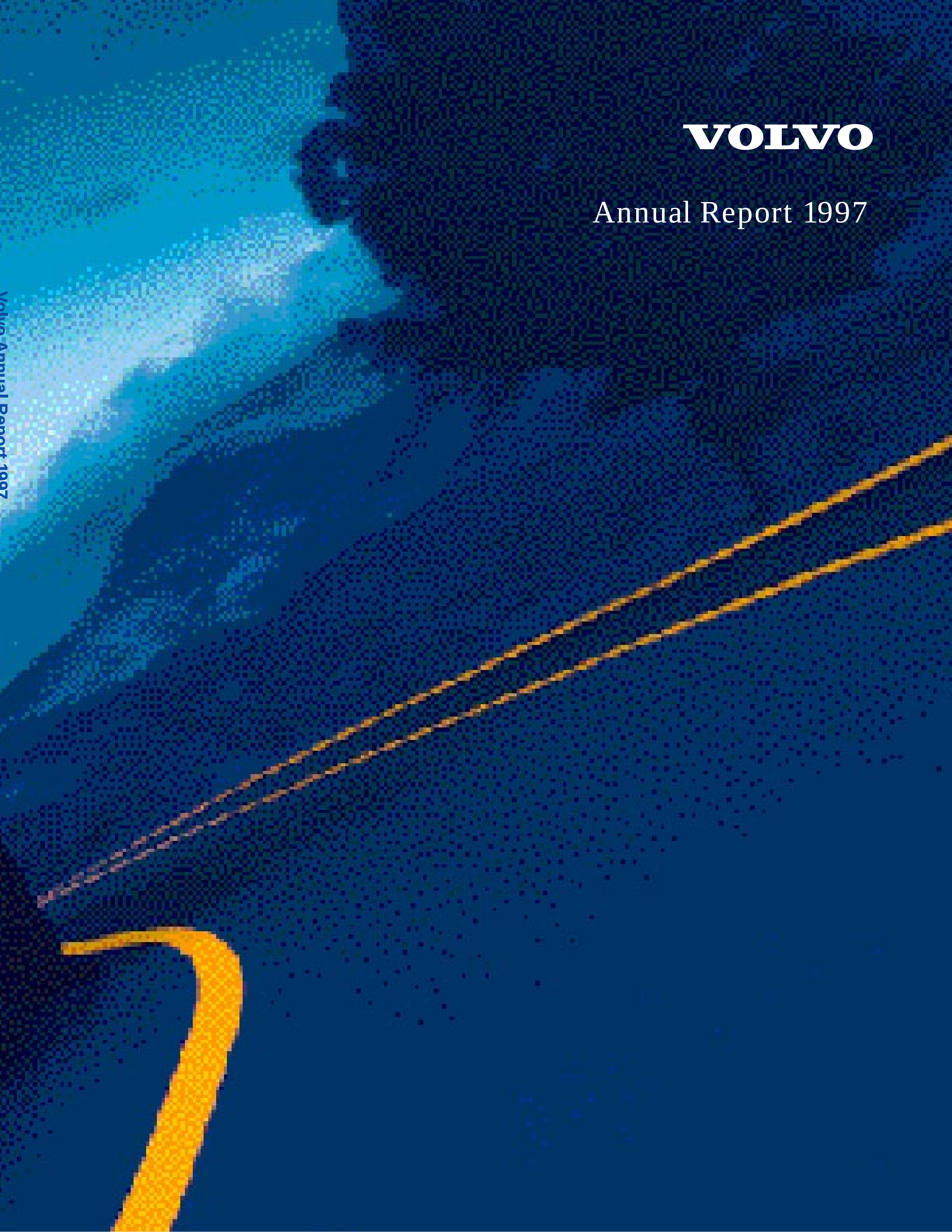


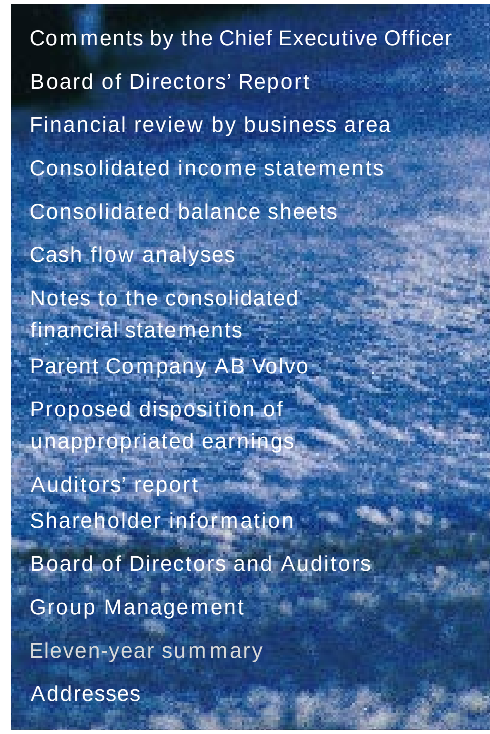
VOLVO

Annual Report 1997

Volvo Annual Report 1997

Volvo creates value by providing transportation-related products and services with superior quality, safety and environmental care to demanding customers in selected segments

Volvo 1997



	1995	1996	1997
Net sales	171,511	156,060	183,625
Operating income before nonrecurring items, automotive operations	7,493	3,619	8,392
Net income	9,262	12,477	10,359
Income per share, SEK	20.20	26.90	22.90
Cash dividend, SEK per share	4.00 [1]	4.30	5.00 [2]
Capital expenditures for property, plant and equipment	6,491	8,200	9,863
Research and development expenses	7,343	8,271	8,659
Number of employees, December 31	79,050	70,330	72,900

1 Plus one share of Swedish Match for each Volvo share held.
2 Proposed by the Board of Directors.

Unless otherwise stated, all amounts shown in the Annual Report are in millions of Swedish kronor (SEK M). Figures in prior years are adjusted to reflect the new Annual Accounts Act which is applied from January 1, 1997. Definitions of key ratios appear on page 43.

Volvo is an international transport equipment group with a worldwide marketing organization and production in 30 countries. The Group, which was founded in 1927, today has 73,000 employees and sales of slightly more than SEK 180 billion. The breadth of Volvo's product program is unique in the industry; it comprises passenger cars, trucks, buses, construction equipment and drive systems for marine and industrial applications, as well as the development, production and maintenance of aircraft engines.

Volvo is a well-known and respected brand name, strongly identified with quality, safety and concern for the environment. The Group's leading position in the fields of vehicle safety and quality is consolidated through continuing improvements and technical innovations. In the environmental area Volvo is intensifying efforts to reduce a negative impact on the environment throughout the entire life cycle of its products.

Cars

Volvo occupies a strong international position as a manufacturer of large family cars and is among the leaders in the station wagon field. Based on a limited number of models, Volvo develops a large number of versions – including exclusive Volvo cabriolet and Volvo coupé – for specific customer segments. Major production facilities are located in Sweden, Belgium and the Netherlands.

Trucks

Volvo is one of the world's three largest manufacturers of heavy trucks weighing more than 16 tons. The product program also includes medium-heavy trucks. The main markets are in Europe, North America and South America. Strategic investments are being made and new operations are being established in China, India and Eastern Europe.

Buses

Volvo is the world's second-largest manufacturer of buses and bus chassis weighing more than 12 tons. Production is carried out in Europe, North America, South America and Asia. The products comprise deliveries for urban, inter-city and tourist traffic, as well as transport systems for metropolitan traffic with demands for high capacity. Operations are expanding sharply.

Construction equipment

Volvo is one of the world's leading manufacturers of construction equipment. It has strong market positions in Europe and North America and it is now investing in markets in Eastern Europe, East Asia and South America. The operations are aggressive and a number of acquisitions have been made in recent years. The product program comprises among others wheel loaders, excavators, articulated haulers, rigid haulers and road graders.

Marine and industrial engines

Volvo Penta is a world-leader in the market for complete drive systems for marine and industrial use. Approximately 80% of the sales take place in Europe and North America. Volvo Penta's industrial engines are marketed globally for both stationary and mobile applications.

Aero

Volvo Aero develops, manufactures and maintains military and commercial aircraft engines. Aero works with the world's leading aircraft engine manufacturers through strict specialization on key technologies and selected product areas. The company has a growing role in the development and production of key components for the European Ariane space program. Its operations also include gas turbines for industrial and marine applications, as well as automotive components.

Strengths	Significant events in 1997	Objectives 1998–2000
• Worldwide sales-and service organization. • New, successful product program. • Quality-awarded production. • Customer-order-driven production in Europe and Japan.	• Increased volume and strong improvement in operating income. • Launchings of several model versions. • Introduction of the Volvo S40 and V40 models in markets outside Europe.	• Presentation in 1998 of first car based on Volvo's new large platform. • Increased focus on fuel efficiency. • Increased productivity and lower procurement costs. • Restructuring of the distribution network.
• Global product development, production and sales. • Modern product program for all types of transports, from city distribution to construction site transport and long-distance hauling. • Broad range of custom-tailored services and financing.	• Successively higher operating income during the year. • The Volvo 770 is introduced in North America. • Assembly plants are established in Pakistan, India and Tunisia. • Cooperation in China signed in January, 1998.	• A global product concept for heavy trucks will be established. • Ensure profitability in established markets; strong growth in new markets. • Continuing investments in support services such as financing and leasing, etc.
• Strong international position and local, customer-oriented global organization. • Broad product program, with strong customer focus. • Heavy investments in new products. • Leading brand in Western Europe (>12 tons).	• Increased volume of business and significantly higher operating income. • Introduction of the Volvo B7R, a new versatile bus chassis. • Acquisition of the largest manufacturer of bus bodies in the nordic region (Carrus Oy) and agreement covering acquisition of the leading city bus manufacturer in U.S. and Canada (Nova BUS).	• Continued expansion globally. • Strengthening of Volvo's position in the segment for city buses and tourist buses in North America. • Intensified development of environmentally compatible city buses and transport systems. • Rationalization of production.
• Strong positions in Europe and North America constitute a base for growth in new markets. • Decentralized organization with widespread marketing and customer contacts. • Inclusion in the Volvo Group provides opportunities for increased competitiveness.	• Satisfactory trend of sales and earnings. • Acquisition of Champion, a manufacturer of road graders. • Letter of intent covering acquisition of Samsung's construction equipment business is signed in February, 1998. • New assembly configuration is placed in operation in articulated hauler factory in Braås, Sweden.	• Continued expansion in growth markets. • Development of global industrial structure. • Broadening of product program. • Increased productivity.
• Leading supplier of marine engines for recreational craft in Europe. • Strong focus on development of complete, custom-tailored drive systems. • Second-largest company in the important Aquamatic segment in the U.S.	• Operating loss is converted to a profit. • New cooperation agreement with Mitsubishi Heavy Industries covering distribution of engines. • New engine program in the KAD series (Compressor Aftercooled Diesel).	• Increased focus on commercial and industrial engines. • Strategic agreements are developed. • Continued growth in China and South East Asia.
• High degree of expertise in selected technology areas. • Specialization for partnership ventures. • Broad operations in Aero Space – from development and production to maintenance.	• Significantly higher sales and operating income. • Contract to continue deliveries of engines for the JAS 39 Gripen military aircraft. • Participation in new commercial aircraft engine programs. • Access to new segment of after-sales market through majority ownership of The AGES Group.	• Export programs in Military engines unit. • Greater efficiency in engine and space programs and in Engine Services operations. • Introduction of gas turbines for industrial applications.

Comments by the Chief Executive Officer

1997 – Growth in volume and improved profitability

> "The growth in Volvo's earnings in 1997 was satisfactory. Sales and operating income increased in all business areas."

The growth in Volvo's earnings in 1997 was satisfactory. Sales and operating income increased in all business areas. The level of activity was high and the good results are to be attributed to the great efforts and fine performance of employees throughout the Group.

The greatest improvement took place in *Cars*. The upgrading of the product line through the addition of new versions of the Volvo S40 and V40 and the Volvo S70 and V70 resulted in a better price picture and the highest sales recorded during the 1990s. In North America, where our four-wheel drive cars, Volvo V70 AWD and the Volvo V70 XC were major successes, sales of Volvo cars exceeded 100,000 for the first time since the end of the 1980s. It has now been decided to introduce the Volvo S40 and V40 in North America, which means that the North American market is being offered the same broad product line as Europe.

It is also gratifying that *Trucks*' earnings improved steadily during the year. Volumes of sales increased in the United States, where the Volvo VN and 770 trucks are highly attractive. The restructuring measures involving concentration of production in a single plant have now had an impact and the North American operations showed an operating profit in the fourth quarter. The operations in South America also stabilized. Trucks' share of the European market declined slightly. Sales in Eastern Europe rose strikingly, but from a relatively modest level.

Buses is in an expansive phase and its earnings improved substantially. Agreement was reached at year-end to acquire Nova BUS, the leader in the market for city buses in the US and Canada. Carrus Oy, the largest producer of bus bodies in the Nordic region, was acquired at year-end. The work of creating an industrial and commercial base in Russia is proceeding according to plan and an agreement has been reached covering the production of buses in the city of Omsk. At the end of the year Volvo received a large order for natural-gas buses in France; this is fully in line with our desire to participate in programs for efficient and environmentally compatible transport systems for urban traffic.

Sales and earnings of *Construction Equipment* improved, due in part to organic growth and in part to the acquisition of Champion Road Machinery, a Canadian company. The efforts to establish strong footholds in such growth markets as East Asia and South America are continuing.

Marine and industrial engines returned to an acceptable level of profitability in 1997 as a result in part of a 15% increase in sales and the introduction of a new, customer-oriented marketing organization. Volvo Penta's global growth is continuing through a joint venture in China and closer cooperation with Mitsubishi Heavy Industries.

> "The method of employing a basic concept to create a broader line of products directed to specific target groups and markets will be further refined and applied in all Group business areas."

Aero reported a sharp increase in earnings, due to a strong increase in Commercial Aircraft Engines and the acquisition of The AGES Group, which caused a substantial increase in sales in North America.

Operations as a whole in 1997 were characterized by successful exploitation of basic investments made earlier. These included the "globalization" of Trucks' FH concept and the further development of the Volvo 850 to create the Volvo S70 and V70 in various configurations. This method of employing a basic concept – a platform – to create a broader line of products directed to specific target groups and markets will be further refined and applied in all Group business areas, partly for marketing reasons and partly in order to achieve greater efficiency and utilize resources more effectively.

The 1997 results show that Volvo's products are strongly competitive. They also reflect a successful program of internal improvement and increases in efficiency, as a result of which Volvo today is much stronger than it was a few years ago. But while the results were favorable, the outcome for a single year provides poor guidance with respect to the Group's strategic position relative to trends in the general economy, to market trends and to competitors.

> "A 10% annual increase in sales is required to achieve the profitability required for product development, investments and dividends."

During the year, to ensure durable profitability over the long term, Management conducted a comprehensive review of the Group's needs. This showed three areas in which, in order to maintain its competitiveness, Volvo must increase its efforts during the next three years; growth, product renewal and operating efficiency.

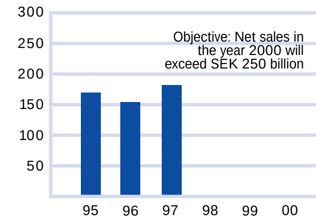
> "Our ambition, therefore, is to introduce one major new product per year in each business area."

Growth

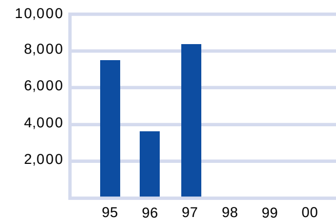
Volvo has to grow. It is estimated that a 10% annual increase in sales is required to achieve the profitability required for product development and investments and in order to be able to give the shareholders a good return on their capital. Growth is to be achieved in part through increased sales in established markets and in part through an increased presence in growth markets such as those in Eastern Europe, Latin America and parts of Asia. In view of Volvo's already well established brand name there, Eastern Europe should be the easiest of these to cultivate short term. Volvo's Truck and Bus operations in Poland will constitute the base for expansion eastward. A number of projects are already under way in India and China. The financial turbulence in East Asia is resulting in smaller volumes of sales at present. But we believe that, long term, the growth and customer structure in the region justifies a continuing strong presence in this region. Acquisitions will also be a part of Volvo's growth. This applies, in particular, to the commercial-vehicle field, mainly trucks, buses and construction equipment.

Volvo 1998–2000
A strategy for growth

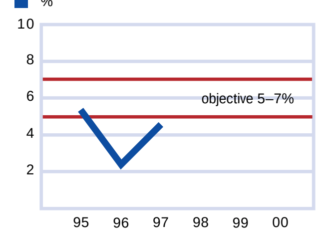
Net sales – growth
SEK billion



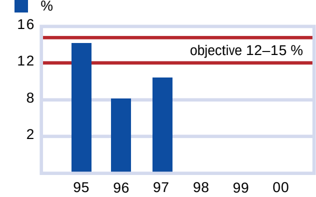
Operating income, automotive operations [1]
SEK million



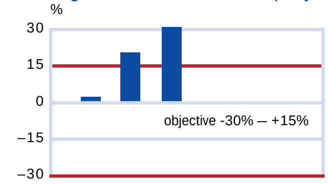
Operating margin [1]
%



Return on shareholders' equity [2]
%



Net financial assets, as percentage of shareholders' equity
%



1 Excluding nonrecurring items.
2 Excluding nonrecurring items and gain on sales of shares.

Product renewal

Volvo has to be able to offer, at any given time, products that are modern, attractive and competitive. Our ambition, therefore, is to introduce one major new product per year in each business area, which will mean stepping up the tempo considerably, compared with earlier practice. This will mean rolling product planning and development work in parallel processes. Since the products' life cycles will be shorter than before, all time saved – from the concept stage all the way through to production – will mean increased earning capacity. Our objective is that the cost for each new product concept should be 15% lower than for comparable earlier specifications. The environmental aspect, which is growing in importance as a competitive factor, will be factored in early in the planning process. The objective is to make each new product more fuel-efficient, lighter and safer than the product it replaces.

Operating efficiency

In the current competitive environment, with increasingly more players in each market segment and an even higher and uniform quality, high efficiency is becoming a prerequisite for survival. I estimate that an increase in productivity of at least 5% per year is necessary. The relative cost disadvantages of small volumes have to be offset. We will therefore further increase our efforts to rationalize production, to increase system- and components interchangeability in our products, to create common information technology systems and to seek cooperation and partnerships. Our goal is to have reduced costs of purchased materials by 15% by the year 2000, in part by increasing procurement in low-cost countries. Deregulation within the EU will involve new sales patterns and we estimate that distribution costs can be reduced by 1 to 4 percentage points.

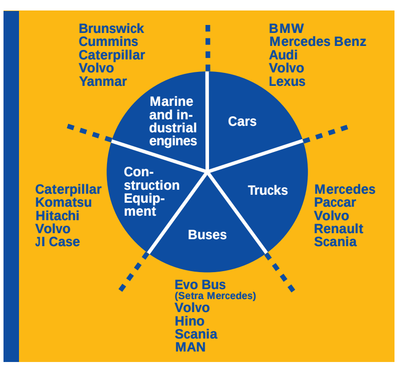
"In the current competitive environment, with increasingly more players in each market segment and an even higher and uniform quality, high efficiency is becoming a prerequisite for survival. I estimate that an increase in productivity of at least 5% per year is necessary."

We will also establish production in growth regions. There are a number of projects in Asia and we are planning for new factories in Eastern Europe. There will also be changes in Volvo's present industrial structure. Our manufacturing units must be at least as efficient as the best in the world. Non-strategic or non-competitive units will be subject to such measures as rationalization, co-ordination, sale or liquidation.

Overall, the objectives and activities that have been described here mean that the Volvo Group is entering a period of expansion, but one that requires a high degree of cost-effectiveness and precision if it is to be realized. We are facing a strenuous task over both the short and long term. Nineteen ninety-eight will thus be the year when Volvo introduces products whose reception in the market will affect the Group in the new millennium. The phasing out of the Volvo 90 series and the launching of Volvo's new large passenger car involve a very substantial changeover in production, as well as lower revenues during the running-in period. But I have great confidence that the new car and the other new products will strengthen Volvo's competitiveness and reputation as a leading manufacturer of transportation equipment for demanding customers in selected market segments.

Leif Johansson
February, 18 1998

Board of Directors' Report



Volvo is a relatively small player in the transport equipment industry. But, relative to the principal competitors in the various business areas, Volvo holds a strong international position in each area.

The business environment

The year 1997 was characterized by economic growth in North America and Europe, where the Gross National Product rose 3.6% and 2.4%, respectively. Growth in the Southeast Asian countries was slowed significantly during the second half of the year due to the finance and currency crisis in many countries. The crisis was characterized by declining currencies and share prices in ASEAN countries and Korea. The trend in the region continued to be turbulent during the early part of 1998.

The average exchange rate for the U.S. dollar relative to the Swedish krona strengthened by nearly 15% during the year, while the ECU was largely unchanged relative to the krona. Large parts of the world economy experienced historically low inflation with a consequent weak growth in interest rates.

Total market

The trend of the economy in OECD countries favored investments in passenger cars, trucks and construction equipment and kept demand for these products at the same relatively high level of the preceding year. The world market for buses continued to be weak. Vehicle sales in Asia (with the exception of Japan) fell sharply during the fourth quarter of 1997 and decreased by 7% for the full year. It is difficult to determine in a short- and medium-term perspective what effects the finance and currency crisis will have on economic growth in Southeast Asia and the trend of the market reflects growing uncertainty. Industry analysts foresee a decline of 30% during 1998, which would reduce the region's share of world car sales from 11% in 1996 to around 8% in 1998.

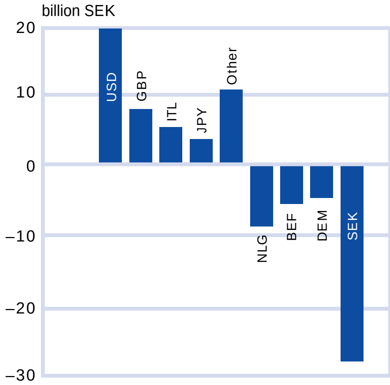
Trend of trading policy

The World Trade Organization (WTO) is highly important for the continuing development of global rules for trading and investing that will also permit open, equitable and nondiscriminatory trading between countries and regions, in the automotive industry as well as other fields. It is urgent that negotiations pertaining to membership for China, Russia and other applicant nations be concluded so that the WTO can become a truly global organization. The enlargement of the European Union (EU) and its efforts to create increasingly open trade relations with other countries and regions are also important for the development of more favorable operating conditions.

Competitive situation

The excess capacity and severe competition that exists within the passenger car industry is characteristic of Volvo's business environment. It is a trend that is being accentuated by the continuing establishment of new entries in the field. The market for heavy trucks is under strong price pressure combined with the introduction of a number of new product concepts, including financing and leasing. Intensive efforts are being made throughout the transport vehicle industry to distribute increasing investments and other costs over larger volumes of business. This applies primarily in the bus and construction equipment segments as well as for vehicle components where many small manufacturers are being incorporated in large groups that are broadening their product programs and becoming more global. The establishment of new operations and various forms of cooperation in growth markets are other ways of broadening the volume base.

The Volvo Group’s net commercial flows in various currencies, 1997



Volvo operates in an international environment with 11% of all sales in Sweden, 47% in the rest of Europe, 28% in North America, 4% in South America and 8% in Asia. Production and assembly are carried out on all continents, but mainly in Northern Europe.

Information technology’s breakthrough

As a consequence of the breakthrough of information technology, transport and service systems will be integrated with new products. The offering does not have to be limited to a vehicle but can also include a total concept consisting for example of financing, service, maintenance or total transport solutions. The truck market in North America – where more than 35% of new-vehicle sales today are being made through various types of leasing companies – is one example.

The use of the Internet to establish qualified contacts with customers is another striking trend in the American passenger car market.

Foreign exchange movements affect competition and earnings

Foreign exchange movements have both indirect and direct effects on competitiveness and earnings. The indirect effects include the pricing of the company’s products and materials procured in the respective currencies, as well as related volume effects. Fluctuations in exchange rates also affect competitors and thereby impact indirectly on Volvo’s competitiveness. The direct effects arise mainly when revenues, costs, assets and liabilities in foreign currency are translated to Swedish kronor at varying rates. The impact of these movements on Volvo’s earnings is most substantial in Cars, which has large exports to the United States, while Trucks has its own production facilities there. At the same time, earnings in both Cars and Trucks are affected by the trend of exchange rates for the German mark, for example. This is due to the large volume of purchases from Germany.

The euro – a common European currency

During 1998 the conditions for the new European Monetary Union (EMU) are being established; these involve, among other developments, the creation of a common European currency, the euro. Beginning in 1999, the euro will be a legal electronic currency and constitute an alternative commercial currency. In the short term, currency exposure and exchange costs will decline through price changes and exchange transactions between the currencies in the EMU will disappear. Most countries in Europe where Volvo has operations are expected to be part of the currency union. Planning is underway within Volvo to determine how to best adapt to and capitalize on the advantages of the new currency.

Important environmental requirements

The most important environmental issues facing both the transport industry and society in general are the increasing “greenhouse effect” and emissions of pollutants into the atmosphere, as well as noise and crowding. The greenhouse effect, combined with the fact that oil is a limited resource, makes it imperative to develop more fuel-efficient vehicles and seek alternatives to oil as the primary source of energy for automotive traffic. In California, which applies the world’s strictest laws governing emissions, legislative requirements are being tightened successively between now and 2005. In the rest of North America as well, there is a trend toward lower levels of harmful emissions. Within EU and in other countries in Europe the debate and planned legislation are being focused on reduced fuel consumption for cars and sharply lower emissions for commercial vehicles.

Regular, planned and coordinated product renewal is a key to success in the market and to cost-effective product development. Volvo’s ambition is to have one major new-product introduction in each business area each year. The picture shows the 4-wheel drive Volvo V70 R AWD that was introduced in May, 1997.


ALITY BRINGS
ONFIDENCE
SAFETY BRINGS
FREEDOM
CARING BR
PEACE OF

The financial year 1997

During 1997 Volvo pursued the streamlining strategy that was adopted in 1994. Interests outside the automotive industry were divested. All resources were concentrated on developing Group operations related to transport vehicles, on strengthening the integration of the Group's different business areas and on formulating objectives and growth strategies.

Divestments of shareholdings

Shareholdings in Pripps Ringnes (49%), Renault (11%), SAS Sverige (5%) and Fabege (8%) were divested during the year. The total sales amounted to SEK 10.9 billion, including SEK 4.5 billion for the Pripps Ringnes shares and SEK 5.9 billion for the holding in Renault. Thus shareholdings totaling SEK 40 billion have been divested since the spring of 1994. At year-end 1997, the remaining shareholdings outside the automotive business consisted of a 3.9% interest in the Pharmacia & Upjohn Inc. pharmaceutical company.

During the year Volvo Construction Equipment, in close cooperation with Volvo Trucks, established a marketing organization in Poland in order to coordinate marketing activities in the construction and service sector.

Industrial acquisitions in Buses and Construction Equipment

A number of industrial acquisitions were made within Volvo in 1997. Volvo Construction Equipment acquired all of the shares of Champion Road Machinery Ltd and Volvo Aero increased its holding in The AGES Group ALP, from 25% to 60%. At the end of the year Volvo Buses announced its acquisition of the shares of Carrus Oy, the Finnish bus body manufacturer, and an agreement to acquire Nova BUS, a North American manufacturer of city buses. Carrus Oy is consolidated as of 1998. A letter of intent was signed in early 1998 with Samsung Heavy Industries Co. Ltd. in which Volvo Construction Equipment plans to acquire Samsung´s construction equipment operations.

Programs in growth markets

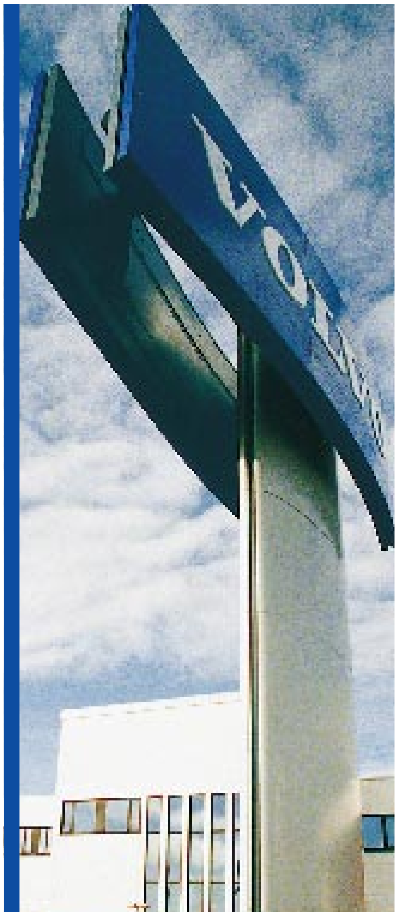
Volvo India Private Ltd. constitutes the base for Volvo's operations in *India*. Construction of the truck plant in Bangalore, which is also creating opportunities to assemble bus chassis locally, was begun in April 1997.

In *China*, Volvo Trucks is establishing cooperation with China National Heavy Truck Corp. Jointly, the companies will carry out a feasibility study aimed at establishing a production company in Jinan, Shangdong Province. During the Autumn 1997 Volvo also signed a letter of intent with the Russian Department of Transportation in which Volvo declared its intention to increase its industrial and commercial presence in *Russia*. In January 1998, Volvo decided to start production of buses in Omsk. The plant is initially being dimensioned to produce 250 buses a year.

Expansion of sales financing

At year-end 1997 total assets in the sales financing operations amounted to SEK 46.9 billion, compared with SEK 22.7 billion a year earlier. The greatest expansion of operations during the year occurred in Europe and North America,

Eastern Europe today is attracting vehicle manufacturers and suppliers from all parts of the world. In this situation, Volvo's operations in Poland constitute a base for the future. The picture is from Trucks' plant in Wroclaw, which in a short period has achieved high quality ratings for its trucks. Since 1994 production has increased more than 150%, to 1,285 trucks in 1997.



Volvo invests in sales financing as a means of supporting its dealers and marketing companies. The sector of the Group based on heavy diesel engines is offering new customer solutions in the form of financing, insurance and spare parts and service contracts. Volvo Cars is also establishing wholly owned sales finance companies in key markets.

where sales financing which was formerly conducted as joint ventures is now included in wholly owned subsidiaries during 1997. The outstanding 50% of the shares of the unprofitable Brazilian sales finance company, Transbanco Banco de Investimento, were also acquired during 1997. In January 1998 Volvo acquired the truck leasing operation of NFC Plc, a British company.

Product introductions during the year

In May 1997 Cars introduced the Volvo S70 R and V70 R models as well as the four-wheel-drive Volvo V70 R AWD. The Volvo V70 XC (Cross Country), a further development of the Volvo V70 AWD, was presented at the Frankfurt Motor Show in September. Two turbo alternatives to the Volvo S40 and V40 – a T4 version and a light-pressure turbo – were also presented during 1997.

During the year Trucks introduced the Volvo 770 for the North American market, a further enhancement of the Volvo VN that is equipped with the largest cab that Volvo has ever built. The Volvo FH Globetrotter XL 70 was introduced in Europe. This is an "anniversary model," produced to mark Volvo's 70th year as a truck manufacturer. Buses' new Volvo B7 R bus chassis was introduced internationally during the Spring of 1997 and Volvo Construction Equipment launched a new family of machines in the mini-excavator segment.

Joint ventures with external partners

Volvo is seeking through joint ventures to establish broad-based "volume operations" in its development, production and distribution activities. One example is Volvo's joint venture with Mitsubishi which initially pertained to production cooperation in the NedCar jointly owned passenger car factory in the Netherlands. New agreements between Volvo and Mitsubishi were signed during 1997. These agreements pertain to deliveries from Mitsubishi of passenger car engines with direct fuel injection, joint distribution of Mitsubishi light trucks in Europe and joint distribution and servicing of marine and industrial engines in Europe.

In the supplier sector, there is a concentration on fewer suppliers of complete concepts or modules. These suppliers are to an increasing extent establishing operations close to Volvo's production facilities. The Arendal manufacturing park, adjacent to the Torslanda plant, where eight companies from three countries have established production, is one example.

Volvo Information Technology brings Group IT resources together

In 1997 Volvo decided to restructure its information technology operations and organize all its resources in this area in a wholly owned subsidiary with 2,500 employees. The objective is to achieve more uniform IT systems within the Group and to release resources for aggressive action in this area.

Millenium shift

Volvo has been working with the millenium shift problem in computer systems for several years. Activities include internal computer systems as well as communications systems with suppliers. Volvo´s assessment is that the systems are well prepared for the millenium shift.

Board of Directors and Management

Håkan Frisinger was appointed Chairman of the Board of Directors of AB Volvo on March 19, 1997, filling the vacancy caused by the death of Bert-Olof Svanholm. Håkan Frisinger has been a member of the Volvo Board since 1994.

Leif Johansson, former President and Chief Executive Officer of AB Electrolux, became President and Chief Executive Officer of AB Volvo at the Annual General Meeting on April 23, 1997. He succeeded Sören Gyll who retired on pension December 31, 1997.

Sten Langenius retired as Executive Vice President of AB Volvo and as member of the Executive Committee in June 1997. In August 1997 Arne Wittlöv, formerly President of Volvo Aero Corporation, was named the new Executive Vice President of AB Volvo and a member of the Executive Committee, with responsibility for technical matters, and Per Löjdquist was named a new member of the Executive Committee, with responsibility for information and investor relations.

Fred Bodin took over as President of Volvo Aero Corporation in October. He was succeeded by Eva Persson as Chief Legal Counsel of AB Volvo, a member of the Group Executive Committee and Secretary to the Board.

Leif Åke Nilsson and Per-Erik Mohlin resigned their positions as members of the Group Executive Committee, as well as their positions as Vice President-Personnel and Executive Vice President of AB Volvo, respectively.

In December 1997 Anders Hellman became the new President of Volvo Information Technology AB, leaving his position as President of AB Volvo Penta and as a member of the Group Executive Committee.

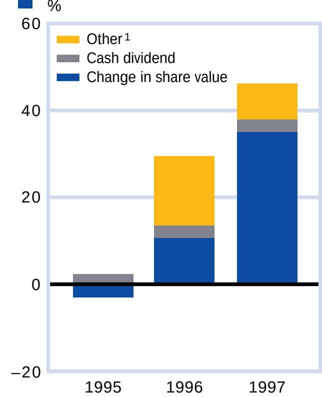
Dividend proposal

The Board of Directors and the President propose that shareholders at the Annual General Meeting approve payment of a dividend of SEK 5.00 per share, or a total of SEK 2,208 M, for the financial year 1997. The Volvo Group is in an expansive phase and the Board considers that the Group should be assured financial freedom of action to be able to participate in structural changes through acquisitions as well as product and market investments. Aquisitions in all significant respects will occur in the commercial vehicle area. Should the Board in a future assessment consider that the financial net assets exceed needs, the Board will propose that the shareholders receive this surplus. In the Board´s opinion, the best method for this is repurchase of own shares and it anticipates that Swedish legislation will create the possibility for such an action.

The dividend for 1996 was SEK 4.30 per share, equal to a total of SEK 1,993 M. An offer to redeem shares made to the shareholders of AB Volvo was implemented during 1997. In all, 3,546,185 Series A shares and 19,050,682 Series B shares, equal to 4.9% of the number of shares and 3.1% of the number of voting rights, were tendered for redemption and a total of SEK 5,807 M, equal to SEK 257 per redeemed share, was paid out. To implement the redemption procedure as efficiently as possible, the Board of Directors of AB Volvo decided, based on authorization from the Annual General Meeting, to issue new shares in the amount of SEK 116 M to the foundation Stiftelsen Volvoresultat and a Special General Meeting decided to effect a bonus issue of shares in AB Volvo through a write-up of the par value of the shares from SEK 5 to SEK 6. Thus, the share capital was not reduced as a result of the redemption procedure.

Effective return of the Volvo share

%



[1] 1996: Distribution of Swedish Match
1997: Redemption of shares

Net sales by business area

SEK M	1995	1996	1997	%[1]
Cars	83,340	83,589	96,453	+15
Trucks	51,027	44,275	50,840	+15
Buses	7,695	8,527	10,582	+24
Construction Equipment	6,916[2]	12,804	16,758	+20
Marine and industrial engines	3,878	3,885	4,466	+15
Aero	3,790	4,143	7,476	+24
Other and eliminations	(2,150)	(3,006)	(3,016)	–
Automotive operations	154,496	154,217	183,559	+17
Operations being divested	17,015	1,843	66	–
Total	171,511	156,060	183,625	–

1 Excluding divested and acquired companies.

2 From July 1995. The sales value for full-year 1995 was SEK 13,684 M.

Number of vehicles sold

	1995	1996	1997	%
Cars	374,640	368,250	386,440	+5
Trucks	76,490	63,680	68,980	+8
Buses	6,830	7,410	8,730	+18

Sales by market area

SEK M	1995	1996	1997	%
Western Europe	86,056	90,322	101,444	+11
Eastern Europe	2,222	2,794	3,939	+39
North America	39,011	36,560	51,052	+38
South America	7,117	4,844	6,983	+41
Asia	17,097	16,151	15,545	(4)
Other markets	2,993	3,546	4,596	+28
Automotive operations	154,496	154,217	183,559	
Operations being divested	17,015	1,843	66	
Total	171,511	156,060	183,625	+18
of which Sweden	16,223	16,631	19,816	+14

A complete 11-year summary is shown on pages 76–87.

Income summary

Net sales of the Volvo Group for the full year 1997 amounted to SEK 183,625 M, compared with SEK 156,060 M in the preceding year, an increase of 17% for the automotive operations, excluding acquired companies. Adjusted also for foreign exchange movements, the increase was 10%.

Sales increases in all business areas

Net sales of Cars increased by 10%, adjusted for the effects of foreign exchange movements. The number of Volvo cars invoiced was 386,440 (368,250) and new model versions contributed to strong sales in both Europe and the United States.

The number of Volvo trucks delivered increased to 68,980 (63,680) and 8,730 (7,410) buses and bus chassis were delivered; as a result, net sales for these business areas, adjusted for foreign exchange effects, rose 8% and 14% respectively. Notable sales increases were reported for the other business areas.

Increase was most evident in established markets

Cars strengthened its position in Europe and North America, where sales and market shares both increased. The situation in Japan and the rest of Asia was the opposite, with declining sales and market shares. Some recovery could be noted in the Japanese market during the latter part of the year.

Trucks' deliveries were marginally lower in a weak European market, while deliveries in North America were higher. Deliveries in South America rose sharply but Volvo's market share declined slightly, compared with the preceding year, as a result of the substantial increase in the total market.

Western Europe continued to be the largest single market area for Construction Equipment. As a result of strong growth in the market in North America and the effects of the acquisition of Champion Road Machinery Ltd., a Canadian company, the percentage of Construction Equipment's sales in the North American market increased from 26% to 35%. As an effect of the expansion and globalization efforts, the percentage of Volvo Construction Equipment's total sales in markets outside Western Europe, notably in South America, also increased.

The largest increases in sales for Group operations as a whole were reported in North America (38%), South America (41%) and Eastern Europe (39%). Volvo's sales in Asia declined by 4%, as a consequence of the turbulent economic development during the end of the year. Volvo's sales in Asia accounted for 8% of the Group's total net sales in 1997.

Operating income

Operating income amounted to SEK 8,418 M, which was SEK 4,708 M higher than in the preceding year. All business areas reported higher operating income than in 1996.

Larger sales volumes and a more favorable product mix in most business areas contributed about SEK 3,000 M to the improvement of the operating income and the effects of foreign exchange movements contributed about SEK 2,600 M after taking forward contracts and options into account. Increased sales volumes and substantial market investments, primarily for Volvo Cars in North America resulted in higher selling expenses.

Consolidated income statements	1995	1996	**1997**
Net sales	171,511	156,060	**183,625**
Cost of sales	(128,529)	(121,249)	**(138,990)**
Gross income	42,982	34,811	**44,635**
Research and development expenses	(7,343)	(8,271)	**(8,659)**
Selling expenses	(17,418)	(14,895)	**(17,160)**
Administrative expenses	(7,399)	(6,685)	**(7,018)**
Other operating income	4,168	5,086	**3,187**
Other operating expenses	(5,966)	(6,336)	**(6,567)**
Operating income before nonrecurring items	9,024	3,710	**8,418**
Nonrecurring items	1,215	–	**–**
Operating income	10,239	3,710	**8,418**
Income from investments in associated companies	2,119	314	**2,929**
Income from other investments	788	9,007	**1,168**
Interest income and similar credits	3,996	4,817	**3,486**
Interest expenses and similar charges	(3,757)	(3,271)	**(2,748)**
Other financial income and expenses	(337)	(374)	**(77)**
Income after financial items	13,048	14,203	**13,176**
Taxes	(3, 741)	(1,825)	**(2,705)**
Minority interests	(45)	99	**(112)**
Net income	9,262	12,477	**10,359**
Income in SEK per share	20.20	26.90	**22.90**

The operating margin for the Group developed favorably during the year and amounted to 4.6% for the full year and 5% for the fourth quarter isolated.

Income from investments in associated companies

Income from investments in associated companies amounted to SEK 2,929 M (314). The gain on the sale of the shareholding in Pripps Ringnes AB was SEK 3,027 M. Volvo's share of the loss in NedCar was SEK 128 M. Income from investments in associated companies active in sales financing was charged with credit losses in the Brazilian operations and the total loss amounted to SEK 146 M.

Income from other investments

Income from other shares and participations, SEK 1,168 M (9,007) included a gain of SEK 783 M on the sale of Renault shares and SEK 221 M from the sale of SAS Sverige shares. The dividend from Pharmacia & Upjohn amounted to SEK 165 M. Income in 1996 includes gain on the sale of shares in Pharmacia & Upjohn of SEK 7,766 M.

Net interest income

Net interest income, SEK 738 M (1,546) was lower than in 1996. The lower return was attributable to declining interest rates and the fact that liquid funds were to a large extent invested in interest-bearing papers with short maturities.

Tax expense

Tax expenses pertained mainly to current taxes in foreign subsidiaries.

Operating income (loss) before non-recurring items, by business area

SEK M	1995	1996	1997
Cars	1,089	1,498	4,510
Trucks	5,073	878	1,812
Buses	405	331	550
Construction Equipment	717[1]	1,162	1,444
Marine and industrial engines	212	(27)	181
Aero	103	153	472
Other and eliminations	(106)	(376)	(577)
Automotive operations	7,493	3,619	8,392
Operations being divested	1,531	91	26
Total	9,024	3,710	8,418

1 From July 1995. Operating income for full year 1995 was SEK 1,679 M.

Factors that affected operating income

SEK billion	1997
Operating income from automotive operations 1996	3.6
Increased volume and profit margins	2.1
Change in product mix, Volvo 400 to S40 and V40	0.9
Higher research and development expenses	(0.3)
Higher selling expenses	(1.6)
Acquired companies	0.3
Effect of changes in foreign exchange rates	2.6
Other	0.8
Operating income, automotive operations	8.4

Condensed income statements, sales financing

SEK M	1995	1996	1997
Net sales	4,295	5,101	5,956
Operating Income	82	146	202
Income from investments in associated companies	98	6	(146)
Financial income and expenses	8	(16)	1
Income after financial items	188	136	57

Impact of exchange rates on Volvo's operating income

Average spot rates in 1997 were significantly more favorable for Volvo than in the preceding year. As shown in the table below, the net effect of changed spot rates was positive in the amount of SEK 4,830 M. The favorable effects of higher average spot rates for "inflow" currencies, mainly U.S. dollars and British pounds, and Japanese yen, were reinforced by lower average spot rates for "outflow" currencies: mainly the Dutch guilder but also German mark and Belgian franc.

However, since Volvo hedges large portions of payment flows in foreign currencies, the changes in spot rates do not have an immediate impact on earnings. In 1997 the effect of forward contracts and option contracts on earnings amounted to a loss of 1,180 (1996: gain 1,100), resulting in a negative impact of 2,280 on operating earnings in 1997, compared with 1996.

Changes in spot exchange rates in connection with the translation of foreign subsidiaries' earnings, as well as the revaluation of balance sheet items in foreign currencies, also had an impact.

The total effect on Group operating income of changes in foreign exchange rates in 1997, compared with 1996, amounted to 2,600.

Total income effect due to changes in foreign exchange rates

	Net flow 1997	Income effect
Effect of changes in spot rates in each currency		
USD	2,600	2,390
GBP	650	1,310
CAD	430	250
ITL	1,195,400	170
NLG	(2,230)	140
AUD	240	100
Other		470
Effect of changed spot rates, net		4,830
Effect of forward contracts and options contracts[1]		(2,280)
Translation of foreign subsidiaries' operating income		80
Revaluation of balance sheet items in foreign currency		(30)
Total effect		**2,600**

1 Group sales are reported at average spot rates and the effect of hedging is included among other operating income/expenses.

Minority interests

Minority interests in the Volvo Group consist mainly of the Henly Group's 49% interest in Prévost Car Inc, Hitachi Construction Machinery's 40% interest in Euclid-Hitachi Heavy Equipment Inc and GPA Group's 40% interest in The AGES Group ALP.

Financial position

The Group's total assets increased by SEK 22.1 billion. Excluding foreign exchange movements, acquisitions of companies and the expansion of sales-financing operations, total assets decreased by SEK 8.5 billion. During the year Volvo sold all of its shares in Renault, which together with the sale of the holding in Pripps Ringnes reduced the long-term financial assets by SEK 7.9 billion. Excluding exchange rate movements and acquisitions of companies, inventories rose SEK 2.6 billion.

Sales Financing

Total assets in Volvo's sales finance operations more than doubled during the year, to SEK 46.9 billion (22.7). The increase was due largely to the fact that sales-financing companies in North America and Great Britain, in which Volvo had formerly been a joint owner, are now being operated by the Group as wholly owned subsidiaries. Customer and leasing receivables amounted to SEK 32.1 billion (13.4). Assets in operational leasing increased from SEK 4.9 billion to SEK 12.1 billion. The equity/assets ratio in sales-financing operations was 9.1% in 1997, calculated as a percentage of equity and minority capital.

Net financial assets

The Group's net financial assets, which are calculated exclusive of the sales-financing operations and which amounted to SEK 12.0 billion at the end of 1996, increased by 7.1 billion to SEK 19.1 billion (Details of the change are specified in the table on page 17).

Shareholders' equity

Shareholders' equity increased by SEK 2.6 billion in 1997. Net income for the year increased shareholders' equity by SEK 10.4 billion while the redemption of shares, dividend to Volvo's shareholders for the fiscal year 1996, and foreign exchange differences, reduced shareholders' equity by SEK 7.6 billion. Shareholders' equity and minority interests were equal to 37.6% (41.4) of total Group assets and 50.8% (48.0) of assets excluding sales financing.

Cash flow analysis

Cash flow from the year's operations amounted to SEK 11.5 billion (3.5), of which SEK 16.6 billion was generated in the industrial operations while the cash flow in sales finance operations was negative in the amount of SEK 5.1 billion. Total operating capital increased by SEK 2.0 billion (increase: 5.9). The decrease

Consolidated balance sheets	Volvo Group excluding sales financing[1]			Sales financing			Total Volvo Group		
	1995	1996	**1997**	1995	1996	**1997**	1995	1996	**1997**
Assets									
Intangible assets	5,623	2,258	**3,262**	3	19	**22**	5,626	2,277	**3,284**
Tangible assets	25,071	26,480	**32,043**	2,870	4,946	**12,251**	27,941	31,426	**44,294**
Financial assets	25,970	21,851	**14,233**	4,933	6,821	**14,508**	28,991	25,668	**24,527**
Inventories	23,813	23,042	**27,756**	116	106	**237**	23,929	23,148	**27,993**
Short-term receivables	22,591	21,822	**23,553**	6,315	10,157	**19,041**	28,906	31,979	**42,594**
Cash and bank accounts, marketable securities	23,133	25,986	**19,737**	173	675	**866**	23,306	26,661	**20,603**
Total assets	126,201	121,439	**120,584**	14,410	22,724	**46,925**	138,699	141,159	**163,295**
Shareholders' equity and liabilities									
Shareholders' equity	51,200	57,876	**60,431**	1,912	3,004	**4,214**	51,200	57,876	**60,431**
Minority interests	351	448	**859**	254	56	**40**	605	504	**899**
Provisions	21,209	17,825	**21,534**	283	313	**1,419**	21,492	18,138	**22,953**
Liabilities	53,441	45,290	**37,760**	11,961	19,351	**41,252**	65,402	64,641	**79,012**
Total shareholders' equity and liabilities	126,201	121,439	**120,584**	14,410	22,724	**46,925**	138,699	141,159	**163,295**
Shareholders' equity and minority interests as percentage of total assets	40.8	48.0	**50.8**	15.0	13.5	**9.1**	37.4	41.4	**37.6**

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

in operating capital, excluding sales-financing operations, did not offset the increase in the amount of capital tied up in operations as a result of the expansion of sales-financing operations.

Capital expenditures

Capital expenditures for property, plant and equipment amounted to SEK 9.9 billion (8.2), of which SEK 5.5 billion (4.4) were investments in Cars. The greater part pertained to changeovers in Cars' Torslanda plant and to investments in type-specific tools in preparation for future models. Trucks' investments in property, plant and equipment in 1997 amounted to SEK 2.4 billion (2.6). Continuing substantial investments in the industrial system included increases in production capacity for the D12 engine in Skövde, and for gearboxes and rear axles in Köping and Lindesberg, plus construction of a new cab factory in Curitiba, Brazil. Investments in leasing assets amounted to SEK 9.8 billion (3.9), of which SEK 9.3 billion pertained to sales-financing operations. The investments were related to cars, trucks and construction equipment and were attributable primarily to the North American operations.

The self-financing ratio, defined as cash flow from the year's operations as a percentage of capital expenditures for property, plant and equipment and leasing vehicles, amounted to 59% (29). The comparable figure excluding sales-financing operations was 161% (63).

During 1997 liquid funds were increased by SEK 10.7 billion, net, through the sale of shares and participations mainly the holdings in Renault, SEK 5.9 billion, and Pripps Ringnes, SEK 4.5 billion.

Long-term receivables, net, increased by SEK 6.0 billion (2.8). The expansion of sales-finance operations caused an increase of SEK 7.2 billion. Repayment of a loan from NedCar accounted for the greater part of the decrease of SEK 1.2 billion in receivables in the Volvo Group excluding sales financing.

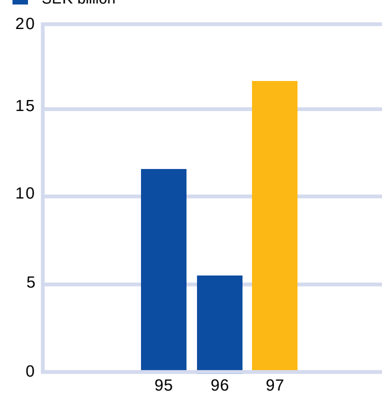
Change in net financial assets

SEK billion

Cash flow from operations	16.6
Capital expenditures	(9.8)
Investments in leasing assets	(0.5)
Disposals	1.0
Acquired companies	(2.3)
Dividend	(2.0)
Other including changes in exchange rates	(0.8)
Change after normal dividend	2.2
Sale of shares, net	10.7
Redemption of shares	(5.8)
Total change	7.1

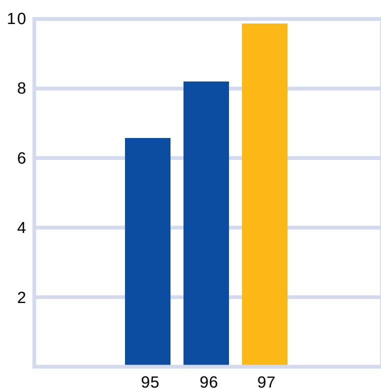
Cash flow from operations, excluding sales financing

SEK billion



Condensed cash flow analyses, billion	Volvo Group excl sales financing			Sales financing			Total Volvo Group		
	1995	1996	**1997**	1995	1996	**1997**	1995	1996	**1997**
Net income	9.2	12.5	**10.5**	0.1	0.0	**(0.1)**	9.3	12.5	**10.4**
Depreciation and other noncash-related items	6.5	4.2	**5.2**	0.7	0.9	**2.0**	7.2	5.1	**7.2**
Gain on sales of securities and subsidiaries	(4.2)	(8.2)	**(4.1)**	–	–	–	(4.2)	(8.2)	**(4.1)**
Increase (decrease) in current operating liabilities, assets and in deferred tax liabilities	0.1	(2.9)	**5.0**	(1.3)	(3.0)	**(7.0)**	(1.2)	(5.9)	**(2.0)**
Cash flow from year's operations	11.6	5.6	**16.6**	(0.5)	(2.1)	**(5.1)**	11.1	3.5	**11.5**
Investments in non-current assets	(6.5)	(8.1)	**(9.8)**	–	(0.1)	**(0.1)**	(6.5)	(8.2)	**(9.9)**
Investments in leasing assets	(0.9)	(0.8)	**(0.5)**	(1.7)	(3.1)	**(9.3)**	(2.6)	(3.9)	**(9.8)**
Residual value of sold and scrapped assets	1.2	1.8	**1.0**	0.1	0.2	**0.9**	1.3	2.0	**1.9**
Investments in shares and participations, net	2.0	14.1	**10.7**	–	–	**–**	2.0	14.1	**10.7**
Long-term receivables, net	(1.0)	(0.8)	**1.2**	(1.0)	(2.0)	**(7.2)**	(2.0)	(2.8)	**(6.0)**
Acquisitions and sales of companies	(4.4)	(0.9)	**(1.3)**	–	–	–	(4.4)	(0.9)	**(1.3)**
Remaining after net investments	2.0	10.9	**17.9**	(3.1)	(7.1)	**(20.8)**	(1.1)	3.8	**(2.9)**
Increase in loans							2.2	3.3	**4.4**
Dividends paid to AB Volvo shareholders							(1.5)	(1.9)	**(2.0)**
Redemption of shares							–	–	**(5.8)**
Settlement of loans to Renault							–	(1.5)	**–**
Other							0.0	0.0	**0.0**
Increase (decrease) in liquid funds excluding translation differences							(0.4)	3.7	**(6.3)**
Translation differences on liquid funds							(0.7)	(0.3)	**0.3**
Increase (decrease) in liquid funds							(1.1)	3.4	**(6.0)**

Capital expenditures, excluding sales financing
SEK billion



Capital expenditures approved but not yet implemented at December 31, 1997
SEK billion

Cars	13,9
Trucks	4,9
Buses	0,2
Construction Equipment	0,0
Marine and industrial engines	0,0
Aero	0,7
Other companies and undistributed capital expenditures	0,3
Total	20,0

Financing and dividend

During the year Volvo Group Finance raised new long-term loans totaling SEK 4.7 billion, including bond loans in the amount of SEK 2.4 billion with maturities ranging from four to twelve years, and other loans totaling SEK 2.3 billion with maturities of two to ten years.

Amortization of loans in 1998, shown as short-term borrowing, reduced long-term borrowing by SEK 4.2 billion. In addition to regular dividends totaling SEK 2.0 billion pertaining to operations in 1996, SEK 5.8 billion was paid to Volvo shareholders to redeem their shares. In connection with the redemption, Volvo effected a special issue of new shares that increased liquid funds by SEK 0.1 billion.

Change in liquid funds

The Group's liquid funds decreased by SEK 6.0 billion during 1997 and amounted at year-end to SEK 20.6 billion (26.7) equal to 11% (17) of net sales.

Intensified research and development

Technical development has the highest priority within Volvo and the Group is working intensively to take advantage of all opportunities for synergies between business areas. Technical areas selected include energy-efficient drive systems, alternative drive lines and fuels, electronic systems and new materials.

New ways of working have been created for the development of passenger cars. Cross-functional groups of designers each develop their portions of a number of models based on the same "platform," as well as the related production process. Global development of heavy trucks is taking place in Trucks based on a similar platform concept.

Buses is assuming ever-greater responsibility for the development of complete products by integrating manufacturers of bodies and producers of complete buses. Volvo Penta has broadened its operations by designing diesel/electric drive lines for ships and trains. The "Ecoship," with propulsion of this type, was introduced during 1997. Programs under way within the Aero business area involve the use of information technology to control manufacturing and maintenance processes, to regulate jet engines by means of directional nozzles in order to increase turning performance, and to develop small gas turbines for propulsion and electric power production.

Energy-efficient drive systems and lower emissions

Volvo has undertaken to reduce the fuel consumption of its passenger cars that are sold within the European Union by 25% during the 1990-2005 period. This would mean an average consumption of 6.8 liters per 100 km in the year 2005. The greater part of the fuel reduction is to be achieved through engine-technology measures such as reduced friction and the introduction of technology for direct fuel injection. Beginning in 1998, Volvo will gradually introduce cars with direct fuel injection. This technology is expected to reduce fuel consumption by between 10% and 15%.

Products based on diesel engines for heavy vehicles account for approximately 45% of the Volvo Group's net sales. In consultation with the affected business areas, diesel engines are being developed to meet the varying demands of the different application areas. Volvo is also working to further increase fuel efficiency and to reduce emissions from heavy vehicles, through improved technology and more effective control of the combustion process, among other measures. New, stricter emission standards which are expected to become effective for trucks and buses in 2004 result in a technological generation shift for heavy diesel engines. Development of the new generation of diesel engines is fully under way and the new engines will be introduced successively, beginning in 2001.

The development of vehicles with alternative drive lines (hybrid vehicles) and fuels will be intensified as a step toward reducing fuel consumption and exhaust emissions. Sales of the Volvo S70 and V70 Bi-Fuel models, which can be operated with both gasoline and methane gas, and meet the California ULEV requirements, amounted to 350 units in 1997. In addition to Sweden, these cars are being sold in a number of markets in Europe and in Japan. Volvo's buses that are fueled by natural gas are being sold in a growing number of markets, and trucks fueled by natural gas are being field-tested by customers. A Volvo FL6 electric hybrid truck with a diesel engine and an electric engine, designed for use in distribution systems in densely populated areas, was presented in 1997.

Electronic systems

Volvo is also allocating substantial resources to develop cars' electric systems and the use of information technology, including navigation systems such as "Dynafleet" and "Dynaguide." Volvo is sponsoring long-term projects in this field, including a project known as "Things That Think" at Massachusetts Institute of Technology. Among other things, the project involves "smart cars" that help drivers avoid making mistakes.

Lower fuel consumption is a priority environmental issue in Volvo

Lower fuel consumption in new vehicles and engines is a priority issue in research and development for Volvo. In December 1997, Volvo established the objective that each new concept vehicle should be more fuel efficient than the product it is replacing. In the case of passenger cars sold within the EU, Volvo's objective is to reduce fuel consumption by 25% by the year 2005, compared with 1990.

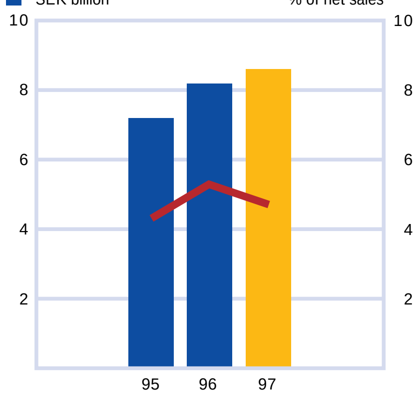
Volvo's goal is to integrate environmental efforts into daily operations at all levels and the local operative responsibility is delegated to local supervisors. Environmental control systems based on international standards and recommendations are gradually being introduced in Volvo. The purpose is to reduce environmental risks, achieve cost savings, and to clarify objectives and the manner in which they are being met.

Environmental audits provide a solid foundation when environmental control systems are being introduced. Eighty-two environmental audits, including 25 in 1997, have been conducted since 1989. During 1998, environmental audits of an additional 18 facilities are planned. There is no reason to believe that these audits will reveal that the facilities present any significant environmental risk.

Volvo's goal is also to recycle 85% of the vehicles' weight by 2002 and 95% by 2015. This will be accomplished by designing for recycling and establishing a network for automotive recycling in various markets.

Environmental data pertaining to the production process is presented in tabular form on page 87

Research and development expenses




Information about Volvo's environmental efforts are presented in Volvo's environmental report.

New materials

Research and development involving new materials and new technologies is under way in all business areas. New materials enable a reduction of the weight, which results in lower fuel consumption. One area being studied is hydro-forming, in which aluminum or steel chassis parts can be formed by means of water pressure. Use of this method makes it possible to replace a number of parts in the product with fewer new ones, which is expected to yield financial benefits.

Safety

Safety is one of Volvo's core values and research and development programs are under way continuously in this field. During 1997 Volvo Cars introduced two new safety systems: the Inflatable Curtain, IC and the Whiplash Seat, Whips.

The IC is an airbag that is inflated along the interior roof of a car and thereby reduces the risk of head injuries to passengers in the event of a side collision. In the Whips system, front seats move in a predetermined pattern in the event of a rear-end collision, substantially reducing the risk that passengers will suffer so-called whiplash injuries.

Environmental performance Volvo cars	Fuel consumption l/100 km	Carbon monoxide*	Hydro carbon Nitrogen oxides*	Nitrogen oxides*	Hydro carbons*
S40 1,8	8.6	0.73	0.22		
V70 Bi-Fuel	11.1	0.14/0.82	0.19/0.23		
S70 2,5 GLT	10.5	0.78	0.14		
Statutory requirements					
EU 96			0.5		
TLEV (Transitional Low Emission Vehicle)		2.1		0.25	0.078
LEV (Low Emission Vehicle)		2.1		0.125	0.047
ULEV (Ultra Low Emission Vehicle)		1.06		0.125	0.025

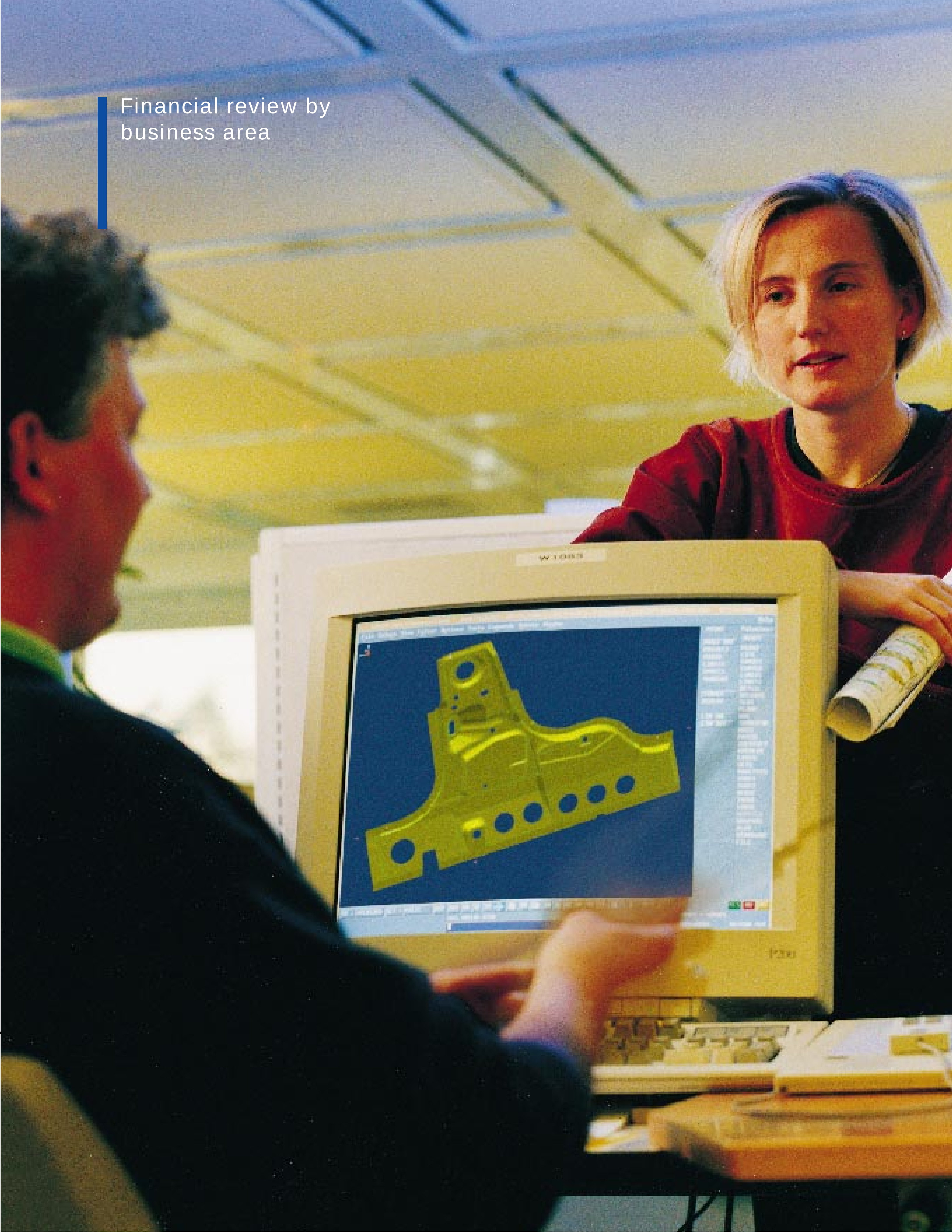
TLEV, LEV and ULEV = applicable emission standards in California.
* g/km

Environmental performance Volvo trucks and buses: g/kWh	Carbon monoxide	Nitrogen oxides	Hydro-carbons	Particulate matter
Modern diesel engines[1]	0.7	6.3	0.4	0.11
Statutory requirements				
EU96 (Euro 2)	4	7	1.1	0.15
EU01 (Euro 3)[2]	2.1	5	0.66	0.1
US94 g/bhph[3]	15.5	5	1.3	0.1
US98 g/bhph	15.5	4	1.3	0.1

1 Values representative for Volvo Trucks' engine program using diesel fuel in accordance with Swedish Environmental Class 1. All values are EU certified.
2 EU Commission proposal.
3 In North America the measurement is g/bhph (gram per braked horsepower hour) 1 g/kWh= 0.735 g/bhp.

In a more difficult environment with fewer and stronger competitors and increased customer demands, high operating efficiency is essential for survival. Volvo's objective is to increase productivity by at least 5% annually. Modular concepts and parallel processes characterize operations in the areas of product and process development to an ever-higher degree. The department responsible for concept development in Volvo Cars is working with new advanced technologies that increase the efficiency of Group products.

Financial review by business area



SEK million	1995	1996	**1997**
Net sales	83,340	83,589	**96,453**
Operating income	1,089	1,498	**4,510**
Operating margin, %	1.3	1.8	**4.7**

Number of cars invoiced

Number	1995	1996	**1997**
Western Europe	219,340	219,980	**234,050**
Eastern Europe	5,820	4,910	**5,910**
North America	99,230	95,660	**101,980**
South America	2,840	950	**2,280**
Asia	42,130	40,280	**36,170**
Other	5,280	6,470	**6,050**
Total	374,640	368,250	**386,440**

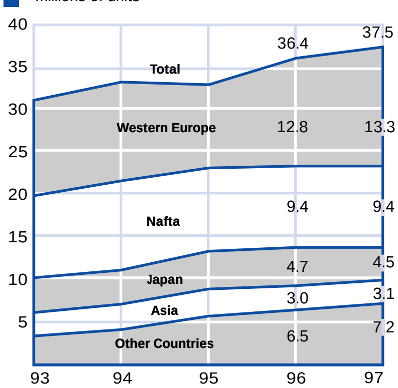
Cars' largest markets

	Volvo car registrations		Market share, %	
	1996	**1997**	1996	**1997**
USA[1]	87,600	**90,000**	1.0	**1.1**
Sweden	43,700	**51,400**	23.8	**22.8**
Great Britain	33,700	**40,700**	1.7	**1.9**
Germany	31,700	**36,900**	0.9	**1.0**
Italy	21,900	**25,300**	1.2	**1.0**
Japan	24,000	**19,900**	0.7	**0.6**

1 Signed orders.

A complete 11-year summary is shown on pages 76–87.

Market trend cars
Registrations of new passenger cars, millions of units



The total market for cars rose in 1997 to 37.5 million cars (36.4). The markets in USA and Canada decreased 2%, while the European market rose 5%. The predicted growth markets in Southeast Asia were hit by a financial recession and car sales declined in the latter part of the year, notably in Thailand, Taiwan and Malaysia.

Cars

The passenger car industry is one of the world's most competitive businesses. Increased efficiency and the establishment of new factories increased the total capacity of manufacturers in 1997. The excess capacity varies greatly from one segment and price class to another. A strong brand name and a well-conceived product mix will therefore become increasingly important.

Volvo consolidated its market positions with a broader product program

With a broadened and market-focused product program, Cars was able to consolidate and strengthen its positions during 1997, notably in Europe and North America. In the large-car segment – which includes the Volvo S70, V70, C70, 940, S90 and V90 – Volvo's share of the market in Europe was 8.2% (7.8); in North America, 10.9% (9.5); and in Japan, 2.1% (2.5). The Volvo S40 and V40, which are in the medium-size class, had 3.6% (3.1) of the market in Europe. The most important competitors in the world market are Audi, BMW and Mercedes.

Two platforms will constitute the base for future product programs

New products and a better product mix in 1997 gave an indication of how Cars will be able to reach new categories of customers. In the future two platforms will constitute the base for Volvo's product program offering more model versions, differentiated products and shorter product life cycles. The first car based on the new, large platform is being introduced in 1998 and will be the first concrete expression of the new platform concept.

Increased sales in Europe and North America

A total of 386,440 (368,250) Volvo passenger cars, nearly 5% more than in 1996, were invoiced in 1997. The medium-size cars Volvo S40 and V40 were well received in Europe and were also introduced in Japan, South Africa and a number of markets in Southeast Asia. The new turbo version of the Volvo S40 and V40 had a major impact on the market during the second half of the year. The Volvo S70 and V70, which replace the Volvo 850, helped to strengthen Cars´ sales in the North American market.

Volvo's sales and market shares both increased in many countries in Europe. Sales of new cars in Sweden rose following the end of the uncertainty about the taxation of company cars. The number of Volvo passenger cars registered increased 18%, to 51,400 (43,700), while the Group's share of the market declined slightly. Volvo models captured the three top spots in the ranking of car sales in Sweden. The Volvo S70 and V70 ranked first, ahead of the Volvo 940, S90 and V90 in second place. Following a rise in the last quarter of the year, the Volvo S40 and V40 ended up in third place. The number of registrations in Great Britain increased by 21%, to 40,700 (33,700) and Volvo's share of a growing market was higher. The Volvo S40 and V40 accounted for half of the registrations. The rise in Italy was also fully attributable to the Volvo S40 and V40.

For the first time since the end of the 1980s Volvo sold more than 100,000 cars in North America. The Group's market shares rose in both the U.S. and Canada. The four-wheel-drive Volvo V70 AWD and V70 XC estate wagons that

Production of the Volvo C70 Coupé started during the year at AutoNova in Uddevalla. The first cars were delivered in the U.S., Japan and Europe.

were introduced during the year were immediate sales successes. The percentage of estate wagons sold, relative to Volvo's total passenger car sales, thereby increased strikingly in both the U.S. and Canada. Volvo will begin selling the Volvo S40 and V40 on the North American market during 1999.

In Japan, where the consumption tax was increased on April 1, 1997, the number of Volvo cars registered declined by 17%, to 19,900 (24,000). Some recovery in sales was noted at the end of the year.

Strong improvement in earnings

Operating income improved substantially, to SEK 4,510 M (1,498). The increase was attributable to larger volumes, higher margins and a better product mix as a result of the introduction of the new model versions. Operating income was also affected favorably by the positive impact of foreign exchange movements, but this was offset to a degree mainly by higher selling expenses. The operating margin increased to 4.7% (1.8) and the return on operating capital exceeded 25% (12).

Changeover for new passenger car models in the Torslanda plant and increased capacity in Born

Volvo produced 387,400 (375,800) passenger cars during the year. Utilization of capacity was high in both Torslanda (Sweden) and Ghent (Belgium). The changeover to handle production of Volvo's future large sedan in the Torslanda plant was begun parallel with the phasing out of the Volvo 940, S90 and V90. A strong trend of sales for the Volvo 940 resulted in maximum utilization of capacity up until February 1998, when production of the model ceased.

Production of the Volvo S40 and V40 in the NedCar plant in Born, Holland was increased to 115,000 cars during the year. To take care of continuing strong order booking, capacity will be further expanded to 140,000 cars in 1998. During 1998, the Volvo S40 and V40 will also begin to be assembled in Volvo´s plants in Thailand and Malaysia based on assembly bits delivered from Born. Volvo has decided to begin assembly of the Volvo S40 and V40 in Gaborone, Botswana, with

No cars are built for the European market unless a customer order has been received, thereby reducing inventory costs. This system is also being applied to a limited degree in the Japanese market.

The Volvo S40 was the only medium-class car to win four out of four possible stars for very good performance in collision tests conducted by the European New Cars Assessment Programme Partnership (Euro-NCAP). Later in the year the Volvo S40 also received the English Prince Michael Road Safety Award for the most important contribution to automotive safety in 1997.

a planned production start in early 1999. The cars will be sold in South Africa and neighboring markets.

AutoNova in Uddevalla, Sweden, which began production of the Volvo C70 Coupé during the year, did not reach its planned production volume of 7,000 cars. Strict demands on quality in a new production process, coupled with late deliveries of components by suppliers, caused delays. The rate of production gradually increased toward the end of the year and plans call for 18,000 Volvo C70 cars to be produced in 1998.

Lower product costs

Costs were reduced through higher productivity and lower purchasing prices. The establishment of suppliers close to the Torslanda plant continued and is expected to be completed by the middle of 1998. Transport time and warehousing costs in the plant are being minimized while assembly times are being shortened since a number of components are being delivered as entire modules. Inventory costs also decline in pace with customer-order-driven production being implemented to an ever increasing extent. The program of concentrating dealer operations in fewer but larger units is continuing in Europe and the U.S.

Broadened product line

During the year, Volvo S40 and V40 models with two turbo engines were introduced: a T4 1.9-liter, 200-hp version and a light-pressure 2.0T, 160-hp turbo engine. The Volvo S70 R and V70 R, as well as the four-wheel-drive Volvo V70 R AWD were introduced in May 1997. The Volvo V70 XC (Cross Country), an enhanced version of the Volvo V70 AWD, was presented in September.

Investments for new car models

Capital expenditures for property, plant and equipment increased to SEK 5,544 M (4,425). The greater part pertained to changeover costs in the Torslanda plant and investments in type-specific tools for future car models.

Closer cooperation with Mitsubishi

During the year Cars concluded an agreement with Mitsubishi covering the purchase of Mitsubishi GDI engines for the Volvo S40 and V40. “GDI” is the abbreviation for Gasoline Direct Injection, an engine concept that is expected to reduce fuel consumption in the Volvo S40 and V40 by 10% to 15%. The agreement pertains to the purchase of 15,000 engines annually and sales of the first Volvo cars with the new engine – designated Volvo S40 1.8i and V40 1.8i – will begin during 1998.

Trucks

Economic trends throughout the world that in 1997 were characterized by low inflation and low interest rates favored investments in trucks. This helped to keep global demand for heavy trucks at the same high level as a year earlier.

The truck industry continued to be marked by structural changes in which mergers and partnerships of various types were formed. In addition, new players in the form of finance and leasing companies established themselves as agents between producers and end-customers.

With the aim of achieving long-term customer relations, sales financing is becoming increasingly more important. One third of worldwide truck sales are financed in this manner.

During 1997 Volvo Trucks Finance North America carried out a financing agreement covering 350 trucks to American Freightways.

Volvo was the third-largest manufacturer of heavy trucks in the world

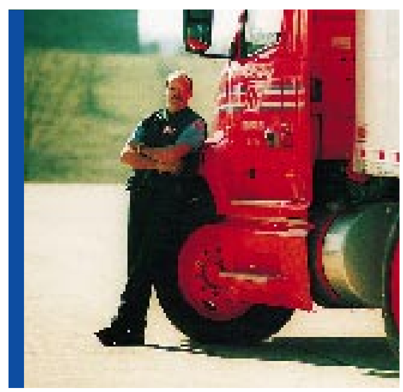
The number of medium-heavy and heavy trucks delivered by Volvo in 1997 increased by 8%, to 68,980 (63,680). In Europe, where Volvo had approximately 55% of its production, its share of the market for heavy trucks declined to 15.3% (16.7). Its share of the market for Class 8 trucks in the United States rose to 9.7% (9.1), while its market share in the heavy-class segment in Brazil declined to 23.3% (24.3). As in the preceeding year, Volvo was the third-largest manufacturer of heavy trucks in the world.

Implementation of a global product concept

The modular concept, which involves maximizing the number of common components, is currently being developed into a global concept with three model versions. The number of articles used in production has been reduced from approximately 40,000 to about 35,000 today, and is to be further reduced to 25,000 not later than the end of the year 2000. With the modular concept that is being developed and controlled centrally, higher productivity and benefits of scale are being achieved throughout Volvo Trucks' commercial and productivity systems while the flexibility to meet various customer demands is retained.

Cooperation with Mitsubishi in the light- and medium-heavy truck segments

Volvo Trucks' business concept will be further broadened through active involvement in the light- and medium-heavy truck segments. In the light-truck class (3.5 to 7.4 tons total weight), Volvo will cooperate with Mitsubishi to distribute the Mitsubishi Canter model, a truck designed for lighter distribution transports in cities.



SEK million	1995	1996	**1997**
Net sales	51,027	44,275	**50,840**
Operating income	5,073	878	**1,812**
Operating margin, %	9.9	2.0	**3.6**

Number of trucks invoiced

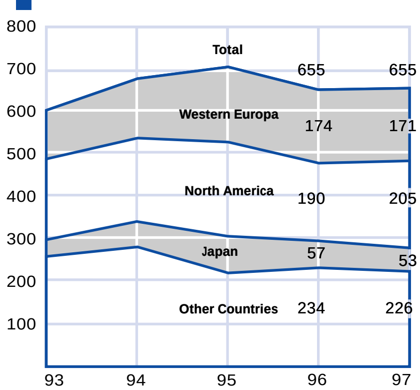
Number	1995	1996	**1997**
Western Europe	32,330	32,310	**31,030**
Eastern Europe	1,830	2,660	**3,430**
North America	27,090	16,850	**20,900**
South America	7,800	4,980	**6,970**
Asia	5,270	4,850	**4,710**
Other countries	2,170	2,030	**1,940**
Total	76,490	63,680	**68,980**

Trucks' largest markets (trucks ≥ 16 tons)

	Volvo trucks registered		Market share, %	
	1996	**1997**	1996	**1997**
USA	15,460	**17,290**	9.1	**9.7**
Brazil	3,570	**4,510**	24.3	**23.3**
Great Britain	5,780	**4,420**	19.2	**16.7**
France	4,770	**4,130**	13.7	**13.5**
Germany	3,270	**3,090**	8.5	**7.5**

A complete 11-year summary is shown on pages 76–87.

Market trends, trucks ≥16 tons
Registrations of new trucks, thousands of units



The total market for Class 8 trucks in North America continued to grow, amounting to approximately 205,000 vehicles, while the total market in Western Europe declined slightly, to 171,000 units. Demand rose in South America, and also in Eastern Europe. The financial turbulence and currency problems that characterized Southeast Asia resulted in lower sales of trucks in this region.

In the medium-heavy segment (7,5 to 15,9 tons total weight), Volvo is retaining its strategy of having a product program under the Volvo name, with key components produced by Volvo, while cooperation with Mitsubishi in this segment will lead to a common model platform in the future.

Much higher volume of sales and deliveries in North America

Volvo's total deliveries of trucks in Europe in 1997 amounted to 34,460 (34,970) units, a decrease of 1%. Deliveries in Western Europe declined by 4%, while shipments to Eastern Europe rose 29%. During the year the European market was characterized by severe competition.

Deliveries in North America rose 24%, to 20,900 (16,850) units, due in particular to favorable market acceptance of the new Volvo VN and 770 models. Deliveries in South America were up 40%, to 6,970 units, in a sharply increased total market that leveled off in the fourth quarter.

Volvo's deliveries in Asia and other markets declined by a total of 3%, to 6,650 trucks.

Lower margins on European operations affected operating income

Trucks' operating income amounted to SEK 1,812 M (878). The trend of results in North America during the year was positive, with a gradually declining loss that was converted to a profit in the fourth quarter. The profitability of the European business was acceptable but earnings were affected by intense competition and depressed margins. The results of the South American operations were positive. Trucks' operating margin was 3.6% (2.0) and its return on operating capital was 18% (10).

High utilization of production capacity

Trucks produced 69,720 (62,750) medium-heavy and heavy trucks in 1997. Utilization of capacity in the assembly plants and in production of components during the year was high in Europe as well as in North and South America.

Growth of the North American operations

Trucks' operations in North America in 1997 were characterized by stable growth and good market acceptance of the Volvo VN models. Comprehensive measures were taken to improve profitability. Notable measures included a change in management structure and the concentration of all production in the assembly plant in New River Valley. Other programs were focused on the dealer network and on strengthening sales-financing companies and customer relations.

Volvo enters the Premium Sleeper segment

In 1997, as a further development of the Volvo VN, the Group introduced the Volvo 770 for the North American market. The 770 model has a more spacious cab that is fully equipped with a microwave oven and refrigerator/freezer, among other amenities, to create the best possible environment for the operator.

With the introduction of the Volvo 770, Volvo is taking a major step into the "Premium Sleeper" segment in North America. Premium Sleepers are the largest trucks that are specially designed for so-called owner-operators. The segment has been one of the fastest-growing in North America in recent years.

During the year Volvo Trucks introduced the Volvo FL6 Hybrid, a combination of a conventional truck and an electrical vehicle, which is currently being tested in commercial operations.

Substantial investments in the industrial system and establishment of operations in growth markets

Trucks' investments in property, plant and equipment in 1997 amounted to SEK 2,439 M (2,589). Continuing large investments in the industrial system included an increase in production capacity for the D12 engine in Skövde, and for gearboxes and rear axles in Köping and Lindesberg, as well as the construction of a cab plant in Curitiba, Brazil.

The establishment of an assembly plant was completed in Pakistan and construction of a similar plant was begun in India. An assembly plant for Volvo trucks was established in Tunisia in cooperation with local interests.

Investments were also made in the assembly plant and development laboratories in Göteborg. As in the preceding year, investments were made in the distribution network in Europe in the form of new dealers and service stations in Eastern Europe and the rationalization of the existing dealer network, among other measures.

In October 1997, Trucks inaugurated its new cab plant in Curitiba, Brazil. The investment amounts to SEK 350 M and the plant will produce cabs based on the FH technology. The first locally produced Volvo FH12 was assembled in Curitiba, in March 1998.

Cooperation in China

In January 1998 the Chinese Government approved the project description that China's largest truck manufacturer, China National Heavy Truck Corporation, had prepared with respect to establishing a joint-venture company with Volvo Trucks.

The joint-venture company will develop, produce and distribute heavy trucks. The industrial structure will be adapted for a capacity of 20,000 units.

Buses

The bus industry was characterized by continuing strong competition in 1997. The total Western European market for buses with a total weight exceeding 12 tons continued to decline, compared with the preceding year. Demands for environmentally compatible and technically efficient systems for urban bus traffic continued to increase.

Despite the severe competition, Volvo's bus operations were successful in 1997, with a sharp increase in volume of business outside Europe that strengthened Volvo Buses position in the world market. Operations posted sales of SEK 10,582 M (8,527), corresponding to an increase of 24%.

There was a significant change in the scope of operations. The portion of complete buses manufactured and delivered increased strikingly. Strategic acquisitions during the year will further strengthen this trend in the future.

Strategic acquisitions

Carrus Oy in Finland, the largest manufacturer of bus bodies in the Nordic region is a wholly owned subsidiary of Volvo Bus Corporation as of January 1998. At year-end 1997 an agreement to acquire Nova BUS, the largest producer of city buses in the United States and Canada was concluded. Nova BUS and

SEK million	1995	1996	**1997**
Net sales	7,695	8,527	**10,582**
Operating income	405	331	**550**
Operating margin, %	5.3	3.9	**5.2**

Number of buses invoiced

Number	1995	1996	**1997**
Western Europe	3,510	3,770	**4,030**
Eastern Europe	60	70	**160**
North America	340	750	**1,110**
South America	1,510	1,460	**1,350**
Asia	920	1,060	**1,410**
Other	490	300	**670**
Total	6,830	7,410	**8,730**

Buses' largest markets

	Registrations of Volvo buses		Market share, %	
	1996	**1997**	1996	**1997**
Great Britain	1,500	**1,450**	63.8	**62.7**
Brazil[1]	1,170	**920**	8.5	**7.5**
USA	540	**650**	n.a.	n.a.
Sweden	420	**550**	48.7	**58.4**
Hong Kong[1]	380	**540**	n.a.	n.a.

1 Delivery from factory.

A complete 11-year summary is shown on pages 76–87.

Prévost, acquired in 1995, create a strong base for continuing growth and expansion in North America.

Sharp growth in volume

Volvo invoiced 8,730 buses and bus chassis in 1997, an increase of 18%. Strong sales increases were achieved in many markets, including China, the United States and Canada, Morocco, Spain, Tunisia and the Nordic Region. The important Brazilian market was weak in 1997. Some loss of volume in Brazil was fully offset by sales in such other South American countries as Chile and Venezuela. Volvo's share of the global market for heavy buses increased and the company strengthened its position as a leading make in Western Europe with a 20% (19) share of the market.

Significantly higher operating income

Operating income increased to SEK 550 M (331). The increase was achieved as a result of larger volumes of business and favorable foreign exchange rates. The operating margin increased to 5.2% (3.9) and the return on operating capital rose to 17% (12).

Production adapted to regional interests

The number of chassis produced increased by 19%, to 8,050 in 1997. Chassis are produced in Sweden, England and Brazil. In Canada, Prévost produced 880 tourist buses and mobile homes, 26% more than a year earlier. Prévost is the second largest company in the tourist bus segment in North America.

Bus bodies are manufactured locally to ensure maximum adaptation to regional interests. Volvo's own production of bus bodies in Sweden, Denmark, Poland, Germany, Austria and China amounted to 1,170 (1,020) units during the year.

Volvo's two producers of bus bodies, Carrus and Säffle, form the base for strategic international market development. Carrus manufactures city, intercity and tourist buses made entirely of high-grade stainless steel. Säffle Karosseri produces bodies made of light metal. These bodies are manufactured in Denmark and China, in addition to Sweden. Carrus produces bodies in Finland, Germany, Austria and Poland.

Introduction of the B7R bus chassis

Volvo's new B7R bus chassis was introduced internationally during the spring of 1997. There is a broad area of applications for B7R chassis in intercity and tourist buses in demanding environments. At year-end Buses received an order for 300 tourist buses based on the B7R chassis, with the buyer having an option to purchase an additional 300 units. The buyer is Saptco in Saudi Arabia and the order opens a new market for Volvo's bus operations.

Production in Russia

Volvo concluded an agreement to start production of buses with Säffle chassis in Omsk, Russia early in 1998. The plant is initially being dimensioned to produce 250 buses per year and is expected to be placed in service in May 1998.

Construction equipment

SEK million	1995	1996	**1997**
Net sales	6,916	12,804	**16,758**
Operating income	717	1,162	**1,444**
Operating margin, %	12.3	9.1	**8.6**

Net sales by market area

SEK million	1995	1996	**1997**
Western Europe	4,199	7,163	**7,836**
Eastern Europe	112	93	**263**
North America	1,403	3,385	**5,785**
South America	556	598	**991**
Asia	339	937	**1,036**
Other	307	628	**847**
Total	6,916	12,804	**16,758**

1 From July 1995. Net sales for full-year 1995 was 13,684 and operating income was 1,679.

A complete 11-year summary is shown on pages 76–87.

The market for construction equipment showed continued growth in 1997 in North America and beginning of a recovery in Europe. Demand in markets in East Asia and South America fell sharply during the latter part of the year.

A continuing trend toward concentration was noted within the industry, with small companies – often specialized in a single product – being acquired by large companies as part of the latters' efforts to broaden their product programs and market coverage.

Construction Equipment maintained its position as a leading manufacturer and continued, as planned, to broaden and increase its operations organically and through acquisitions.

Acquisitions – a part of the growth strategy

Champion Road Machinery Ltd., a Canadian company, was acquired in 1997. The company is one of the world's leading manufacturers of graders, a type of equipment that supplements Volvo's construction equipment program and which is of major importance in serving key customer segments and priority growth markets.

Groupe Pel-Job, the manufacturer of mini-excavators that was acquired at the end of 1995, was merged with Zettelmeyer during the year to form a special operating sector for compact and service equipment. Industrial synergies are thereby being utilized and Construction Equipment is increasingly able to focus on this segment of the market. In February 1998 a letter of intent was signed with Samsung Heavy Industries Co. Ltd whereby Volvo Construction Equipment intends to acquire Samsung´s construction equipment business.

The new L 220D loader is designed mainly for rock and pile loading and is characterized by high productivity combined with low noise and exhaust emissions.

Increased importance of the North American market

Net sales increased by SEK 3,954 M, to SEK 16,758 M, of which SEK 1,332 M was attributable to Champion Road Machinery, which was acquired during the year.

As a result of Champion's contribution and strong growth in the market, sales in North America, as a percentage of total sales, increased to 35% (26). Europe continued to be the largest single market area. But the percentage of sales there declined from 57% to 47% as a combined consequence of lower market growth in Europe and higher expansion outside Europe.

The percentage of sales to customers in the priority growth markets in East Asia and South America increased, but from a very low level. As part of the program in new markets, a local representative office was established in Russia and a sales office in Poland, during the year.

A new assembly plant for articulated haulers was inaugurated in Braås, Sweden, during the year. This completed a substantial investment in a world-leading production unit in Sweden. The total investment in the plant, amounts to SEK 272 M.

Satisfactory earnings

Operating income of SEK 1,444 M (1,162) was affected positively by the increased volume of business and favorable product and market mixes. Higher costs for product development and nonrecurring expenses were factors resulting in a lower operating margin. Nonrecurring expenses pertained largely to the restructuring of excavator operations and structural costs in Brazil in connection with the establishment of a regional organization for South America. The operating margin was 8.6% (9.1) and its return on operating capital was 23% (23).

Broader scope of product development

The development and gradual introduction of the new generation of Volvo's excavators continued during the year. New mini-excavators were launched in the market. Operator comfort and serviceability are prominent features in the new series, in which two basic models in the 1- to 2-ton class – with an effective system of versions – cover a broad range of applications.

Development of a completely new-size machine was completed in the loader segment.

Along with the development of equipment, various forms of service that are increasingly being demanded in connection with customers' purchases and use of construction equipment are also being developed. Examples of such "software" products include various forms of financing and new service-support programs.

Continuing development of a global industrial structure

Investments in property, plant and equipment amounted to SEK 484 M (286) and pertained mainly to improvements in production that are designed to increase productivity, improve quality and reduce lead times. A completely new assembly plant for articulated haulers was placed in service in Braås and a substantial investment program to prepare the plant for new loader models was implemented in Arvika. Expansion of the plant in Asheville, North Carolina, in the U.S. that supplies the North American market continued during the year.

Preparations are being made for a major investment program in the factory in Pederneiras, Brazil that will be developed into the company's industrial hub in South America.

SEK million	1995	1996	**1997**
Net sales	3,878	3,885	**4,466**
Operating income	212	(27)	**181**
Operating margin, %	5.5	(0.7)	**4.1**

Net sales by market area

SEK million	1995	1996	**1997**
Western Europe	2,065	2,048	**2,219**
Eastern Europe	1	2	**34**
North America	1,139	1,142	**1,332**
South America	99	109	**136**
Asia	458	486	**643**
Other	116	98	**102**
Total	3,878	3,885	**4,466**

A complete 11-year summary is shown on pages 76–87.

Marine and industrial engines

The world market for marine engines was largely unchanged in 1997. Demand for recreational craft in Europe was somewhat higher, while the trend in North America was weaker than in 1996. The total market for industrial engines in Volvo Penta's power-output segments continued to grow. Volvo Penta strengthened its market positions for marine engines during the year, notably in North America.

Industrial engines are used for many different purposes: irrigation plants or, as in this case, in generator plants for ski-lifts. Sales of industrial engines increased in 1997 as a result of strong demand for generator equipment. Industrial and marine engines for commercial applications are the segments in which Volvo Penta will continue to grow.

Increased sales in Europe

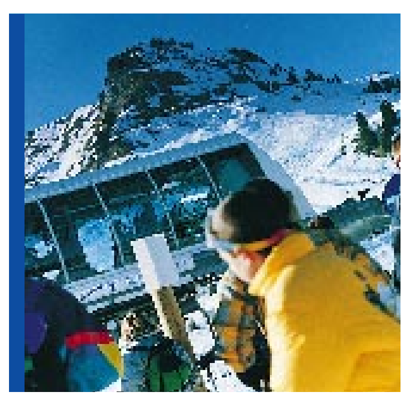
Volvo Penta's net sales increased from SEK 3,885 M in 1996 to SEK 4,466 M in 1997. Sales of marine engines for both recreational craft and commercial vessels were especially strong in Europe. Sales of industrial engines rose as a result of continuing strong demand for engines used in generator sets. Substantial deliveries of diesel engines were made to Saudi Arabia, for use in pumping equipment in irrigation installations.

Significantly improved operating results

As a result of the increased sales, the positive effects of foreign exchange movements and a more efficient sales organization, the operating loss of SEK 27 M in 1996 was converted to operating income of SEK 181 M in 1997. The operating margin developed positively and amounted to 4.1%, compared with a negative margin in 1996. The return on operating capital was 14% (negative return in 1996).

Several new marine engines

During the year Volvo Penta introduced the KAD32, KAD43 and KAD44 EDC (Electronic Diesel Control) diesel engines with power ranging from 170 to 260 hp. A compact 7-liter engine, the 430-hp TAMD73 EDC, was also presented. The first integrated water jet system, the initial result of Volvo Penta's joint venture with Kamewa, attracted great interest when it was introduced in Amsterdam. Volvo Penta can now offer the market five different integrated water jet systems for diesel engines in the range from 230 to 800 hp. The systems are used primarily in rescue and patrol boats that require high maneuverability. Ecoship 1997, a new concept in the development of ships that is designed to minimize the impact on the environment and improve transport economy, was presented with Volvo Penta as the principal partner in association with specialized Swedish companies.



Investments in marketing

New marketing companies were established in the Netherlands, Denmark and Korea. These investments are an important part of Volvo Penta's customer-oriented strategy, which is to achieve shorter lead times and improved service to customers.

Cooperation agreement

During 1997 Volvo Penta concluded an agreement with Mitsubishi Heavy Industries whereby Volvo is taking over the distribution and service in Europe of Mitsubishi's 800-hp to 4500-hp engines for marine and industrial use. The agreement, which affects the structures of Volvo Penta's and Mitsubishi's dealer networks in Europe is also creating opportunities to expand the cooperation to cover other regions of the world.

Volvo Penta also formed a joint-venture company in China, the Wuxi Da-Hao Power Company, in cooperation with the Wuxi Sida Industrial Enterprise Company for the assembly and marketing of Volvo Penta diesel engines for genset operations in China.

Aero

SEK million	1995	1996	**1997**
Net sales	3,790	4,143	**7,476**
Operating income	103	153	**472**
Operating margin, %	2.7	3.7	**6.3**

Net sales by market area

SEK million	1995	1996	**1997**
Western Europe	2,590	2,950	**3,682**
Eastern Europe	27	8	**6**
North America	1,100	1,071	**3,066**
South America	4	4	**257**
Asia	66	89	**264**
Other	3	21	**201**
Total	3,790	4,143	**7,476**

A complete 11-year summary is shown on pages 76–87.

Air traffic worldwide increased in 1997 and the upturn had a positive impact on the aircraft engine industry and its after-sale market. Meanwhile, the sector that provides maintenance for aircraft engines is undergoing a rapid restructuring. The major aircraft engine manufacturers have bought a large number of maintenance workshops and have taken a tighter grip on maintenance of their own engines. The economic crisis in Asia during the early part of 1998 may, however, affect the positive trend in the industry.

Sharp increase in sales

Aero's net sales rose to SEK 7,476 M (4,143) in 1997. This includes sales of SEK 2,343 M in The AGES Group, in which the ownership interest increased to 60% in 1997. Operating income improved to SEK 472 M (153). The improvement in earnings was attributable to a 60% increase in sales in the Commercial Aircraft Engines business area and to the acquisition of AGES. Aero's operating margin amounted to 6.3% (3.7) and its return on operating capital, excluding AGES, exceeded 25% (19).

Military Engines: contract covering subseries 3 for the JAS 39 Gripen

Net sales of the Military Aircraft Engine operating sector increased by 20%, due to larger deliveries of engines for the Swedish JAS 39 Gripen military aircraft.

During the year the Swedish Defense Materiel Administration concluded an agreement with the JAS Industrial Group covering subseries 3 of the JAS 39 Gripen. The agreement also contained a program for further development of this aircraft system. For Aero, this means continuing production of the Gripen engine, the RM12, up until the year 2007. The restructuring of military aircraft engine maintenance operations was begun in 1997. It was decided to transfer the operations in Arboga to Trollhättan and thereby bring together all product support for military aircraft engines in a single location. The principal reason for the move was the rapid phasing out of Viggen aircraft by the Swedish Air Force.

Commercial Engines: Increases in volumes of existing engine programs

The sharp increase in income in the Commercial Engines sector was attributable primarily to increases in the volumes of existing engine programs and to a strong trend of the U.S. dollar.

At midyear 1997 Volvo Aero signed a joint-venture agreement with MTU, the German aircraft engine manufacturer. The companies will coordinate technological and product development of low-pressure turbines for commercial aircraft engines. With this agreement Aero is consolidating its strategy of specialization.

Volvo Aero has chosen to specialize in a small number of critical engine components. It is one of the European companies that has made the most progress in specializing in products for commercial aircraft engines.

Engine Services: continuing heavy competition

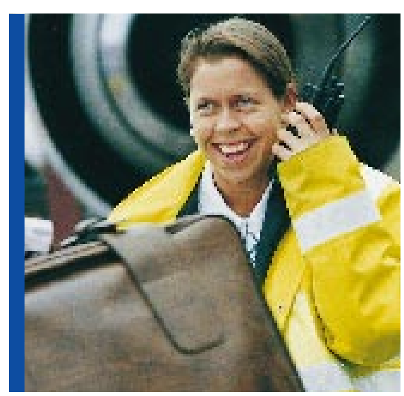
Competition in the commercial aircraft engine maintenance field continued to be severe despite increased demand. Aero's operations in this field underwent the first part of a comprehensive restructuring in 1997, at the same time that lead times for maintenance of large engines were reduced.

Space Propulsion: launch of Ariane 5 rocket

A second test launch of the new European Ariane 5 rocket was conducted in 1997. Aero concluded an agreement covering development of exhaust nozzle extensions and fuel pump drive turbines for the next-generation engine, the Vulcain 2, for the Ariane 5 rocket.

Aviation Support Services: a new business area

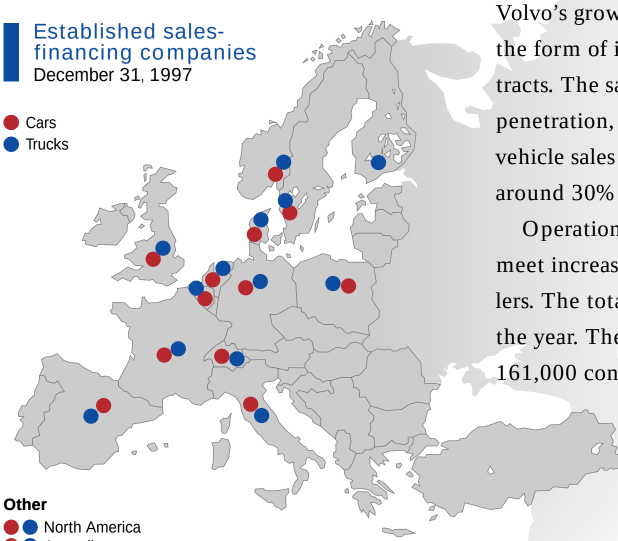
With the acquisition of AGES, a new business area was formed within Aero; it comprises the maintenance and leasing of aircraft engines and aircraft, as well as the sale of spare parts related to these operations. The acquisition of AGES is strategically important for Volvo Aero's commercial Engine Services business. It provides access to a much larger segment of the after-sales market and ensures a supply of certain spare parts that Volvo Aero requires.



Sales financing

Established sales-financing companies
December 31, 1997

● Cars
● Trucks



Other
●● North America
●● Australia
● Brazil
● Peru

Volvo's growing sales-financing operations include a broad range of services in the form of installment and leasing plans as well as service and maintenance contracts. The sales-financing operations are part of each business area. The level of penetration, that is, the proportion of sales-financing contracts in relation to new vehicle sales for cars and trucks varies by market and product but averaged around 30% during 1997.

Operations expanded during 1997 as part of Volvo's growth strategy and to meet increased customer demands and strengthen competitiveness of the dealers. The total assets of the sales-financing companies more than doubled during the year. The credit portfolio amounted to SEK 44.2 billion and comprised 161,000 contracts. By value, dealer financing accounts for 20% and customer funding for 80%. The customer financing portfolio comprised 34% operational leasing, 27% financial leasing and 39% other customers credits. See under headline "Different types of finance contracts."

Funding of the sales-financing operations is coordinated by Volvo's internal bank, Volvo Group Finance.

Expanded sales financing in Europe and North America

Expansion in 1997 occurred mainly in Europe and North America. Car financing in the U.S. and Great Britain, which was formerly carried out in joint ventures, was managed during 1997 in wholly owned subsidiaries. New companies were formed in France (cars) and in Sweden for markets in Eastern Europe (trucks).

In January 1998 Volvo Trucks' acquisition of the truck-leasing business of the British company, NFC Plc, was announced, which will strengthen Volvo Trucks' position in the British market substantially.

Income

Operating income for Volvo's sales financing amounted to SEK 202 M (146). This includes establishment costs in a number of markets. In addition, operating income was charged with the build-up of credit and residual value reserves. *The share of income in associated companies* resulted in a loss of SEK 146 M, which included the losses incurred in the Brazilian company Transbanco Banco de Investimento.

Transbanco, which was 50% owned by Volvo during 1997, carries out sales financing of Volvo trucks and buses in Brazil. The company has experienced significant difficulties, necessitating comprehensive provisions for anticipated losses. Volvo took over the remaining 50% of the shares and management responsibility at the end of 1997 and Transbanco was consolidated as of December 31, 1997 in the Volvo Group balance sheet. The loss related to Volvo's holding in Transbanco amounted to SEK 278 M.

Risk provisions

Excluding Transbanco, the credit portfolio amounted to SEK 43.3 billion at year-end 1997. Specific provisions are made for those customers who cannot fulfill

Different types of finance contracts

Volvo customers are being offered three types of finance contracts. These contracts can be combined with various maintenance contracts and insurance policies to create a "package" that meets a customer's specific needs and the conditions in a particular market.

Installment purchases are common and constitute an important part of Volvo's total credit portfolio.

A distinguishing feature of **financial leasing** is that payments for leasing, except for interest costs, cover the gradually declining market value of the object being leased. The lessee enjoys the financial benefits and risks attributable to the leased object but does not acquire ownership rights to it until the lease has expired.

In **operational leasing**, the leasing period is shorter than the economic life of the leased object. This means that the leasing object has a residual value when the leasing contract has expired. This value is determined at the time the leasing contract is signed. The lessor retains ownership of the leasing object and also assumes the residual-value risk.

Sales-financing companies also offer **inventory financing** for Volvo's dealers.

Income statements, Balance sheets and Cash flow analyses for Volvo's sales financing are shown on pages 14-18.

their contractual obligations, based on individual assessments. In addition, central provisions are made for each sales-financing company for credit and residual value risks. At year-end 1997, these central provisions corresponded to 2.3% of the value of the credit portfolio. Considering that the sales-financing operations entail a major undertaking in specific countries, an additional provision of SEK 300 M was made, which is not charged against the sales-financing operations. As a result, total central reserves amount to 3.0% of the credit portfolio. Realized losses for sales-financing operations which were charged against operating income in 1997 amounted to 0.2% of the credit portfolio.

Treasury

Volvo Group Finance

Volvo Group Finance Sweden AB and subsidiaries carry out most of Volvo's financial transactions. Coordinated financial management offers better opportunities to utilize Volvo's financial assets and cash flow effectively and to manage risks related to financial management in a professional manner. Financial management is divided into two main areas: internal-bank activities and risk management. The internal bank is responsible for optimizing the balance sheet as well as the flow of payments and currencies. Risk management is responsible for dealing with various types of financial risks in Volvo's business, and for taking advantage of market opportunities to improve Volvo's net interest position.

Volvo Group Finance is active through subsidiaries in Europe, Asia and North America. In December 1997 it was decided to transfer the operations in the subsidiary Volvo Group Finance Europe B.V. to the parent company. The decision was made with a view to further integrate the business.

Effective in 1998, Volvo Group Finance Sweden AB and its subsidiaries are responsible for managing the Volvo Group's net interest income/expense.

Insurance

Försäkrings AB Volvia offers direct-writing automobile insurance to owners of Volvo and Renault cars in Sweden and, since the autumn of 1997, in Finland. The company has cooperation agreements with both the Dial and Skandia insurance companies, as well as reinsurance agreements with companies in Norway and Great Britain. Volvia's share of the market for insurance on Volvo and Renault cars in Sweden increased to 35% (33) in 1997.

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.

Risk exposure

Volvo's finance operations are controlled by groupwide policies which are revised annually and thereafter approved by AB Volvo's Board of Directors. These policies pertain primarily to various types of financial risks such as currency exposure, matching of liquidity and interest terms. In addition some segments of sales financing result in specific credit risks and residual risks.

Credit risks in sales financing

Volvo's sales financing involves credit risks distributed among a large number of individual end-customers and dealers. Collateral is in the form of the financed products. In granting credit, a balance between risk exposure and expected return is sought. These activities are guided by common policies for credit and rules for customer classification. The credit portfolio should be well distributed between various customer categories and individual industries. Credit risks are managed through active credit monitoring and routines for follow-up, and in certain cases repossession of the products. In addition, provisions are made to credit risk reserves.

Residual value risk in sales financing

Residual value risks are attributable to contracts involving operational leasing. It involves the risk that the value of the leased item at expiration of the leasing contract is different than what was anticipated when the operational leasing contract was concluded. This means that the lessor may be forced to liquidate the products at a loss. Residual value risks are managed through having a good knowledge about the market, know-how about the product and price trends as well as activities to support the second-hand value of the products. In addition, provisions are made to residual value reserves to balance the differences between anticipated and actual residual value.

Interest-rate and liquidity risks in sales financing

Interest rate changes that occur during a contract's term may affect earnings. As a result, the highest degree of matching of fixed periods for borrowing and lending is sought. At year end 1997, the degree of matching was about 90%.

In a comparable manner, the term of borrowing shall correlate with the term of the contract. This degree of matching was also about 90% at year-end 1997.

The Volvo Group's financial risks are described in Note 30 on page 53.

Personnel and Operational development

The Volvo Group wants to introduce forms of work that increase productivity, raise quality and thereby increase the Group’s competitiveness and profitability. Increased knowledge, process-orientation, less bureaucracy and the assumption of more responsibility by employees are cornerstones in the continuous process of change that is necessary for lasting competitiveness.

A number of pilot projects for Operational development were begun in parts of Volvo’s business areas during 1996. The work procedure follows to a high degree the change in work forms that were implemented in Volvo Aero and which earned the company the 1996 Swedish Quality Prize. The projects have increased in number and today are also being conducted by Volvo dealers and suppliers. In all, 15,000 persons were actively involved in 1997 and another 15,000 will be added during the first half of 1998.

All of the programs that have been conducted for more than 12 months have contributed to significant improvements in the form of increased productivity, higher quality and shorter lead times. There are examples of such results in Cars, in Procurement, in the passenger car plant in Torslanda and in the truck factory in Tuve as well as Försäkrings AB Volvia. Development programs to date have pertained to operations in Sweden but programs will be started in Europe and the United States during 1998.

Executive development and internationalization

Volvo conducts a large number of executive development programs with a focus on internationalization as a means of broadening its recruiting base and to ensure that today’s and tomorrow’s managers have a more global perspective on the business. It may be noted, as an example, that Volvo Car Corporation in Göteborg and Born is conducting a “Leadership across borders” project that is designed to develop knowledge of management and the conditions facing employees in joint ventures; it focuses in particular on studies of the ways in which project and management groups work together to achieve common results.

Volvo Euro Dialogue

Volvo’s European Council was started in 1997. Approximately 30 employee representatives appointed on a national basis meet with Volvo’s management once a year. A direct dialogue between Group management and employees in Volvo’s European companies is thereby being established. The purpose of this dialogue is to encourage all Volvo employees to participate actively and assume responsibility for a continuous program of improvement.

Profit-related bonus and 60-year fund

As an important component in creating solidarity, a sense of involvement and a focus on growth in earnings, an agreement on a profit-related bonus was reached by Volvo and the union organizations for the year 1998. The profit-related bonus is based on Volvo’s return on shareholders’ equity, which must amount to at least 10%. A profit-related bonus based on a scale between 10% and 18%, but not exceeding SEK 350 M will be paid on the amount exceeding the yield requirement. The collective savings program designated the 60-Year Fund has been expanded. The objective is to strengthen the financial condition of employees when they retire. A full share in the 60-year fund is the equivalent of SEK 185 per month deposited in an account in their name. The profit-related bonus system and the 60-Year Fund cover employees of AB Volvo and its wholly owned subsidiaries in Sweden.

Critical factors for success in Volvo’s Operational development

Communication of objectives and areas of change, as well as conditions in the business environment that change the company’s competitive situation

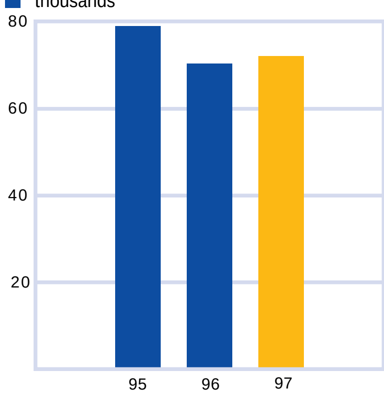
Employees share common knowledge of the company’s strategy; they organize themselves in groups, set objectives, implement action plans and evaluate results through continuous follow-ups.

Highly qualified internal consultants help both management and operational development groups to achieve and maintain a high level of activity, a result-oriented method of working and efficient cooperation.

Specially trained managers monitor the program and contribute by continuously helping to develop managers and employees.

Number of employees

thousands



The number of employees in the Volvo Group increased during the year by 2,570 to 72,900. Acquisitions of companies, mainly The AGES Group and Champion Road Machinery, increased the number of employees by approximately 1,600.

Detailed information on Volvo’s employees and payroll costs, and on benefits accruing to members of the Board of Directors and senior executives appears in note 29, page 51.

Up to now the Operational development program has involved operations in Sweden. In 1998 programs will be started in both the rest of Europe and the U.S. Of Volvo's 72,900 employees, 29,250 are working outside Sweden. Wheel-loaders and articulated haulers for the North American market are manufactured in Asheville, North Carolina, in the U.S.

Consolidated income statements

SEK M		1995	1996	**1997**
Net sales	Note 3	171,511	156,060	**183,625**
Cost of sales		(128,529)	(121,249)	**(138,990)**
Gross income		42,982	34,811	**44,635**
Research and development expenses		(7,343)	(8,271)	**(8,659)**
Selling expenses		(17,418)	(14,895)	**(17,160)**
Administrative expenses		(7,399)	(6,685)	**(7,018)**
Other operating income	Note 4	4,168	5,086	**3,187**
Other operating expenses	Note 4	(5,966)	(6,336)	**(6,567)**
Operating income before nonrecurring items		9,024	3,710	**8,418**
Nonrecurring items	Note 5	1,215	–	**–**
Operating income	Note 6	10,239	3,710	**8,418**
Income from investments in associated companies	Note 7	2,119	314	**2,929**
Income from other investments	Note 8	788	9,007	**1,168**
Interest income and similar credits		3,996	4,817	**3,486**
Interest expenses and similar charges		(3,757)	(3,271)	**(2,748)**
Other financial income and expenses	Note 9	(337)	(374)	**(77)**
Income after financial items		13,048	14,203	**13,176**
Taxes	Note 10	(3,741)	(1,825)	**(2,705)**
Minority interests	Note 11	(45)	99	**(112)**
Net income		9,262	12,477	**10,359**

Consolidated balance sheets

SEK M		December 31, 1995		December 31, 1996		**December 31, 1997**	
Assets							
Non-current assets							
Intangible assets	Note 12		5,626		2,277		**3,284**
Tangible assets	Note 12						
Property, plant and equipment		25,094		26,458		**30,793**	
Assets under operating leases		2,847	27,941	4,968	31,426	**13,501**	**44,294**
Financial assets							
Shares and participations	Note 13	18,087		12, 412		**4,583**	
Long-term sales-financing receivables	Note 14	4,161		5,831		**13,967**	
Other long-term receivables	Note 15	6,743	28,991	7,425	25,668	**5,977**	**24,527**
Total non-current assets			62,558		59,371		**72,105**
Current assets							
Inventories	Note 16		23,929		23,148		**27,993**
Short-term receivables							
Sales-financing receivables	Note 17	6,175		9,721		**18,337**	
Other receivables	Note 18	22,731	28,906	22,258	31,979	**24,257**	**42,594**
Marketable securities	Note 19		15,817		21,577		**10,962**
Cash and bank accounts	Note 20		7,489		5,084		**9,641**
Total current assets			76,141		81,788		**91,190**
Total assets			138,699		141,159		**163,295**
Shareholders' equity and liabilities							
Shareholders' equity	Note 21						
Restricted equity							
Share capital		2,318		2,318		**2,649**	
Restricted reserves		14,264	16,582	14,906	17,224	**16,473**	**19,122**
Unrestricted equity							
Unrestricted reserves		25,356		28,175		**30,950**	
Net income		9,262	34,618	12,477	40,652	**10,359**	**41,309**
Total shareholders' equity			51,200		57,876		**60,431**
Minority interests	Note 11		605		504		**899**
Provisions							
Provisions for postemployment benefits	Note 22	6,890		3,150		**3,296**	
Deferred taxes		3,350		3,055		**3,912**	
Other provisions	Note 23	11,252	21,492	11,933	18,138	**15,745**	**22,953**
Non-current liabilities	Note 24						
Bond loans		6,975		7,955		**11,272**	
Other loans		9,910	16,885	10,234	18,189	**11,863**	**23,135**
Current liabilities	Note 25						
Loans		11,691		14,263		**18,282**	
Trade payables		12,702		11,960		**15,257**	
Other current liabilities		24,124	48,517	20,229	46,452	**22,338**	**55,877**
Shareholders' equity and liabilities			138,699		141,159		**163,295**
Assets pledged	Note 26		5,434		6,503		**6,743**
Contingent liabilities	Note 27		7,450		6,188		**5,406**

Cash flow analyses

SEK M		1995		1996		**1997**
Year's operations						
Net income		9,262		12,477		**10,359**
Depreciation and amortization		5,656		5,351		**6,796**
Write-down of shareholdings and fixed assets		1,817		–		**–**
Income from investments in associated companies after taxes		(730)		(222)		**220**
Dividends received from associated companies		404		119		**145**
Gain on sales of securities		(1,180)		(8,169)		**(4,068)**
Gain on sales of subsidiaries		(3,032)		–		**–**
Minority interests after taxes		45		(99)		**112**
Increase in current assets:						
Receivables	(962)		(4,777)		**(7,452)**	
Inventories	(516)		(547)		**(2,575)**	
Increase (decrease) in current operating liabilities and other provisions	570		(618)		**7,280**	
Increase (decrease) in deferred tax liabilities	(267)	(1,175)	23	(5,919)	**711**	**(2,036)**
Cash flow from year's operations		11,067		3,538		**11,528**
Investments (increase)						
Property, plant and equipment, etc:						
Capital expenditures for property, plant and equipment	(6,491)		(8,200)		**(9,863)**	
Investments in leasing vehicles	(2,585)		(3,851)		**(9,773)**	
Disposals	1,351		1,958		**1,855**	
Investments in shares, net	1,953		14,080		**10,669**	
Long-term receivables, net	(1,953)		(2,804)		**(6,031)**	
Acquisitions and sales of companies	(4,420)	(12,145)	(878)	305	**(1,303)**	**(14,446)**
Remaining after net investments		(1,078)		3,843		**(2,918)**
Financing, dividends, etc						
Increase (decrease) in short-term bank loans and other loans	(3,993)		5,151		**995**	
Increase (decrease) in long-term loans and provisions for pensions	6,166		(1,844)		**3,404**	
Increase (decrease) in minority interests	(37)		45		**(21)**	
Dividends paid to AB Volvo shareholders	(1,512)		(1,854)		**(1,993)**	
Dividends paid to minority shareholders	(3)		(33)		**(83)**	
Redemption of shares	–		–		**(5,807)**	
New issue of shares	–		–		**116**	
Settlement of loan to Renault	–		(1,536)		**–**	
Other	46	667	(121)	(192)	**(22)**	**(3,411)**
Increase (decrease) in liquid funds excluding translation differences		(411)		3,651		**(6,329)**
Translation differences on liquid funds		(732)		(296)		**271**
Increase (decrease) in liquid funds		(1,143)		3,355		**(6,058)**
Liquid funds, January 1		24,449		23,306		**26,661**
Liquid funds, December 31		23,306		26,661		**20,603**

In the Cash flow analyses, the effects of major acquistions 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. Liquid funds include Cash and bank accounts and Marketable securities.

Notes to Consolidated Financial Statements

Amounts in SEK M unless other specified. The amounts within parentheses refer to the two preceding years; the first figure is for 1996 and the second for 1995.

1 Accounting principles

Volvo's operations

Volvo's operations are concentrated in the automotive and transport equipment industry. The focus is on further strengthening the Group's position in the passenger car field and developing its position as one of the world's leading manufacturers of trucks, buses, construction equipment and drive systems for marine and industrial applications. In the aircraft engine field Volvo has substantial resources for the maintenance of engines and the development of engine components.

The consolidated accounts for AB Volvo and its subsidiaries are prepared in accordance with Swedish accounting principles. These principles differ in certain significant respects from American accounting principles. (See Note 31).

Change in accounting principles

New Annual Accounts Act

The new Annual Accounts Act, which primarily involves changes in the forms of presentation of the income statement and balance sheet, was applied effective in 1997. Income statements and balance sheets for prior years have been adjusted to conform with the new rules. The new Act has affected Volvo's valuation principles only to an insignificant degree.

Leasing contracts

Effective in 1997, Volvo is applying the Recommendation of the Swedish Financial Accounting Standards Council pertaining to leasing contracts, which came into force January 1, 1997. In accordance with this Recommendation, leasing contracts are divided into operational and financial leasing contracts. The change represents an adaptation to international standards. Volvo's sales-financing operations have been reported earlier in accordance with international standards. The Recommendation is otherwise being applied only to transactions following the date when the Recommendation came into force and has had only a limited effect on Volvo's consolidated income statement and balance sheet.

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 or in which Volvo otherwise has a controlling influence. 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 the Recommendation 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 as 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. Gains and losses pertaining to hedges are reported at the same time as gains and losses of the items hedged. Premiums or payments for currency options, which hedge currency flows in business transactions are reported as income/expense during the contract period.

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

Exchange rates

Country	Currency	Average rate 1995	1996	1997	Year-end rate 1995	1996	1997
Belgium	BEF	0.242	0.217	0.214	0.226	0.215	0.213
Denmark	DKK	1.274	1.158	1.158	1.200	1.156	1.155
Finland	FIM	1.636	1.463	1.476	1.529	1.482	1.453
France	FRF	1.430	1.312	1.310	1.360	1.312	1.314
Italy	ITL	0.00439	0.00436	0.0045	0.00421	0.00451	0.0045
Japan	JPY	0.0765	0.0618	0.0631	0.0648	0.0593	0.0606
Netherlands	NLG	4.447	3.982	3.921	4.150	3.941	3.903
Norway	NOK	1.126	1.040	1.082	1.052	1.066	1.072
Great Britain	GBP	11.281	10.486	12.496	10.330	11.605	13.123
Germany	DEM	4.981	4.462	4.412	4.644	4.423	4.398
United States	USD	7.140	6.712	7.629	6.672	6.872	7.870

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 above.

Other financial instruments

Interest-rate and currency-rate swaps are reported as hedging of assets and liabilities.

Capital expenditures for property, plant and equipment

Capital expenditures for property, plant and equipment include investments in buildings, machinery and equipment, as well as in long-term intangible assets. Investments pertaining to assets under operating leases are not included.

Depreciation and amortization of tangible and intangible non-current assets

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 assets under operating leases 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.

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 items pertaining to Volvo Construction Equipment, Champion Road Machinery, The AGES Group and Prévost are being amortized over 20 years due to the holdings' long-term and strategic importance.

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.

Marketable securities

Marketable securities are valued at the lower of cost or market value in accordance with the portfolio method.

Research and development expenses and warranty expenses

Research and development expenses are charged to income 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.

Application of estimated values

In preparing the year-end financial statements in accordance with generally accepted accounting principles, company management makes certain estimates and assumptions which affect the value of assets and liabilities as well as contingent liabilities at the closing date. Reported amounts for income and expenses in the reporting period are also affected. The actual result may differ from these estimates.

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. 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 deferred taxes among Provisions, and Equity in untaxed reserves, which is included in Restricted 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 effects of allocations to, and withdrawals from, untaxed reserves. This adjustment corresponds to the annual change in the item deferred tax liability in untaxed reserves included in Deferred taxes in the consolidated balance sheet. Group 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 after financial items.

Definition of keys ratios

Operating margin

Operating income divided by net sales.

Return on operating capital

Operating income divided by average operating capital. Operating capital consists of operating assets (tangible and intangible assets, receivables and inventories) reduced by noninterest-bearing current liabilities. This ratio is used only for Volvo's business areas, 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 and similar charges. Income includes operating income, income from investments in associated companies, income from other investments and interest income and similar credits.

Self-financing ratio

Cash flow from year's operations (see Cash flow analyses) divided by capital expenditures for property, plant and equipment and investments in assets under operating leases.

Net financial assets (net debt)

Cash and bank accounts, marketable securities and interest-bearing long-term receivables reduced by short- and long-term interest-bearing liabilities. Net debt in Volvo's sales-financing companies is not included since the interest expense on these liabilities is charged against operating income and does not affect consolidated net interest expense.

Income per share

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

Average number of shares

The weighted average number of shares for a given year is calculated as follows: the eight opening and closing figures for the four quarters of the year are totaled and then divided by eight.

2 Acquisitions and divestments of shares in subsidiaries

Parent Company shareholdings in subsidiaries at December 31, 1997 are shown on page 65. Significant acquisitions, formations and divestments of companies are shown below.

Volvo Trucks North America, Inc (formerly Volvo GM Heavy Truck Corporation)

In July 1997, Volvo Trucks took over the remaining 13% of the common shares in its North American truck company from General Motors Corporation and changed the name of the company to Volvo Trucks North America, Inc. The reason for the change is to gain full control of the company. General Motors received preferred shares in exchange for its common stock.

Transbanco Banco de Investimento SA

In December 1997 Volvo do Brasil acquired the remaining outstanding 50% of the shares of the Brazilian sales-financing company, Transbanco Banco de Investimento SA. As of December 31, 1997, the company's balance sheet was consolidated in the Volvo Group. The holding was reported earlier in accordance with the equity method.

Champion Road Machinery Limited

In March 1997 Volvo Construction Equipment Corporation acquired all the shares of the Canadian company, Champion Road Machinery Limited, for CAD 173 M. The company is a large manufacturer of graders and other machines used in road construction and maintenance. Champion was consolidated as of January 1, 1997. Goodwill of SEK 0.7 billion that arose in connection with the acquisition is being amortized over 20 years.

Volvo Penta Benelux BV

During 1997 AB Volvo Penta acquired Nebim Handelsmaatschappij BV, an independent importer in the Netherlands. The name of the company was then changed to Volvo Penta Benelux BV. The acquired company is responsible for the marketing, sales and service of industrial and marine engines in Belgium, the Netherlands and Luxembourg.

The AGES Group, ALP

In 1996 Volvo Aero increased its holding in The AGES Group, ALP (Air Ground Equipment Sales) from 5% to 25%. Early 1997 the holding was increased to 60% and AGES thereafter became a subsidiary of Volvo. Goodwill of SEK 0.2 billion that arose in connection with the acquisition is being amortized over 20 years.

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 Volvo Car Corporation.

The company is the parent company of Volvo Rahoitus Suomi Oy, Volvo Auto Leasing Deutschland GmbH, Modular Finance BV, Volvo Car Finance UK Ltd., Volvo Car Finance Australia Ltd., Volvo Car Renting España SA and Amazon Insurance NV. Amazon Insurance is an insurance company, while the other subsidiaries conduct sales-financing operations for Volvo's customers in their respective countries: Finland, Germany, Belgium, Great Britain, Australia and Spain.

Volvo Rahoitus Suomi Oy (formerly Devoco Oy)

In 1996 Volvo Cars acquired 50% of the share capital in Volvo Rahoitus Oy, following which Volvo Cars' 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 S/A

Volvo Truck Latvia S/A 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. The company manufactures trucks and is 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 owned 100% by Volvo Bus Corporation. Effective January 1, 1997, the new distribution structure in Austria was coordinated in Volvo Austria. In the new structure, Volvo has taken over Denzel's importer operations and integrated them in Volvo's European marketing and distribution network for cars, trucks and buses.

Fortos Fastigheter AB
In 1996, all of the shares of Fortos Fastigheter AB were sold to Fabege AB. The sale resulted in a capital gain of SEK 39 M in the Group. In addition, newly issued Fabege shares were received.

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 50% of the shares of Volvo Construction Equipment Corporation (formerly VME) from Clark Equipment Company in the U.S. for 4,081. 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 group, 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. Excess value amounting to SEK 0.4 billion, which is being amortized over 20 years, arose in connection with the acquisition.

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 bus body manufacturer, produces buses used in urban and intercity traffic. As of 1998 Carrus Oy is part of the Volvo Group which results in Volvo Bus Poland being a wholly-owned subsidiary.

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 for 1,675. 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 SEK 217 M 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 Holland. 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, 414 was received in 1995–1997. The remaining portion will be paid in 1998. A capital gain of 515 was reported in the 1995 accounts.

3 Net sales

Net sales per business and market area are shown in tables on page 14.

4 Other operating income and expense

Other operating expense includes losses on forward and options contracts of 1,180 (1996: gain of 1,100 which was reported under Other operating income). Amortization of goodwill and provision for bonuses to employees in Sweden amounting to 196 (195; 315) and 231 (300; 285), respectively, are included in Other operating expenses.

5 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.

6 Operating income

Operating income before nonrecurring items by business area is shown in a table on page 15. Depreciation is included in operating income and is specified by type of asset as shown below:

	1995	1996	1997
Intangible assets	387	266	253
Property, plant and equipment	4,485	4,247	4,731
Assets under operating leases	784	838	1,812
Total	**5,656**	**5,351**	**6,796**

7 Income from investments in associated companies

Volvo's share income of associated companies before taxes, after deduction for amortization of excess value in appropriate cases, was a loss of 116 (gain 290; 1,402). The gain on sale of participations in associated companies amounted to 3,045 (24; 717).

	Income (loss)			Dividends received		
	1995	1996	1997	1995	1996	1997
Netherlands Car BV	(635)	(334)	(128)	–	–	–
AutoNova AB	–	(84)	(45)	–	–	–
ABB Olofström Automation AB	–	–	25	–	–	–
Bilia AB (former AB Catena)	80	11	122	12	23	32
AVC Intressenter AB	71	381	23	–	–	–
Sales-financing companies						
AB Volvofinans	65	66	82	2	4	6
VOCS Finance Ltd.	36	31	47	–	–	84
Transbanco Banco de Investimento SA [1]	9	(133)	(278)	–	–	–
Other companies	79	47	36	38	4	23
Holdings no longer reported as equity method investments						
Volvo Construction Equipment NV (former VME Group NV) [2]	478	–	–	96	–	–
Pharmacia AB [3]	1,155	–	–	181	–	–
Pripps Ringnes AB	–	263	–	–	88	–
Other companies	64	42	–	75	–	–
Subtotal	**1,402**	**290**	**(116)**	**404**	**119**	**145**

Gain on sale of shares in associated companies			
Pripps Ringnes AB	–	–	3,027
Partena AB	707	–	–
Other companies	10	24	18
Subtotal	**717**	**24**	**3,045**
Total income from investments in associated companies	**2,119**	**314**	**2,929**

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 December 1997 Volvo do Brasil acquired the outstanding shares of Transbanco Banco de Investimento SA and the company's balance sheet was consolidated in the Volvo Group as of December 31, 1997.

2 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.

3 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., following which the holding was reported at cost.

8 Income from other investments

	1995	1996	1997
Dividends received			
Pharmacia & Upjohn, Inc.	126	327	165
SAS Sverige AB	8	91	10
Renault SA	142	124	–
Borgtornet	–	165	–
Other	69	73	20
Subtotal	**345**	**780**	**195**
Gain on sales of securities			
Renault SA	–	–	783
SAS Sverige AB	–	–	221
Pharmacia & Upjohn, Inc.	–	7,766	–
Investment AB Bure	–	394	–
NordicTel Holdings AB	176	–	–
Cultor AB	166	–	–
Other	101	67	(31)[1]
Subtotal	**443**	**8,227**	**973**
Total	**788**	**9,007**	**1,168**

1 Including a write-down of shares.

9 Other financial income and expense

Other financial income and expense include exchange gains amounting to 206 (loss: 13; loss 214).

10 Taxes

Income after financial items was distributed as follows:

	1995	1996	1997
Sweden	4,449	10,476	8,828
Outside Sweden	7,197	3,437	4,464
Share of income of associated companies	1,402	290	(116)
Total	**13,048**	**14,203**	**13,176**

Tax expense was distributed as follows:

	1995	1996	1997
Current taxes:			
Sweden	(18)	(615)	(133)
Outside Sweden	(2,400)	(1,532)	(2,145)
Subtotal	(2,418)	(2,147)	(2,278)
Deferred taxes:			
Sweden	(176)	574	(366)
Outside Sweden	(475)	(184)	42
Subtotal	(651)	390	(324)
Associated companies	(672)	(68)	(103)
Total taxes	**(3,741)**	**(1,825)**	**(2,705)**

Tax expense pertains mainly to current taxes in foreign subsidiaries. The sale of the shareholding in Renault resulted in a tax-deductible loss that reduced Group tax expense by slightly more than 500.

Provision has been made for estimated tax charges that may arise as a result of tax audits in the Volvo Group. Deductions claimed for which no provision has been deemed necessary are equal an expense of approximately 699 (528; 940). This amount is included among contingent liabilities.

Deferred taxes pertain mainly to an estimated tax on the change in untaxed reserves, taking into account tax-loss carryforwards and temporary differences.

At December 31, 1997, the Group had tax-loss carryforwards amounting to approximately 4,900. Of this amount, approximately 2,400 has been recognized in calculating deferred tax liabilities.

Tax-loss carryforwards amounting to approximately 2,500 can thus be utilized to reduce tax expense in future years and are attributable to companies outside Sweden. Of this amount, 900 expires within five years. Tax-loss carryforwards in Sweden are not restricted time-wise.

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 after financial items

	1995, %	1996, %	1997, %
Swedish corporate income tax rate	28	28	28
Difference in tax rate in various countries	4	1	2
Capital gains (losses)	(8)	(22)	(13)
Utilization of tax-loss carryforwards	(7)	(4)	(2)
Losses for which no benefit has been recognized	1	8	2
Non deductable expenses	3	3	2
Amortization of goodwill	5	0	0
Other, net	1	(1)	1
Tax rate for the Group, excluding equity method	**27**	**13**	**20**
Equity method	2	0	1
Tax rate for the Group	**29**	**13**	**21**

11 Minority interests

Minority interests in income (loss) and in equity consist mainly of Henlys Group's participation in Prévost Car Inc. (49%), Hitachi Construction Machinery Company's participation in Euclid-Hitachi Heavy Equipment Inc. (40%), GPA Group's minority interests in The AGES Group, ALP (40%) and up to and including June 1997, General Motors' holding in Volvo Trucks North America Corporation (13%).

12 Intangible and tangible assets

Acquisition cost	Value in balance sheet 1995	Value in balance sheet 1996	Invest-ments	Sales/ scrapping	Subsidiaries acquired and divested	Translation differences	Reclassi-fications	Value in balance sheet 1997
Goodwill	6,251	2,974	–	–	1,083	36	–	4,093
Patents	161	102	13	(2)	3	(5)	–	111
Aircraft engine costs	1,108	1,115	88	–	42	16	–	1,261
Total intangible assets	**7,520**	**4,191**	**101**	**(2)**	**1,128**	**47**	**–**	**5,465**
Buildings	14,065	13,166	1,173	(84)	29	175	516	14,975
Land and land improvements	2,391	2,116	117	(40)	3	54	49	2,299
Machinery and equipment[1]	37,713	38,782	6,453	(2,350)	178	330	3,104	46,497
Construction in progress including advance payments	2,840	4,860	2,019	(2)	–	43	(3,847)	3,073
Total property, plant and equipment	**57,009**	**58,924**	**9,762**	**(2,476)**	**210**	**602**	**(178)**	**66,844**
Assets under operating leases	3,917	6,698	9,773	(1,896)	1,303	665	(56)	16,487
Total tangible assets	**60,926**	**65,622**	**19,535**	**(4,372)**	**1,513**	**1,267**	**(234)**	**83,331**

Accumulated depreciation	Value in balance sheet 1995	Value in balance sheet 1996	Depreciation[2]	Sales/ scrapping	Subsidiaries acquired and divested	Translation differences	Reclassifications	Value in balance sheet 1997	**Book value in balance sheet 1997[3]**
Goodwill	820	811	196	–	–	11	–	1,018	3,075
Patents	84	50	14	(2)	–	2	–	64	47
Aircraft engine costs	990	1,053	43	–	–	3	–	1,099	162
Total intangible assets	**1,894**	**1,914**	**253**	**(2)**	**–**	**16**	**–**	**2,181**	**3,284**
Buildings	5,776	5,728	506	(57)	31	67	203	6,478	8,497
Land and land improvements	535	516	39	(3)	1	9	(8)	554	1,745
Machinery and equipment[1]	25,604	26,222	4,186	(1,493)	142	160	(198)	29,019	17,478
Construction in progress, including advance payments	–	–	–	–	–	–	–	–	3,073
Total property, plant and equipment	**31,915**	**32,466**	**4,731**	**(1,553)**	**174**	**236**	**(3)**	**36,051**	**30,793**
Assets under operating leases	1,070	1,730	1,812	(964)	284	143	(19)	2,986	13,501
Total tangible assets	**32,985**	**34,196**	**6,543**	**(2,517)**	**458**	**379**	**(22)**	**39,037**	**44,294**

1 Machinery and equipment pertains mainly to production equipment.
2 Includes accumulated write-downs.
3 Acquisition value less accumulated depreciation.

Investments in intangible and tangible assets amounted to 9,863 (8,200; 6,491). Investments in assets under operating leases amounted to 9,773 (3,851; 2,585).

Investments approved but not yet implemented at the end of 1997 amounted to SEK 20.0 billion (16.8: 17.7).

Replacement cost (unaudited information)

At year-end 1997, 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 47.3 billion after calculated depreciation. The corresponding value shown in the Volvo Group balance sheet was SEK 30.8 billion. Calculated depreciation based on the present replacement cost amounted to SEK 7.4 billion in 1997. The corresponding depreciation in the consolidated income statement, which is based on historical cost, was SEK 4.7 billion.

13 Shares and participations

A specification of Group holdings of shares and participations appears on page 64. Call options with a total exercise price of – (5; 5) have been issued on shares with book values of – (2; 2).

The Volvo Group has transactions with some of its associated companies. As of December 31, 1997, the Group's net receivables to associated companies amounted to 4,575 (6,909; 5,814).

The market value of Volvo's holdings of securities in listed companies as of December 31, 1997 is shown below.

	Book value	Market value
Pharmacia & Upjohn, Inc.	2,082	5,770
Bilia AB (formerly AB Catena)	505	1,277
Verimation AB	7	9
Total	**2,594**	**7,056**

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 1997 the holding was further increased to 60% and AGES thereby became a subsidiary of Volvo.

OmniNova Technology AB

In March 1997 Volvo Bus Corporation and TWR, an English engineering company, formed a jointly owned company to develop manufacturing processes for buses and some production of bus components. The company is owned 35% by Volvo Bus Corporation and 65% by TWR. Its operations are located in facilities adjacent to AutoNova in Uddevalla, Sweden.

Régie Nationale des Usines Renault SA (Renault SA)

In July 1997 Volvo divested its entire holding in Renault, equal to 11.4% of both the share capital and voting rights in the company. The proceeds amounted to 5,934 and the Group gain was 783.

Pripps Ringnes AB

Pripps Ringnes AB was formed in September 1995 through an agreement with Orkla ASA (Norway). At year-end 1996 Volvo owned 49% of the shares and held a convertible debenture loan which upon conversion would increase the holding to 55%. In February 1997 Volvo sold its holding in Pripps Ringnes to Orkla. Volvo received 4,515 from the sale, plus 100 in dividends, and the transaction yielded a capital gain of 3,027 in the Volvo Group.

SAS Sverige AB

In June 1997 Volvo sold its entire holding in SAS Sverige AB, equal to 4.7% of the share capital and voting rights. The amount of the sale was 319 and the capital gain was 221.

Fabege AB

In November 1996 Volvo concluded an agreement covering the sale of buildings to Fabege AB. 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 thereafter amounted to 8.3% of the share capital and 7.5% of the voting rights. In 1997 the entire holding was sold, yielding a profit of 19.

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.

Pharmacia & Upjohn, Inc./Pharmacia AB

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

Investment AB Bure

In 1996 Volvo sold its entire holding, 17.7%, yielding a gain of 394.

Spira AB

The entire holding, 9.5%, was sold in 1996, with a resulting capital gain of 10.

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.

Partena AB

The holding, 44%, was divested in 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. Volvo Car Corporation owns 49% of the shares in AutoNova. Operations are located in Volvo Cars' plant in Uddevalla.

NordicTel Holdings AB

The entire holding, 8%, was sold in 1995, yielding a gain of 176.

Cultor Ab

Volvo's holding in Cultor Ab (10.4% of the share capital and 1.5% of the voting rights) was divested in 1995, resulting in a gain of 166.

UST Inc. (formerly US Tobacco Inc.)

In 1995 the shares (0.8%) in UST Inc. was divested. The capital gain amounted to 75.

Protorp Förvaltnings AB (formerly Protorp Intressenter AB)

In 1994 and 1996 the holding in Protorp was written down by 488 and 2, respectively, due to dividends paid. In addition, a write-down of 247 was effected in 1996 in connection with repayment of share capital. Volvo's holding in Protorp Förvaltnings AB amounts to 43.0% of the share capital and 33.3% of the voting rights. The holding is recorded at cost.

Changes in the Volvo Group's holdings of shares and participations:

	1996	1997
Balance sheet, December 31, preceding year	18,087	12,412
Acquisitions and divestments, net	(6,006)	(8,212)
New issue of shares	3	128
Share of income of associated companies	636	222
Write-downs	(248)	(11)
Translation differences	(27)	32
Other	(33)	12
Balance sheet, December 31, current year	**12,412**	**4,583**

14 Long-term sales-financing receivables

	1995	1996	1997
Installment credits	642	2,084	7,572
Financial leasing	2,759	3,571	5,606
Other receivables	760	176	789
Total	**4,161**	**5,831**	**13,967**

The increase in 1997 is due to that the sales-financing companies in North America and Great Britain, in which Volvo was previously a part-owner, are now under own management as wholly owned subsidiaries.

15 Other long-term receivables

	1995	1996	1997
Loans	2,766	3,157	2,269
Other receivables	3,977	4,268	3,708
Total	**6,743**	**7,425**	**5,977**

Other long-term receivables include noninterest-bearing debenture loans to associated companies at nominal value of 2,732 (2,759; 2,905).

16 Inventories

	1995	1996	1997
Finished products	14,159	14,477	17,785
Production materials, etc.	9,770	8,671	10,208
Total	**23,929**	**23,148**	**27,993**

17 Short-term sales-financing receivables

	1995	1996	1997
Installment credits	1,387	1,805	4,173
Financial leasing	2,208	2,946	3,794
Dealer financing	2,169	4,178	8,775
Other receivables	411	792	1,595
Total	**6,175**	**9,721**	**18,337**

The increase in 1997 is due to that the sales-financing companies in North America and Great Britain, in which Volvo was previously a part-owner, are now under own management as wholly owned subsidiaries.

18 Other receivables

	1995	1996	1997
Accounts receivable	13,696	12,933	13,704
Prepaid expenses and accrued income	4,293	3,219	2,867
Other receivables	4,742	6,106	7,686
Total, after deduction of reserves of 710 for doubtful receivables (1,037; 1,034)	**22,731**	**22,258**	**24,257**

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.

19 Marketable securities

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

	1995	1996	1997
Swedish Government	8,720	14,665	7,350
Swedish financial institutions	2,545	1,430	272
Commercial papers	316	165	–
Real estate financing institutions	1,382	1,526	1,051
Loans to associated companies	295	664	251
Shares	380	452	625
Other	2,179	2,675	1,413
Total	**15,817**	**21,577**	**10,962**

Marketable securities held in connection with interest arbitrage transactions in 1995 amounting to 5,642 and 2,893 in 1996 were offset against corresponding loans and as a result did not affect total assets.

20 Cash and bank accounts

	1995	1996	1997
Cash in banks	3,449	2,928	5,435
Time deposits in banks	4,040	2,156	4,206
Total	**7,489**	**5,084**	**9,641**

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.

Number of shares and par value

	A (no.)	B (no.)	Total (no.)	Par
Dec. 31, 1996	142,151,130	321,407,122	463,558,252	2,318
Redemption	(3,546,185)	(19,050,682)	(22,596,867)	(113)
New issue	–	+ 559,500	+ 559,500	+ 3
Bonus issue	–	–	–	+ 441[1]
Dec. 31, 1997	**138,604,945**	**302,915,940**	**441,520,885**	**2,649**

1 Par value per share rose from SEK 5 to SEK 6.

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, 1997 amounted to 28,160.

As of December 31, 1997 foundations connected to Volvo and the Volvo employee pension foundation's holdings in Volvo were 0.66% and 0.05% of the share capital and 1.44% and 0.10% of the voting rights, respectively.

As shown in the consolidated balance sheet as of December 31, 1997, unrestricted equity amounted to 41,309 (40,652; 34,618). It is estimated that 44 of this amount will be allocated to restricted reserves.

Change in shareholders' equity	Share capital	Restricted reserves	Unrestricted equity	Total equity
Balance, December 31 1994	2,220	14,545	26,567	43,332
Cash dividend	–	–	(1,512)	(1,512)
Net income	–	–	9,262	9,262
Conversion of debenture loans	98	1,510	–	1,608
Effect of equity method of accounting[1]	–	818	(818)	–
Transfer between unrestricted and restricted equity	–	(1,766)	1,766	–
Translation differences	–	(849)	(995)	(1,844)
Exchange differences on loans and futures contracts[2]	–	–	366	366
Other changes	–	6	(18)	(12)
Balance, December 31, 1995	**2,318**	**14,264**	**34,618**	**51,200**
Cash dividend	–	–	(1,854)	(1,854)
Distribution of shareholding in Swedish Match	–	–	(4,117)	(4,117)
Net income	–	–	12,477	12,477
Effect of equity method of accounting[1]	–	373	(373)	–
Transfer between unrestricted and restricted equity	–	439	(439)	–
Translation differences	–	(222)	87	(135)
Exchange differences on loans and futures contracts[2]	–	–	40	40
Other changes	–	52	213	265
Balance December 31, 1996	**2,318**	**14,906**	**40,652**	**57,876**
Cash dividend	–	–	(1,993)	(1,993)
Redemption of shares	(113)	–	(5,694)	(5,807)
Bonus issue of shares	441	(113)	(328)	–
Net income	–	–	10,359	10,359
New issue of shares	3	113	–	116
Effect of equity method of accounting[1]	–	(34)	34	–
Transfer between unrestricted and restricted equity	–	92	(92)	–
Translation differences	–	1,396	(528)	868
Exchange differences on loans and futures contracts[2]	–	–	(665)	(665)
Accumulated translation difference on the Renault holding[3]	–	–	(552)	(552)
Other changes	–	113	116	229
Balance, December 31, 1997	**2,649**	**16,473**	**41,309**	**60,431**

1 Mainly associated companies' contributions to net Group income, reduced by dividends received.

2 Hedge net assets in foreign subsidiaries and associated companies.

3 Difference pertains to Renault shares sold and, in connection with the sale, has affected consolidated capital gains.

22 Provisions for post-employment benefits

	1995	1996	1997
Provisions for pensions	6,090	1,937	1,905
Provisions for other postemployment benefits	800	1,213	1,391
Total	**6,890**	**3,150**	**3,296**

The amounts shown for Provisions for postemployment benefits correspond to the actuarially calculated value of obligations not insured with a third party or secured through transfers of funds to pension foundations. The amount of pensions falling due within one year is included. The Swedish Group companies have insured their pension obligations with third parties.

Group pension costs in 1997 amounted to 3,660 (3,446; 3,030). The greater part of pension costs consist of continuing payments to independent organizations that administer pension plans.

In 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 and including 1995 and the Volvo Group 1996 Employee Pension Foundation pertains to funds earned beginning in 1996. In 1996, 4,244 was transferred to the Volvo Group 1995 Employee Pension Foundation. In 1997 396 was transferred to the pension foundations. The capital value of pension obligations at year-end 1997 amounted to 5,141.

Assets in pension foundations at market value, exceeded pension obligations by 315.

23 Other provisions

	1995	1996	1997
Warranties	4,137	4,811	5,769
Allocations in insurance operations	1,449	1,650	1,890
Allocations attributable to participations in associated companies	2,072	1,701	1,851
Restructuring measures	606	596	556
Other provisions	2,988	3,175	5,679
Total	**11,252**	**11,933**	**15,745**

24 Non-current liabilities

The listing below shows the Group's non-current liabilities in which the largest loans are distributed by currency. Most are issued by Volvo Group Finance Sweden AB and Volvo Group Finance Europe BV. Information on loan terms is as of December 31, 1997. Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. See Note 30.

Bond loans	1995	1996	1997
FRF 1994-1997/ 1999–2009, 6.12–7.62%	2,584	3,674	4,618
DKK 1996/2005, 6.00%	–	357	357
SEK 1992–1997/1999–2002, 7.70–12.50%	1,050	1,450	1,300
JPY 1995–1997/1999–2005, 0.29–5.00%	972	1,316	3,216
NLG 1997/2004, 6.60%	–	–	195
USD 1994–1996/1999–2001, 6.06–7.38%	934	955	1,409
Other bond loans	1,435	203	177
Total bond loans	**6,975**	**7,955**	**11,272**

Other long-term loans	1995	1996	1997
USD 1995–1997/1999–2006, 5.87–10.75%	2,240	2,655	3,222
GBP 1989–1997/1999–2007, 5.80–9.30%	1,153	1,875	2,273
DEM 1993–1997/1999–2005, 3.84–7.50%	1,319	1,442	1,491
NLG 1995–1997/1999–2003, 4.20–7.68%	343	857	575
SEK 1995–1997/1999–2007, 4.75–11.05%	50	50	1,400
CAD 1995/not confirmed, 7.85%	252	258	281
Other loans	4,553	3,097	2,621
Total other long-term loans	**9,910**	**10,234**	**11,863**
Total	**16,885**	**18,189**	**23,135**

Of the above long-term borrowing, 2,992 (1,109; 780) was secured.

Long-term debt matures as follows:

1999	6,223
2000	5,660
2001	1,703
2002	1,749
2003	425
2004 or later	7,375
Total	**23,135**

At year-end 1997 credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 22 billion (16; 17). In 1997 approximately 16 billion of these facilities consisted of stand-by facilities for loans with varying maturities through the year 2003. A fee – normally not exceeding 0.25% of the unused portion – is charged for credit facilities.

25 Current liabilities

Balance sheet amounts for loans were as follows:

	1995	1996	1997
Bank loans	6,346	8,429	14,411
Other loans	5,345	5,834	3,871
Total	**11,691**	**14,263**	**18,282**

Bank loans include current maturities, 2,748 (2,082;1,706), of long-term debt. Other loans include current maturities of long-term debt, 1,498 (651; 482), and commercial papers, 1,291 (1,757; 4,518).

The weighted average interest rate for the interest-bearing current liabilities was 5.0% (5.1; 6.6).

Short-term loans raised in connection with interest arbitrage transactions in 1995 amounting to 5,642 and 2,893 in 1996 were offset against corresponding investments and as a result did not affect total assets. Noninterest-bearing liabilities accounted for 37,595 (32,189; 36,826), or 67% (69; 76) of the Group's total current liabilities.

Balance sheet amounts for Other current liabilities were as follows:

	1995	1996	1997
Advances from customers	2,627	2,514	2,603
Taxes	1,689	1,436	1,637
Wages, salaries and withholding taxes	3,469	3,710	3,690
Other liabilities	7,922	5,967	6,102
Accrued expenses and prepaid income	8,417	6,602	8,306
Total	**24,124**	**20,229**	**22,338**

Secured bank loans at year-end 1997 amounted to 2,369 (641;443) The corresponding amount for other current liabilities was 4,563 (2,778;3,657).

26 Assets pledged

	1995	1996	1997
Property, plant and equipment – mortgages	552	544	298
Chattel mortgages	372	362	862
Receivables	863	922	1,335
Inventories	372	36	1,266
Cash, marketable securities	1,624	2,636	2,893
Other	1,651	2,003	89
Total	**5,434**	**6,503**	**6,743**

The liabilities for which the above assets were pledged amounted at year-end to 9,924 (4,527; 4,881). Pledged assets in subsidiaries are included in Other in the amount of – (1,750; 1,519).

27 Contingent liabilities

	1995	1996	1997
Discounted bills	530	368	628
Guarantees:			
Bank loans and trade bills – associated companies	256	316	22
Bank loans – customers and others	1,804	1,873	1,531
Recourse obligations	1,252	515	123
Other contingent liabilities	3,608	3,116	3,102
Total	**7,450**	**6,188**	**5,406**

The amount shown for guarantees to customers and others pertaining to bank loans, 1,531 (1,873: 1,804) includes the unutilized portion of credit facilities, 46 (11; 40) Recourse obligations pertain to receivables that have been transferred (sales-financing operations), less reduction for recognized credit risks. Other contingent liabilities include 699 (528; 940) related to claims in connection with the tax audit of the Volvo Group, for which provisions were not deemed necessary. In addition, suit against Volvo Car Corporation pertaining to the model designations of passenger cars in Puerto Rico has been recorded as a contingent liability.

28 Leasing

Effective in 1997, Volvo is applying Recommendation RR6, "Accounting for leasing contracts", of the Swedish Financial Accounting Standards Council. See Note 1 under "Changes in accounting principles."

At December 31, 1997, future rental income from noncancellable financial and operating leases amounted to 19,991 (13,051; 9,509), of which 19,322 (12,745; 8,488) pertains to sale-financing companies. Future rental income is distributed as follows:

	Operational leasing	Financial leasing
1998	2,847	3,526
1999	2,610	3,050
2000	2,206	2,405
2001	1,042	1,236
2002	263	503
2003 or later	208	95
Total	**9,176**	**10,815**

At December 31, 1997, future rental costs related to noncancellable leases amounted to 6,356 (7,269; 7,122), of which 2,548 (2,170; 1,173) in sales-financing companies. Rental expenses in 1997 amounted to 2,002 (1,782; 1,401).

Future rental payments are distributed as follows:

	Rental payments
1998	1,861
1999	1,404
2000	1,029
2001	832
2002	687
2003 or later	543
Total	**6,356**

29 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 2,260,000, to be distributed as decided by the Board. The Chairman of the Board, Håkan Frisinger, receives a fee of SEK 850,000.

During 1997, Leif Johansson, President and Chief Executive Officer since April 23, 1997, received 5,164,383 in salary and other benefits amounting to SEK 121,106. His bonus for 1997 is SEK 692,300 (SEK 1,000,000 on an annual basis). Leif Johansson is eligible to take early retirement on pension at age 55. A pension is earned gradually over the years up to the employee's retirement age and is fully earned at age 55. During the period between the ages of 55 and 65, he would receive a pension equal to 70% of his 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.

During 1997, Sören Gyll, President and Chief Executive Officer up to and including April 22, 1997, received SEK 6,158,506 in salary and other benefits amounting to SEK 432,783. A payment of SEK 3,180,000 was also made to a pension fund on behalf of Sören Gyll, equal to the bonus to which Sören Gyll was entitled. Sören Gyll continued to serve the Group until December 31, 1997 and then retired 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 salary.

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 and 1997. A bonus may, in principle, amount to a maximum of 50% of an executive's annual salary.

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 or 24 months, depending on age at date of severance. In certain contracts, replacing contracts concluded earlier, an employee is entitled to severance payments amounting to the employee's monthly salary for a period of 30 to 42 months. In agreements concluded after the spring of 1993, severance pay is reduced, in the event the employee gains employment during the severance period, in an amount equal to 75% of income from new employment. An early-retirement pension may be received when the employee reaches age 60. A pension is earned gradually over the years up to the employee's retirement age and is fully earned at age 60. From that date until reaching the normal retirement age, the retiree will receive 70% of the qualifying salary.

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.

Average number of employees	1995 Number of employees	1995 of whom women %	1996 Number of employees	1996 of whom women %	1997 Number of employees	1997 of whom women, %
AB Volvo						
Sweden	409	39	448	37	318	56
Subsidiaries						
Sweden	41,133	18	43,293	18	43,682	17
Western Europe	13,168	12	14,681	14	14,664	17
Eastern Europe	185	13	308	15	524	13
North America	6,525	18	6,937	22	7,870	19
South America	2,229	7	1,819	10	2,030	11
Asia	1,684	10	2,003	11	2,065	12
Other countries	616	11	687	13	679	15
Automotive operations	**65,949**	**21**	**70,176**	**19**	**71,832**	**18**
Operations being divested	14,420	40	1,729	50	6	33
Group total	**80,369**	**21**	**71,905**	**18**	**71,838**	**18**

Wages, salaries and other remunerations, SEK M	1995 Board and President	1995 of which, bonuses	1995 Other employees	1996 Board and President	1996 of which bonuses	1996 Other employees	1997 Board and President	1997 of which bonuses	1997 Other employees
AB Volvo									
Sweden	17.5	3.7	154.3	20.7	5.4	172.1	28.3	6.2	127.8
Subsidiaries									
Sweden	42.9	7.5	9,671.5	51.6	6.6	10,774.7	98.4	43.9	10,864.6
Western Europe	128.9	22.3	3,797.8	134.6	19.5	3,883.5	166.0	34.7	4,421.5
Eastern Europe	0.7	–	12.6	1.5	–	22.0	1.6	–	38.7
North America	42.9	2.5	1,831.5	42.2	0.7	1,787.6	85.2	2.4	2,116.7
South America	15.0	0.3	394.1	18.9	0.6	343.2	20.1	0.4	376.9
Asia	22.9	0.9	333.0	25.5	0.9	328.5	53.0	2.1	533.0
Other countries	2.5	–	112.0	4.2	0.2	127.2	11.0	0.4	134.2
Automotive operations	**273.3**	**37.2**	**16,306.8**	**299.2**	**33.9**	**17,438.8**	**463.6**	**90.1**	**18,613.4**
Operations being divested	112.0	38.5	2,672.2	18.8	6.9	272.5	0.3	–	4.6
Group total	**385.3**	**75.7**	**18,979.0**	**318.0**	**40.8**	**17,711.3**	**463.9**	**90.1**	**18,618.0**

Wages, salaries, other remuneration and social costs	1995 Wages, salaries, remuneration	1995 Social costs	1995 of which, pension costs	1996 Wages, salaries remuneration	1996 Social costs	1996 of which, pension costs	1997 Wages, salaries, remuneration	1997 Social costs	1997 of which, pension costs
AB Volvo[1]	171.8	99.9	74.7	192.8	131.4	101.8	156.1	128.1	106.0
Subsidiaries	19,192.5	7,783.4	2,955.2	17,836.5	7,835.9	3,343.9	18,925.8	7,740.7	3,554.1
Group total[2]	**19,364.3**	**7,883.3**	**3,029.9**	**18,029.3**	**7,967.3**	**3,445.7**	**19,081.9**	**7,868.8**	**3,660.1**

1 Of the **Parent Company's** pension costs, 43.0 (29.9; 30.0) pertains to Board members and the President. The Company's outstanding pension obligations to these persons amount to 275.0 (244.4; 214.2).

2 Of the **Group's** pension costs, 94.5 (87.9; 74.9) pertains to Board members and the President. The Group's outstanding pension obligations to these persons amount to 360.9 (326.7; 284.3).

30 Financial risks

In the course of its operations the Volvo Group is exposed to various types of financial risks. Group-wide policies form the basis for each Group company's action program. Monitoring and control is conducted continuously in each company as well as centrally. Most of the Volvo Group's financial transactions are carried out through Volvo's in-house bank, Volvo Group Finance, which conducts its operations within established risk mandates and limits.

Foreign exchange risk

Volvo's currency risk is related to changes in contracted and projected flows of payments (commercial exposure), to payment flows related to loans and investments (financial exposure), and to the revaluation of assets and liabilities in foreign subsidiaries (equity exposure).

The objective of Volvo's foreign exchange risk management is to reduce the impact of foreign exchange movements on the Group's income and financial position.

Commercial exposure

Volvo uses forward exchange contracts and currency options to hedge the value of future payment flows. Contracts related to hedging of anticipated sales and purchases of foreign currency normally do not exceed 36 months. In accordance with the Group's currency policy, between 40% and 80% of the net flow in each currency is hedged for the coming 12 months, 20% to 60% for months 13 through 24 and 0% to 40% for months 25 through 36. The value of all forward and options contracts as of December 31, 1997 was SEK 51.9 billion (40.2; 41.0).

Volvo Group outstanding currency contracts pertaining to commercial exposure, December 31, 1997

The table shows contracts hedging future flows of commercial payments.

SEK M		Inflow currencies USD	GBP	ITL	JPY	Outflow currencies DEM	BEF	Other currencies Net expressed in SEK	Total
Due date 1998	amount	2,281	487	933,459	41,741	(1,212)	(19,011)	4,654	
	rate[1]	7.38	11.64	0.0043	0.0838	4.64	0.2186		
Due date 1999	amount	1,526	351	368,888	34,489	(768)	(7,823)	3,036	
	rate[1]	7.53	12.20	0.0044	0.0697	4.53	0.2167		
Due date 2000	amount	625	215	24,500	17,230	(147)	(1,705)	952	
	rate[1]	7.68	12.43	0.0045	0.0694	4.40	0.2155		
Total		4,432	1,053	1,326,847	93,460	(2,127)	(28,539)	8,642	
of which options contracts		355	72	4,341	15,974	(273)	0	260	
Translated to actual value, SEK[2]		33,128	12,647	5,792	7,253	(9,884)	(6,222)	9,234	51,948
Translated to SEK a year-end 1997 rates		34,887	13,814	5,904	5,664	(9,351)	(6,082)	8,642	53,478
Difference between actual value and year-end exchange rates		(1,759)	(1,167)	(112)	1,589	(533)	(140)	592	(1,530)
Year-end exchange rates, December 31, 1997		7.87	13.12	0.0045	0.0606	4.40	0.2131		

1 Average contract rate. 2 Average forward contract rate and, for options, the most favorable of the year-end rate and contract rate.

Financial exposure

Group companies operate in local currencies. Through loans and investments being mainly in the local currency, financial exposure is avoided. In companies which have loans and investments in foreign currencies, hedging is carried out in accordance with Volvo's financial policy, which means a limited risk-taking.

Equity exposure

In conjunction with translation of the Group's assets and liabilities in foreign subsidiaries to Swedish kronor, a risk arises that the currency rate will have an effect on the consolidated balance sheet. In accordance with the Group's currency policy, net assets (shareholders' equity) in foreign subsidiaries and associated companies are hedged up to 50%. Hedging is mainly done through borrowing in the same currency as the net assets. At year-end 1997, net assets in subsidiaries and associated companies outside Sweden amounted SEK 25 billion, of which 17% was hedged.

Total outstanding currency contracts, December 31

	1995 Notional amount	1995 Carrying amount	1995 Estimated fair value	1996 Notional amount	1996 Carrying amount	1996 Estimated fair value	1997 Notional amount	1997 Carrying amount	1997 Estimated fair value
Foreign exchange contracts									
– receivable position	127,290	5,771	8,320	56,238	3,388	3,492	40,349	1,951	2,006
– payable position	261,736	(5,669)	(6,956)	50,303	(3,377)	(1,477)	84,591	(2,150)	(3,762)
Foreign exchange swaps									
– receivable position	4,652	–	49	83,301	4	2,623	27,268	–	1,416
– payable position	123	–	(1)	81,565	(1)	(2,517)	26,045	–	(1,604)
Options – purchased									
– receivable position	13,558	21	1,255	11,163	33	1,075	5,135	–	379
– payable position	802	(23)	(23)	34	–	–	4,156	–	(147)
Options – written									
– receivable position	27	–	–	–	–	–	2,080	–	57
– payable position	7,235	(4)	(36)	5,806	–	(17)	4,274	–	(61)
Total		96	2,608		47	3,179		(199)	(1,716)

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

Interest-rate risks

Interest-rate risk relates to the risk that change in interest-rate levels affect the Group's earnings. By matching fixed-interest periods of financial assets and liabilities, Volvo reduces the effects of interest-rate changes. Interest-rate swaps are used to shorten the interest-rate periods of the Group's long-term loans. Exchange-rate swaps make it possible to borrow in foreign currencies in different markets without incurring currency risk.

Interest futures contracts and futures contracts are commonly used by Volvo to offset fluctuations in variable interest rates on short-term loans. Volvo has liquid contracts, such as standardized futures contracts in Eurodollar with maturity terms of up to three years. Most of these contracts are hedging transactions for short-term borrowing.

Total outstanding interest related contracts, December 31	1995 Notional amount	1995 Carrying amount	1995 Estimated fair value	1996 Notional amount	1996 Carrying amount	1996 Estimated fair value	1997 Notional amount	1997 Carrying amount	1997 Estimated fair value
Interest-rate swaps									
– receivable position	84,354	11	2,905	10,349	–	335	20,322	9	875
– payable position	69,746	(167)	(963)	15,416	(34)	(462)	28,142	(25)	(1,760)
Forwards and futures									
– receivable position	83,621	–	52	153,553	–	303	165,186	–	435
– payable position	169,882	–	(378)	170,670	–	(550)	190,866	(17)	(465)
Options – purchased									
– receivable position	–	–	–	426	–	2	145	–	1
– payable position	–	–	–	–	–	–	–	–	–
Options – written									
– receivable position	–	–	–	–	–	–	–	–	–
– payable position	400	(1)	(1)	–	–	–	–	–	–
Interest-rate caps and floors purchased									
– receivable position	–	–	–	301	1	1	376	–	1
– payable position	–	–	–	8	(8)	(8)	159	–	–
Interest-rate caps and floors written									
– receivable position	–	–	–	300	–	–	–	–	–
– payable position	–	–	–	88	(44)	(44)	88	(44)	(44)
Total		(157)	1,615		(85)	(423)		(77)	(957)

Credit risks in financial instruments

Counterparty risks

The derivative instruments used by Volvo to reduce its foreign-exchange and interest-rate risk in turn give rise to a counterparty risk, the risk that a counterparty will not fulfill its part of a forward or options contract, and that a potential gain will not be realized. Risks are limited through careful credit checking and the establishment of maximum levels of exposure. Where appropriate, the Volvo Group arranges master netting agreements with the counterparty to reduce exposure. The credit exposure in interest-rate and foreign exchange contracts is represented by the positive fair value – the potential gain on these contracts – as of the reporting date. The risk exposure is calculated daily. The credit risk in futures contracts is limited through daily or monthly cash settlements of the net change in value of open contracts. Since contracts off the balance sheet involve substantial credit risks, agreements on future contracts are made only with those banks for which limits are assigned based on careful credit checking. The estimated exposure in currency interest-rate swaps, forward exchange contracts and futures and options purchased amounted to 2,291, 2,441 and 380 as of December 31, 1997.

Volvo does not have any significant exposure to an individual customer or counterparty.

An increase of credit risk – on or off the balance sheet – occurs in financial instruments when counterparties have similar economic characteristics that could cause their ability to meet contractual obligations to be impaired by unfavorable developments in the business community.

Credit risk in financial investments

The liquidity in the Group is invested mainly in local cash pools or directly with Volvo Group Finance. This concentrates the credit risk to the Group's in-house bank. Volvo Group Finance invests the liquid funds in the money and capital markets.

All investments must meet criteria for low credit risk and high liquidity.

Calculation of fair value of financial instruments

Volvo has used various methods and assumptions, which were based on evaluations of market conditions and risks existing at the time, to estimate the fair value of the Group's financial instruments as of December 1995, 1996 and 1997, respectively. In the case of certain instruments, including cash and cash equivalents, non-trade accounts payable and accruals and short-term debt, it was assumed that the carrying amount approximated fair value for the majority of these marketable instruments, due to their short maturities.

Quoted market prices or dealer quotes for the same or similar instruments were used for the majority of marketable securities, long-term investments, long-term debt, forward exchange contracts and options contracts. Other techniques – such as estimating the discounted value of future cash flows, replacement cost and termination cost – have been used to determine fair value for the remaining financial instruments. These values represent approximate valuations and may not be realized.

Unrealized exchange losses are charged to income for hedging transactions related to booked items, while unrealized gains are not. Unrealized gains are taken into account when calculating market value.

Estimated fair value of Volvo's financial instruments	Dec 31, 1995 Book value	Fair value	Dec 31, 1996 Book value	Fair value	Dec 31, 1997 Book value	Fair value
Balance sheet items						
Investments in shares and participations:						
fair value calculable [1]	14,122	24,272	8,646	9,917	2,089	5,779
fair value not calculable [2]	529	–	206	–	361	–
Long-term receivables and loans	10,904	10,897	12,991	12,797	19,690	19,682
Accrued interest, receivables, etc	6,452	6,340	8,599	8,365	20,459	20,477
Marketable securities	15,817	16,139	21,577	22,059	10,962	11,203
Cash and bank	7,489	7,489	5,084	5,084	9,641	9,641
Long-term loans	16,885	16,784	18,189	18,145	23,135	24,168
Short-term loans	11,691	11,396	14,263	14,427	18,282	18,309
Accrued interest, payable, etc	1,102	1,101	1,315	1,294	1,288	1,281
Off-balance sheet items						
Foreign exchange contracts outstanding in the Volvo Group	96 [3]	2,608	47 [3]	3,179	(199) [3]	(1,716)
Interest-rate contracts in the Volvo Group	(157) [3]	1,615	(85) [3]	(423)	(77) [3]	(957)

1 Pertains mainly to Volvo's holdings in Renault SA 1995–1996 and Pharmacia & Upjohn, Inc. 1995–1997.
2 Holdings of shares for which the calculation of fair value is not practical due to the large number of different stocks. No single stock represents any significant amount.
3 Book values are included among items in balance sheet.

31 Net income and Shareholders' equity in accordance with 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

Net income	1995	1996	1997
Net income in accordance with Swedish accounting principles	9,262	12,477	10,359
Items increasing (decreasing) reported net income:			
Foreign currency translation (A)	5,457	(89)	(4,994)
Income taxes (B)	(523)	494	122
Tooling costs (C)	(633)	(312)	–
Business combinations (D)	355	(529)	(529)
Shares and participations (E)	(116)	176	–
Interest costs (F)	2	15	28
Leasing (G)	49	49	46
Debt and equity securities (H)	368	(147)	123
Other (I)	111	(95)	65
Minority interests	2	–	–
Tax effect of above U.S. GAAP adjustments	(1,399)	178	1,336
Net increase (decrease) in net income	3,673	(260)	(3,803)
Approximate net income in accordance with U.S. GAAP	**12,935**	**12,217**	**6,556**
Approximate net income per share, SEK in accordance with U.S. GAAP	**28.20**	**26.40**	**14.50**
Weighted average number of shares outstanding (in thousands)	457,984	463,558	452,540

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

Shareholders' equity	1995	1996	1997
Shareholders' equity in accordance with Swedish accounting principles	51,200	57,876	60,431
Items increasing (decreasing) reported shareholders' equity:			
Foreign currency translation (A)	3,920	3,660	(1,163)
Income taxes (B)	904	1,398	1,520
Tooling costs (C)	312	–	–
Business combinations (D)	6,070	2,558	2,029
Shares and participations (E)	(266)	(90)	(90)
Interest costs (F)	487	503	531
Leasing (G)	(140)	(91)	(51)
Debt and equity securities (H)	10,472	1,604	3.962
Other (I)	682	583	627
Tax effect of above U.S. GAAP adjustments	(4,782)	(1,726)	(1,184)
Net increase in shareholders' equity	17,659	8,399	6,181
Approximate shareholders' equity in accordance with U.S. GAAP	**68,859**	**66,275**	**66,612**

Significant differences between Swedish and U.S. accounting principles

A. Foreign currency translation. When valuing outstanding forward exchange contracts and currency options contracts, Volvo makes a provision for unrealized losses to the extent that such losses exceed unrealized gains. In calculating unrealized losses and gains, a portion of the hedged amount is excluded for which there is great certainty that the currency flow through commercial transactions will cover the contracts. In accordance with U.S. GAAP, these forward exchange options contracts are valued at market price through fictive closing. Gains and losses arising therefrom are included in income. Unrealized losses net, on forward and options contracts in 1997 were estimated at 1,163 (gain 3,660; gain 3,920).

B. Income taxes. Volvo applies the liability method of accounting for income tax in accordance with U.S. GAAP, SFAS 109: Accounting for income taxes. 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 amounts are realized or settled.

The major difference between Swedish accounting principles and U.S. GAAP is the principle for determining the valuation reserve. In accordance with SFAS 109, deferred tax receivables are reported when it is "more likely than not" that the receivable will be realized. At December 31, 1997, the valuation reserve was 1,500 (1,400; 900) lower applying U.S. GAAP than in accordance with Swedish GAAP.

Specification of deferred tax receivables and liabilities

(In accordance with Swedish GAAP)	1995	1996	1997
Deferred tax receivable:			
Tax-loss carryforwards	1,290	1,640	1,582
Shares and participations	620	626	236
Investment deduction	26	106	103
Other (mainly temporary differences)	2,136	2,905	3,838
	4,072	**5,277**	**5,759**
Valuation reserve	(1,757)	(2,209)	(2,578)
Deferred tax receivables after deductions for valuation reserve	**2,315**	**3,068**	**3,181**
Deferred tax liabilities:			
Temporary differences (mainly untaxed reserves)	3,673	3,837	4,110
Other	1,232	1,098	1,214
	4,905	**4,935**	**5,324**
Deferred tax liabilities, net	2,590	1,867	2,143
of which, long term	3,350	2,728	3,567

After taking into account offsetting possibilities the items above are shown in Volvo's balance sheet as follows:

	1995	1996	1997
Other long-term receivables	–	265	255
Other short-term receivables	760	923	1,514
Deferred taxes	3,350	3,055	3,912
Deferred tax liabilities, net	**2,590**	**1,867**	**2,143**

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 acquired 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 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

Goodwill

	Net income			Shareholders' equity		
Goodwill	1995	1996	1997	1995	1996	1997
Goodwill in accordance with Swedish GAAP, December 31	(2,132)	(195)	(196)	5,431	2,163	3,075
Items affecting reporting of goodwill						
Acquisition of shares in BCP	(974)	–	–	2,988	–	–
Volvo Truck with regard to exchange of shares with Renault	(438)	(438)	(438)	1,315	877	439
Acquisition of Volvo Construction Equipment corporation	1,772	(91)	(91)	1,772	1,681	1,590
Other	(5)	–	–	(5)	–	–
Net change in accordance with U.S. GAAP	355	(529)	(529)	6,070	2,558	2,029
Approximate Goodwill in accordance with U.S. GAAP, December 31	(1,777)	(724)	(725)	11,501	4,721	5,104

Summary of securities available for selling and trading	Book value	Market value	FAS 15 adjustment gross	Tax and minority interests	FAS 15 adjustment net
Trading, December 31, 1997	8,369	8,584	215 [1]	(60)	155
Trading, January 1, 1997	8,217	8,309	92	(26)	66
Change 1997			123 [2]	(34)	89
Available for sale					
Short-term investments	2,508	2,565	57	(16)	41
Shareholdings	2,089	5,779	3,690	(1,033)	2,657
Available for sale					
December 31, 1997	4,597	8,344	3,747 [1]	(1,049)	2,698
January 1, 1997	21,397	23,058	1,661	(465)	1,196
Change 1997			2,086	(584)	1,502

1 Adjustment of shareholders' equity in accordance with U.S. GAAP before tax effects.
2 Adjustment of net income in accordance with U.S. GAAP before tax effects.

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 of 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 1993, accounting for tooling costs.

Income from investments in associated companies is reported before tax in accordance with Swedish accounting principles, and after tax in accordance with U.S. GAAP. Taxes attributable to associated companies amounted to 103 (68; 672).

F. Interest expense. In accordance with U.S. GAAP, interest expense 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 principles, compared with U.S. GAAP. The differences pertain to sale-leaseback transactions prior to 1997.

H. Debt and equity securities. In accounting in accordance with U.S. GAAP, Volvo applies SFAS 115: Accounting for Certain Investments in Debt and Equity Securities. SFAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair market values, and for all debt securities. These investments are to be classified as either "held-to-maturity" securities that are reported at 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.

As of December 31, 1997, unrealized gains after deducting for unrealized losses in "available-for-sale" securities amounted to 3,747 (1,661; 10,233). The change between 1996 and 1997 pertains mainly to divestment of the shareholding in Renault. Sale of "available-for-sale" securities in 1997 provided approximately SEK 6.4 billion (13.6: 1.9) and the capital gain, before tax, on sales of these securities amounted to approximately SEK 1.0 billion (8.3: 1.2) in 1997.

The book value and market value of these listed securities were distributed as follows.

	January 1, 1997		December 31, 1997	
	Book	Market	Book	Market
Available for sale				
Short-term investments	12,751	13,141	2,508	2,565
Shares	8,646	9,917	2,089	5,779
Trading	8,217	8,309	8,369	8,584

I. Other. Includes adjustments pertaining to pension costs.

Supplementary U.S. GAAP information

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

Cash flow analysis. Actual interest and taxes paid during 1997 amounted to 3,943 (3,944; 3,509) and 1,454 (2,569; 3,571).

Provision for postemployment benefits

Provisions for pension and pension expenses are calculated by the different companies within the Group according to local rules and regulation. According to U.S. GAAP, provisions for pension and pension expenses are calculated in accordance with SFAS 87: Employees' Accounting for Pensions. Certain employees are covered by defined pension benefit plans (ITP pension plans) of a noncontributory nature. Most of the plans are administered by Governmental or quasi-governmental organizations, and the Company cannot influence the actuarial assumptions and methods used. Actuarial information supplied by the administrative agency in Sweden, indicates that the accrued pension costs approximate the actuarially computed value of statutory and voluntary benefit plans. In other countries where actuarial information is available, the net assets available for benefits may exceed the actuarially computed value of statutory and voluntary benefits.

U.S. GAAP pension costs include the following:

	1995	1996	1997
Pensions earned during the year	134	177	260
Interest on pension liabilities	439	354	408
Return in pension foundations	(264)	(186)	(376)
Severance payments	–	32	–
Annualization	128	67	252
Pension costs for defined benefit plans	**437**	**444**	**544**
Other plans	2,469	3,097	3,051
Total pension costs in accordance with U.S. GAAP	**2,906**	**3,541**	**3,595**
Total pension costs in accordance with Swedish GAAP	3,030	3,446	3,660
Adjustment of net income in accordance with US GAAP before tax effect	124	(95)	65

In calculating the provisions for pensions in accordance with U.S. GAAP, the following assumptions were applied:

	Sweden			U.S.		
	1995	1996	1997	1995	1996	1997
Discount rate, %	7.5	7.5	7.0	7.5	7.5	7.0
Payroll increase, %	4.5	4.5	4.0	6.0	6.0	4.0
Expected return on assets, %	–	9.0	9.0	9.0	9.0	9.0

The difference between Swedish GAAP and U.S. GAAP for reporting of provisions for pensions is mainly the choice of discount rate and the fact that the calculation of the U.S. benefit obligation in contrast to the Swedish, are based on the estimated salary at the date of retirement. In addition, assets in pension foundations are marked to market in accordance with U.S. GAAP.

Other postretirement benefit plans

In addition to its pension plans, the Company and certain of its subsidiaries and associated companies sponsor unfunded plans, mainly in the U.S., to provide health care and other benefits for retired employees who meet minimum age and service requirements. The plans are generally contributory, with retiree contributions being adjusted periodically, and contain other cost-sharing features such as deductibles and coinsurance. The estimated cost for health-care benefits is recognized on an accrual basis in accordance with the requirements of SFAS 106, Employers' Accounting for Postretirement Benefits Other than Pensions.

The following table summarizes the status of these plans, reconciled to amounts shown in Volvo's consolidated balance sheet as of December 31, distributed by personnel categories:

	1995	1996	1997
Retirees	168	698	829
Active employees eligible to retire	96	131	115
Other active employees	475	304	313
Total accumulated obligations	**739**	**1,133**	**1,257**
Unamortized net gain	61	80	134
Accrued liability recognized in the balance sheet	**800**	**1,213**	**1,391**

The net postretirement benefit expense includes the following components:

	1995	1996	1997
Benefits earned during the year	38	44	42
Interest expense	47	87	97
Net amortization and deferral	(2)	(2)	(4)
Special recognition due to restructuring	–	25	1
Net postretirement benefit expense	**83**	**154**	**136**

A change of one percentage point per year in health-care costs would change the accumulated postretirement benefit obligation as of December 31, 1996 by approximately 130, and the obligation as of December 31, 1997 by approximately 189, and the net postretirement benefit expense by approximately 27 and 20, respectively.

Calculations made as of December 31, 1997 show an annual increase of 10.5% in the weighted average per capita costs of covered healt-care benefits; it is assumed that the percentage will decline gradually to 6.0% in 2007 and then remain at that level.

The discount rate used in determining the accumulated postretirement benefit obligation as of December 31, 1997 was 7.0% (7.5; 7.5).

Board of Directors' Report

As of July 1, 1997 part of the Parent Company's former operations were transferred to the newly formed wholly owned subsidiary, Volvo Teknisk Utveckling AB. Parent Company operations now comprise only the Group's head office.

Following the offer to the company's shareholders to redeem Volvo shares, a total of 22,596,867 shares were tendered for redemption and the sum of 5,807 was paid out. New shares were then issued to the Volvo Profit-Sharing Foundation and a bonus issue was effected through a write-up of the par value of Volvo's shares from SEK 5 each to SEK 6 each. The share capital was thereby increased in a net amount of 331. The redemption procedure is described on page 13.

A dividend of 22,000 was received from Volvo Personvagnar Holding AB, following which the holding in the company was written down by 8,026.

The remaining shareholdings in Renault SA, with a book value of 6,080, were sold, resulting in a capital loss of 146.

The book value of shares and participations in Group companies amounted to 39,868 (46,893; 42,110), of which 39,866 (46,891; 42,108) 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 61,800 (75,380; 55,913). Shares and participations in non-Group companies included 894 (897; 897) in associated companies that are reported in accordance with the equity method in the consolidated accounts. The portion of shareholders' equity in associated companies accruing to AB Volvo totaled 1,057 (834; 757). Shareholdings and participations in non-Group companies included listed shares of Bilia AB (formerly AB Catena) with a book value of 641. The market value of the holding at year-end was 1,277.

Net debt amounted to 5,336 (15,838; 10,984).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 38,531, equal to 74% of total assets. The comparable figure at year-end 1996 was 51%.

Income statements		1995	1996	**1997**
Net sales		488	559	**520**
Cost of sales		(488)	(559)	**(520)**
Gross income		–	–	**–**
Administrative expenses	Note 1	(356)	(340)	**(426)**
Other operating income		19	11	**47**
Other operating expenses	Note 2	(52)	(41)	**(24)**
Operating income before nonrecurring items		(389)	(370)	**(403)**
Nonrecurring items	Note 3	(1,817)	–	**–**
Operating income		(2,206)	(370)	**(403)**
Income from investments in Group companies	Note 4	1,734	685	**15,360**
Income from investments in associated companies	Note 5	104	23	**39**
Income from other shares and participations	Note 6	218	156	**(137)**
Interest income and similar credits	Note 7	532	233	**218**
Interest expenses and similar charges	Note 7	(1,250)	(1,048)	**(788)**
Other financial income and expenses	Note 8	443	239	**(594)**
Income after financial items		(425)	(82)	**13,695**
Allocations	Note 9	3,601	978	**4,354**
Taxes	Note 10	–	2	**–**
Net income		3,176	898	**18,049**

Balance sheets		Dec 31, 1995	Dec 31, 1996	**Dec 31, 1997**
Assets				
Non-current assets				
Property, plant and equipment	Note 11	82	97	**30**
Total tangible assets		82	97	**30**
Shares and participations in Group companies	Note 12	42,110	46,893	**39,868**
Long-term receivables with Group companies		158	–	**628**
Other shares and participations	Note 12	7,317	7,025	**1,051**
Other long-term receivables		105	105	**100**
Total financial non-current assets		49,690	54,023	**41,647**
Total non-current assets		49,772	54,120	**41,677**
Current assets				
Short-term receivables from Group companies		3,484	1,971	**5,309**
Other short-term receivables	Note 13	122	64	**57**
Short term investments in Group companies		1,584	–	**5,178**
Cash and bank accounts		6	6	**5**
Total current assets		5,196	2,041	**10,549**
Total assets		54,968	56,161	**52,226**
Shareholders' equity and liabilities				
Shareholders' equity	Note 14			
Share capital (441,520,885 shares, par value SEK 6)		2,318	2,318	**2,649**
Legal reserve		7,241	7,241	**7,241**
Total restricted equity		9,559	9,559	**9,890**
Retained earnings		23,906	17,228	**10,111**
Net income		3,176	898	**18,049**
Total unrestricted equity		27,082	18,126	**28,160**
Total shareholders' equity		36,641	27,685	**38,050**
Untaxed reserves	Note 15	739	758	**481**
Provisions				
Provisions for pensions	Note 16	487	280	**296**
Other provisions	Note 17	113	104	**126**
Total provisions		600	384	**422**
Non-current liabilities				
Liabilities to Group companies	Note 18	10,958	8,606	**10,951**
Other loans		2	1	**–**
Total non-current liabilities		10,960	8,607	**10,951**
Current liabilities				
Loans from Group companies		1,198	7,067	**–**
Other loans		34	2	**1**
Trade payables		52	36	**37**
Other liabilities to Group companies		2,884	11,322	**2,162**
Other current liabilities	Note 19	1,860	300	**122**
Total current liabilities		6,028	18,727	**2,322**
Total shareholders' equity and liabilities		54,968	56,161	**52,226**
Assets pledged	Note 20	1,153	1,217	**–**
Contingent liabilities	Note 21	57,441	64,650	**72,287**

Cash flow analyses	1995	1996	**1997**
Year's operations			
Net income	3,176	898	**18,049**
Depreciation	14	17	**11**
Write-down of shareholdings	2,044	60	**8,252**
Gain on sales of securities	–	–	**102**
Changes in untaxed reserves	(285)	19	**(277)**
Decrease (increase) in current operating assets:			
Receivables	(2,577)	1,573	**(3,332)**
Increase (decrease) in current operating liabilities:			
Accounts payable	21	(16)	**1**
Amounts due to subsidiaries	1,491	8,438	**(9,160)**
Other current liabilities and other provisions	(133)	(1,569)	**(156)**
Net financing from year's operations	3,751	9,420	**13,490**
Investments (increase)			
Property, plant and equipment, net	(17)	(32)	**56**
Investments in shares and participations, net	(10,558)	(12,551)	**4,645**
Long-term receivables, net	2,674	158	**(623)**
Net after investments	(4,150)	(3,005)	**17,568**
Financing, dividends, etc			
Increase (decrease) in short-term loans	(942)	5,836	**(7,067)**
Increase (decrease) in long-term loans and provisions for pensions	1,324	(2,561)	**2,360**
Increase in shareholders' equity as a result of conversions and new issue of shares	1,608	–	**116**
Redemption of shares in AB Volvo	–	–	**(5,807)**
Dividend paid to shareholders	(1,512)	(1,854)	**(1,993)**
Increase (decrease) in liquid funds	(3,672)	(1,584)	**5,177**
Liquid funds, January 1	5,262	1,590	**6**
Liquid funds, December 31	1,590	6	**5,183**

Liquid funds include Cash and bank accounts and Short-term investments in Group companies.

Notes to financial statements

The accounting principles applied by Volvo are described on page 41.

Intra-Group transactions

Of the Parent Company's sales, 505 (545: 474) were to Group companies, and purchases from Group companies amounted to 183 (136; 74).

Employees

The number of employees at year-end was 181 (468; 452). Wages, salaries and social costs amounted to 284 (324; 272). Information on the average number of employees as well as wages, salaries and other renumerations is shown on page 52.

1 Administrative expenses

Administrative expenses include depreciation of 11 (17; 14), of which 11 (16; 14) pertained to machinery and equipment, and 0 (1; 0) to buildings.

2 Other operating expenses

Other operating costs include provision for bonus to employees in the amount of 1 (1; 4).

3 Nonrecurring items

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

4 Income from investments in Group companies

Of the income reported, 23,563 (738; 1,951) pertained to dividends from Group companies. Write-downs of shareholdings amounted to 8,244 (53; 217).

Income in 1997 included a supplementary payment of 41 for shares of Örekron International AB, which was sold in 1988 due to Örekron having won a tax case pertaining to 1987 taxes.

5 Income from investments in associated companies

Dividends from associated companies that are reported in the Group accounts in accordance with the equity method amounted to 37 (28; 109). Shareholdings were written down by 7 (5; 5), and were divested with a capital gain of 2 (–; –).

6 Income from other shares and participations

Of the income reported, 16 (158; 218) pertained to dividends from other companies. Dividends were reduced through write-downs of shareholdings amounting to 0 (2; 0). Income in 1997 included a loss of 146 on the sale of Renault SA shares, and a loss of 7 on the participation in Blue Chip Jet HB.

7 Interest income (expenses)

Interest income and similar credits amounting to 218 (233; 532) included interest in the amount of 210 (192; 521) from subsidiaries, and interest expenses and similar charges totaling 788 (1,048; 1,250) included interest totaling 776 (1,007; 1,158) paid to subsidiaries.

8 Other financial income and expenses

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 a loss of 593 (gains: 368: 462). 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 Other operating income and expenses.

Other financial income and expenses also include guarantee commissions from subsidiaries, costs of confirmed credit facilities as well as costs in connection with redemption of Volvo shares. Expenses in 1996 included 112 for the stock exchange listing of Swedish Match AB.

9 Allocations

	1995	1996	1997
Group contributions received	5,460	2,578	**5,655**
Group contributions granted	(2,144)	(1,581)	**(1,578)**
Reversal of tax equalization reserve	446	89	**89**
Reversal of/allocation to exchange reserve	(159)	(108)	**172**
Allocation to extra depreciation	(2)	0	**16**
Total	3,601	978	**4,354**

10 Taxes

Taxes – (2; –) in 1996 pertained to repaid profit-sharing tax.

Provision has been made for estimated tax expenses that may arise as a consequence of the tax audit carried out mainly during 1992. Claims for which provisions are not deemed necessary amount to an expense of 332 (339; 343), which is included in contingent liabilities.

11 Property, plant and equipment

Acquisition cost	Value in balance sheet 1995	Value in balance sheet 1996	Investments	Sales/ scrapping	Reclassi-fications	Value in balance sheet 1997
Buildings	10	17	–	(3)	(6)	8
Land	3	4	–	–	–	4
Machinery and equipment	163	175	14	(138)	3	54
Construction in progress	–	3	–	–	(3)	–
Total	176	199	14	(141)	(6)	66

Accumulated depreciation	Value in balance sheet 1995	Value in balance sheet 1996	Depreciation[1]	Sales/ scrapping	Reclassi-fications	Value in balance sheet 1997[2]	Book value in balance sheet 1997[3]
Buildings	2	2	–	(1)	–	1	7
Land	–	–	–	–	–	–	4
Machinery and equipment	92	100	11	(76)	–	35	19
Construction in progress	–	–	–	–	–	–	–
Total	94	102	11	(77)	–	36	30

The assessed value of buildings was 3 (4; 3), and of land 2 (10; 4). Investments in tangible long-term assets amounted to 14 (35; 17). Capital expenditures approved but not yet implemented at year-end 1997 amounted to 1 (7; 14). An aircraft with a book value of 28 was transferred to the newly formed partnership company, Blue Chip Jet HB.

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

12 Investments in shares and participations

Holdings of shares and participations are specified on page 64–66. Changes in holdings of shares and participations are shown below.

	Group companies		Non-Group companies	
	1996	1997	1996	1997
Balance December 31, previous year	42,110	46,893	7,317	7,025
Acquisitions	19,023	1,014	2	152
Divestments	(15,600)	(613)	(42)	(6,114)
Shareholder contribution	1,414	818	6	–
Write-downs	(54)	(8,244)	(258)	(12)
Balance December 31, current year	46,893	39,868	7,025	1,051

The shares in Volvo Personvagnar Holding AB were written down by 8,026 in connection with dividends received. Fortos Ventures AB was purchased from Volvo Personvagnar Holding AB for 550. The shares were written down by 210 in connection with dividends received.

VAC North America Inc. was acquired from Volvo Aero Corporation for 316 and Volvo Group Treasury North America Inc. was acquired from Volvo Group Finance Sweden AB for 148. The acquired companies were then conveyed, together with Volvo Group North America Inc., 34, to VNA Holding Inc. as a shareholder contribution and increased the book value in that company.

Volvo Transport AB was sold to Volvo Transport Holding AB for 88.

A shareholder contribution of 25 was made to the newly formed company Volvo Teknisk Utveckling AB, following which the shares of the company were sold to Volvo Technology Transfer AB, also a newly formed company.

Shareholder contributions that increased book values were made to Volvo Technology Transfer AB, 74, Celero Support AB, 24, and Volvo Aero Corporation, 196. The holding in Volvo Technology Transfer AB was written down by 8 at year-end.

1996: All of the 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 within the Group for 9,854.

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., a newly formed holding company for part of the operations in North America, 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 amounted thereafter 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.

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. Volvo's original holding, 318, was transferred from shares in non-Group companies.

Shareholder contributions totaling 6,924 included contributions to Volvo Car Corporation, 5,000 and AB Fortos (now Volvo Personvagnar Holding AB), 1,720. Shares were acquired within the Group for 142.

Holdings in subsidiaries were written down in a total amount of 222.

Shares in non-Group companies

Call options had been written for shares of Bilia AB with book values of – (3; 3) at a total exercise price of – (5; 5). Bilia AB shares with a book value of 3 were sold in connection with exercise of call options. Shares of Renault SA carried on the books at 6,080 were sold. Participations in the newly formed partnership, Blue Chip Jet HB, were subscribed for 138 (of which 58 by an aircraft) and written down by 7.

The holding in Euroventures BV was reduced by 4 in connection with the reduction of the company's share capital. The following holdings (amounts in brackets) were sold to Volvo Technology Transfer AB: Euroventures BV [13], Euroventures Nordica I BV [6], Euroventures Nordica II BV [5], and Innovationskapital AB [8].

Shares of Ultralux AB were purchased for 2. Participations in two tenant-owners associations were acquired for 12.

1996: 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 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 "Shares and Participation in Group Companies." Shares of Innovationskapital were acquired for 8. Shareholder contributions were made to Dansk Mobiltelefon, 16, and to Näringlivskredit 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.

13 Other short-term receivables

	1995	1996	1997
Tax receivables	9	8	13
Accounts receivable	9	15	14
Prepaid expenses and accrued income	100	23	27
Other receivables	4	18	3
Total	122	64	57

The reserve for doubtful receivables amounted to – (–; 0) at the end of the year.

14 Shareholders' equity

	Restricted equity				
	Share capital	Premium fund	Legal reserve	Unrestricted equity	Total shareholders' equity
December 31, 1994	2,220	–	5,731	25,418	33,369
Cash 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**
Cash dividend	–	–	–	(1,993)	(1,993)
New issue of shares	3	113	–	–	116
Redemption of AB Volvo shares	(113)	–	–	(5,694)	(5,807)
Bonus issue of shares	441	(113)	–	(328)	–
Net income 1997	–	–	–	18,049	18,049
December 31, 1997	**2,649**	**–**	**7,241**	**28,160**	**38,050**

The distribution of share capital by class of shares is shown in Note 21 to the consolidated financial statements, on page 49.

15 Untaxed reserves

The composition of, and changes in, untaxed reserves:	Value in balance sheet 1995	Allocations 1996	Value in balance sheet 1996	Allocations 1997	Value in balance sheet 1997
Tax equalization reserve	443	(89)	354	(89)	265
Exchange reserve	267	108	375	(172)	203
Accumulated extra depreciation					
Machinery and equipment	29	0	29	(16)	13
Total	**739**	**19**	**758**	**(277)**	**481**

16 Provisions for pensions

Provisions for pensions and similar benefits correspond to the actuarially calculated value of obligations not insured with third parties or secured through transfers of funds to pension foundations. The amount of pensions falling due within one year is included. AB Volvo has insured the pension obligations with third parties. Of the amount reported, 10 (12; 231) pertains to contractual obligations within the framework of the PRI (Pension Registration Institute) system.

In 1996 two Groupwide pension foundations for employees were formed to secure committments 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 1996, 12 was transferred and in 1996, 224 was transferred from AB Volvo to the Volvo Group Employee Pension Foundation.

AB Volvo's pension costs in 1997 amounted to 106 (102; 75).

The capital value of all AB Volvo's pension obligations at year-end 1997 amounted to 588, 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 296. Assets in the pension foundations at market value, exceeded pension obligations by 4.

17 Other provisions

Other provisions comprise provisions for taxes in the amount of 63 (73: 77).

18 Non-current liabilities

Long-term debt matures as follows:

1999	1,972
2000	–
2001	504
2002	1,030
2003	500
2004 or later	6,945
Total	**10,951**

Long-term liabilities to Group companies comprise loans of 10,951 (8,606: 10,958) from Volvo Group Finance.

19 Other current liabilities

	1995	1996	1997
Wages, salaries and withholding taxes	38	46	34
Other liabilities	1,681	132	30
Accrued expenses and prepaid income	141	122	58
Total	**1,860**	**300**	**122**

Other liabilities in 1995 included a debt of approximately FRF 1.1 billion to Renault pertaining to the balance of the purchase price for Volvo Truck Corporation shares. This debt was paid in 1996. Current liabilities amounting to 0 (1; 1,603) are secured.

20 Assets pledged

	1995	1996	1997
Mortgages on fixed assets	–	1	–
Investments			
in Volvo Truck Corporation	1,149	1,211	–
in companies outside the Volvo Group	4	5	–
Total	**1,153**	**1,217**	**–**

Liabilities for which the above assets were pledged amounted to 0 (1; 1,603) at year-end.

21 Contingent liabilities

Of the contingent liabilities amounting to 72,287 (64,650; 57,441) 71,930 (64,046; 56,795) pertained to subsidiaries.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 67,493 (59,465; 42,754), of which guarantees on behalf of subsidiaries total 67,488 (59,460; 42,749).

At December 31, 1997, the utilized portion amounted to 21,785 (19,918; 22,154), including 21,428 (19,313; 21,508) pertaining to subsidiaries.

Investments

Group holdings of shares and participations in non-Group companies	Registration number	Percentage holding[1]	Dec. 31, 1997 Book value SEK M[2]	Dec. 31, 1996 Book value SEK M[2]
Shares in associated companies, equity method of accounting				
AVC Intressenter AB, Göteborg, Sweden	556506-8789	50	610	587
AB Volvofinans, Göteborg, Sweden	556069-0967	50	552	399
Bilia AB, Göteborg, Sweden	556112-5690	37	505	435
VOCS Finance Ltd., Barnet, Great Britain	–	49	126	157
ABB Olofström Automation AB, Olofström, Sweden	556518-7860	49	100	–
SM Motors PTE Ltd., Singapore	–	40	75	84
Xian Silver Bus Corp., Yan Liang, China	–	50	70	27
Concorcio Nacional Volvo s/c Ltda, Curitiba, Brazil	–	49	30	–
Merkavim Metal Works Ltd., Petah-Tiqva, Israel	–	27	23	18
Harvest Technology Partners LP, New York, United States	–	19/23	17	24
EBP i Olofström AB, Olofström, Sweden	556529-1928	23	6	6
VKR-Kiinteistöt Oy Ab, Vanda, Finland	–	40	6	6
Expar Incorporated, Elk. Grove, United States	–	50	5	4
SveviaFin SpA, Rome, Italy	–	50	4	2
First Rent A Car AB, Stockholm, Sweden	556434-7820	45	3	1
OmniNova Technology AB, Uddevalla, Sweden	556540-1691	35	1	–
AutoNova AB, Uddevalla, Sweden	556232-0142	49	0	45
Netherlands Car BV, Born, The Netherlands	–	33	0	0
Société Charolaise de Participations, Rorthais, France	–	–	–	13
Pripps Ringnes AB, Stockholm, Sweden	–	–	–	1,507
The AGES Group, Boca Raton, United States	–	–	–	244
Borgtornet Invest AB, Stockholm, Sweden	–	–	–	1
Transbanco Banco de Investimento SA, Curitiba, Brazil	–	–	–	0
Total book value, associated companies[3]			2,133	3,560
Shares and participations in other companies				
Pharmacia & Upjohn, Inc. Wilmington, Delaware, United States[4]	–	4	2,082	2,082
Régie Nationale des Usines Renault SA, Paris, France		–	–	6,356
Other investments	–	–	368	414
Total shares and participations in other companies			2,450	8,852
Book value as per consolidated balance sheet			4,583	12,412

AB Volvo's holding of shares and participations in non-Group companies	Registration number	Percentage holding[1]	Dec. 31 1997 Book value SEK M	Dec. 31 1996 Book value SEK M
Bilia AB, Göteborg, Sweden[4]	556112-5690	37	641	644
AB Volvofinans, Göteborg, Sweden	556069-0967	50	253	253
Blue Chip Jet HB, Göteborg, Sweden	969639-1011	49	131	–
Protorp Förvaltnings AB, Malmö, Sweden	556127-6881	43/33	12	12
Näringslivskredit NLK AB (in liquidation), Stockholm, Sweden	556270-1432	33/48	0	0
Régie Nationale des Usines Renault SA, Paris, France	–	–	–	6,080
Other investments	–	–	14	36
Total book value, non-Group companies			1,051	7,025

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 Volvo's calculated share of the net worth of associated companies amounts to 2,133 (3,560) of which shareholder's equity (including equity untaxed reserves) amounts to 2,133 (3,061) and excess value amounts to 0 (499).
4 The market value of the holdings is shown on page 47.

AB Volvo's holding of shares and participations in Group companies	Registration number	Percentage holding	Dec. 31, 1997 Book value SEK M	Dec. 31, 1996 Book value SEK M
Volvo Personvagnar Holding AB, Göteborg, Sweden	556245-5567	100	10,758	18,784
Volvo Car Corporation, Göteborg, Sweden	556074-3089	100	—	—
Volvo Car Finance Holding AB, Göteborg, Sweden	556130-4246	100	—	—
Volvo Car Components Corporation, Skövde, Sweden	556197-4931	100	—	—
Volvo Personbilar Sverige AB, Göteborg, Sweden	556034-3484	100	—	—
Volvo Personvagnar Norden AB, Göteborg, Sweden	556413-4848	100	—	—
Volvo Personbiler Norge AS, Kolbotn, Norway	—	100	—	—
Volvo Personvogne Danmark AS, Bröndby, Denmark	—	100	—	—
Volvo Auto Oy Ab, Vanda, Finland	—	100	—	—
Volvo Auto Polska Sp.Z.O.O., Warsawa, Poland	—	100	—	—
Volvo Cars Europe Industry NV, Gent, Belgium	—	100	—	—
Volvo Nederland Personenauto BV, Beesd, The Netherlands	—	100	—	—
Volvo Deutschland GmbH, Köln, Germany	—	100	—	—
Volvo Car UK Ltd., Stanmore, Great Britain	—	100	—	—
Volvo Automobiles France SA, Nanterre, France	—	100	—	—
Volvo Automobile (Schweiz) AG, Lyss, Switzerland	—	100	—	—
Volvo España, SA, Madrid, Spain	—	100	—	—
Volvo Italia, SpA, Bologna, Italy	—	100	—	—
Volvo Auto Hungaria, Budapest, Hungary	—	100	—	—
Volvo Auto Czech, Prag, Czech Republic	—	100	—	—
Volvo Otomobil Ticaret Ltd Sti, Istanbul, Turkey	—	100	—	—
Volvo Cars of North America Inc., Rockleigh, USA	—	100	—	—
Volvo Canada Ltd., Willowdale, Canada	—	100	—	—
Volvo Thailand Ltd., Bangkok, Thailand	—	100	—	—
Volvo Cars Japan Corporation, Tokyo, Japan	—	100	—	—
Swedish Motor Assembly Sdn Bhd, Shah Alam, Malaysia	—	58	—	—
Thai Swedish Assembly Co Ltd., Bangkok, Thailand	—	56	—	—
Volvo Truck Corporation, Göteborg, Sweden	556013-9700	100	8,420	8,420
Volvo Truck Components Corporation, Skövde, Sweden	556000-0753	100	—	—
Volvo Lastvagnar Sverige AB, Göteborg, Sweden	556411-6878	100	—	—
Volvo Lastebiler og Busser Norge AS, Kolbotn, Norway	—	100	—	—
Volvo Lastvogne og Busser Danmark AS, Bröndby, Denmark	—	100	—	—
Volvo Kuorma- ja Linja-Autot Oy Ab, Vanda, Finland	—	100	—	—
Volvo Truck Poland Company Sp.ZO.O, Warsawa, Poland	—	100	—	—
Volvo Truck Latvia S/A, Riga, Latvia	—	100	—	—
Volvo Truck Czech S R O, Prag, Czech Republic	—	100	—	—
Volvo Truck Slovak, Bratislava, Slovakia	—	100	—	—
Volvo Truck en Bus Nederland B.V., Gouda, The Netherlands	—	100	—	—
Volvo Truck Finance Holding BV, Rotterdam, The Netherlands	—	100	—	—
Volvo Europa Truck NV, Gent, Belgium	—	100	—	—
Volvo Trucks (Deutschland) GmbH, Dietzenbach, Germany	—	100	—	—
Volvo Truck and Bus Ltd., Warwick, Great Britain	—	100	—	—
Volvo Trucks France SA, Nanterre, France	—	100	—	—
Volvo Trucks (Schweiz) AG, Lyss, Switzerland	—	100	—	—
Volvo Veicoli Industriali SpA, Bergamo, Italy	—	100	—	—
Volvo Truck España, SA, Madrid, Spain	—	100	—	—
Volvo Trucks de Mexico SA de CV, Mexico DF, Mexico	—	100	—	—
Volvo Trucks Japan Corporation, Tokyo, Japan	—	100	—	—
Volvo do Brasil Veiculos Ltda, Curitiba, Brazil	—	99	—	—
Transbanco Banco de Investimento SA, Curitiba, Brazil	—	100	—	—
Volvo Peru Sociedad Anonima, Lima, Peru	—	100	—	—
Volvo Truck Korea Ltd, Seoul, South Korea	—	100	—	—
Volvo Pakistan Ltd, Punjab Lahore, Pakistan	—	51	—	—
Volvo India Private Ltd, New Delhi, India	—	100	—	—

AB Volvo's holding of shares and participations in Group companies (cont.)	Registration number	Percentage holding	Dec. 31, 1997 Book value SEK M	Dec. 31, 1996 Book value SEK M
Volvo Bus Corporation, Göteborg, Sweden	556197-3826	100	181	181
Säffle Karosseri AB, Säffle, Sweden	556058-3485	100	–	–
Aabenraa Karrosseri AS, Aabenraa, Denmark	–	100	–	–
Volvo Bus Poland Sp.ZO.O., Warsawa, Poland	–	55	–	–
Volvo Busse Deutschland GmbH, Heilbronn, Germany	–	100	–	–
Volvo Austria GmbH, Wien, Austria	–	100	–	–
Prévost Car Inc, St Claire, Canada	–	51	–	–
Volvo Bus Asia Pacific (Pte) Ltd, Singapore	–	100	–	–
Volvo Construction Equipment N.V., Waddinxveen, The Netherlands	–	100	2,582	2,582
Volvo Wheel Loaders AB, Eskilstuna, Sweden	556310-1319	100	–	–
Volvo Construction Equipment Components AB, Eskilstuna, Sweden	556527-6820	100	–	–
Volvo Articulated Haulers AB, Växjö, Sweden	556360-1615	100	–	–
Volvo Construction Equipment Parts AB, Eskilstuna, Sweden	556310-1301	100	–	–
Volvo Anläggningsmaskiner Norden AB, Eskilstuna, Sweden	556008-6430	100	–	–
Volvo Excavators AB, Eslöv, Sweden	556022-1813	100	–	–
Volvo Construction Equipment International AB, Eskilstuna, Sweden	556310-1293	100	–	–
Volvo Materiels Tp France S.A., Trappes, France	–	100	–	–
Groupe Pel Job SA, Annecy le Vieux, France	–	100	–	–
Framateq S.A., Danmarie le lys Melun, France	–	100	–	–
Volvo Maquinaria De Construccion España S.A., Madrid, Spain	–	100	–	–
Volvo Construction Equipment GB Ltd, Duxford, Great Britain	–	100	–	–
Volvo Baumaschinen Deutschland GmbH, Konz, Germany	–	100	–	–
Zettelmeyer GmbH, Konz, Germany	–	100	–	–
Champion Road Machinery Ltd, Goderich, Canada	–	100	–	–
Volvo Equipamentos De Construcao Ltda, Campinas, Brazil	–	100	–	–
Volvo Construction Equipment Australia Pty Ltd, Parramatta, Australia	–	100	–	–
Volvo Construction Equipment East Asia (Pte) Ltd, Singapore	–	100	–	–
AB Volvo Penta, Göteborg, Sweden	556034-1330	100	421	421
Volvo Penta Norden AB, Göteborg, Sweden	556127-7533	100	–	–
Volvo Penta U.K Ltd, Watford, Great Britain	–	100	–	–
Volvo Penta Central Europe GmbH, Kiel, Germany	–	100	–	–
Volvo Penta Benelux BV, Mijdrecht, The Netherlands	–	100	–	–
Volvo Penta France S.A, Nanterre, France	–	100	–	–
Volvo Penta Italia SpA, Trezzano sul Naviglio, Italy	–	100	–	–
Volvo Penta España, S.A., Madrid, Spain	–	100	–	–
Volvo Penta Asia (Pte) Ltd, Singapore	–	100	–	–
Volvo Penta Japan Corporation (Kabushiki Kaisha), Tokyo, Japan		100		
Volvo Aero Corporation, Trollhättan, Göteborg, Sweden	556029-0347	100	1,843	1,647
Volvo Aero Engine Services AB, Stockholm, Sweden	556328-9171	90	–	–
Volvo Aero Turbines (UK) Ltd, Coventry, Great Britain	–	100	–	–
VNA Holding Inc, Greensboro, USA	–	100	1,054	556
Volvo Trucks North America, Inc., Greensboro, USA	–	100	–	–
Volvo Construction Equipment North America Inc., Asheville, USA	–	100	–	–
Euclid-Hitachi Heavy Equipment Inc. Cleveland, Ohio, USA	–	60	–	–
Volvo Penta of The Americas, Inc., Chesapeake, USA	–	100	–	–
The AGES Group, Boca Raton, USA	–	60	–	–
Volvo Group North America, Inc., New York, USA	–	100	–	34
Volvo Group Finance Sweden AB, Göteborg, Sweden	556135-4449	100	2,348	2,348
Försäkrings AB Volvia, Göteborg, Sweden	557207-1784	100	601	601
Volvo Group Insurance Försäkrings AB, Göteborg, Sweden	516401-8037	100	182	182
Danafjord AB, Göteborg, Sweden	556006-8313	100	508	508
Volvo Information Technology AB, Göteborg, Sweden	556103-2698	100	54	54
Fortos Ventures AB, Stockholm, Sweden	556004-2748	100	340	–
Volvo Group Credit Sweden AB, Göteborg, Sweden	556000-5406	100	486	486
Sotrof AB, Göteborg, Sweden	556519-4494	100	9,854	9,854
Other companies			236	235
Total book value, subsidiaries [5]			39,868	46,893

5 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 61,800 (75,380).

Proposed disposition of unappropriated earnings

Group

As shown in the consolidated balance sheet at December 31, 1997, unrestricted equity amounted to SEK 41,309 M (40,652). Of this amount, SEK 44 M is estimated to be appropriated to restricted equity.

AB Volvo	SEK M
Retained earnings brought forward	10,111
Net income for 1997	18,049
Total	28,160

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

To the shareholders, a dividend of	SEK M
SEK 5.00 per share	2,208
Retained earnings to be carried forward	25,952
Total	28,160

Göteborg February 18, 1998

Håkan Frisinger

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

Our auditors' report was issued on February 19, 1998

Ragne Billing
Authorized Public Accountant

Nils Brehmer
Authorized Public Accountant

Auditors' Report for AB Volvo

We have audited the Annual Report and the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of AB Volvo for 1997. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the Annual Report, the consolidated financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Annual Report and the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the Annual Report and the consolidated financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any member of the Board of Directors or the President or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the Annual Report and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and, consequently we recommend

that the income statements and the balance sheets of the Parent Company and the Group be adopted, and

that the earnings of the Parent Company be appropriated in accordance with the proposal in the Board of Directors' Report.

In our opinion, the members of the Board of Directors and the President have not committed any act or been guilty of any negligence, which could give rise to any liability to the Company. We therefore recommend

that the members of the Board of Directors and the President be discharged from liability for the financial year.

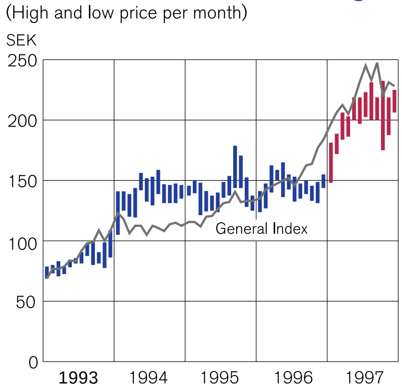
February 19, 1998

Ragne Billing
Authorized Public Accountant

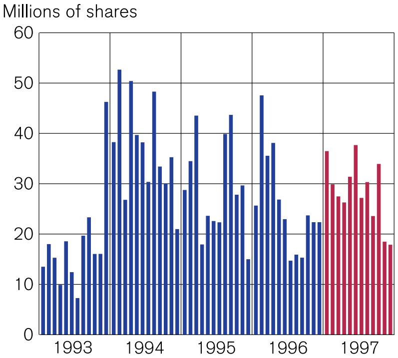
Nils Brehmer
Authorized Public Accountant

Shareholder information

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



Number of Volvo Series B shares traded on the Stockholm Stock Exchange
Millions of shares



History

On May 11, 1915, the AB Delmar & Co. Patentbyrå, on behalf of Aktiebolaget Volvo, submitted an application to register the "Volvo" trademark. Eleven years later, on August 10, 1926, SKF subscribed a share capital amounting to SEK 200,000, represented by 2,000 shares. In 1935, when Volvo's shares were listed on the Stockholm Stock Exchange, the share capital had increased to SEK 13 M, and the number of shares to 260,000.

At year-end 1997 the share capital of AB Volvo amounted to SEK 2,649 M, represented by 441,520,885 shares, each with a par value of SEK 6. The share capital is divided into Series A shares with one vote each and Series B shares with one tenth of a vote each. There are 168,896,539 voting rights, distributed among approximately 226,000 shareholders. The 50 largest shareholders account for more than 80% of both the voting rights and share capital.

Volvo shares in 1997

1997 as a whole was a favorable stock market year. The Stockholm Stock Exchange General Index rose by 24%, and the Dow Jones (Industrial Average) index in New York by 23%.

The market price of Volvo Series B shares was SEK 150.50 at the beginning of 1997, and SEK 213 at the close of the year – an increase in value of 42%. Volvo's market value at December 31, 1997 was SEK 94 billion, equal to 4.3% (4.1) of the total market value of all companies listed on the Stockholm Stock Exchange. The highest price paid for Series B shares during the year was SEK 232.50, on October 8 and the lowest price, SEK 148 was paid January 2. The shares are traded in lots of 100. There is also trading in Volvo put and call options, futures and stock loans on the Stockholm options exchange (OM Stockholm AB). During 1997, 864,264 call options, 415,281 put options, 7,750 futures and 220 stock loans were traded. Approximately 129 million Volvo shares were involved in some form of derivative trading.

Turnover

The Stockholm Stock Exchange accounts for the largest part of the turnover in Volvo shares, with an average of 1.6 million shares being traded per trading day. Apart from the Stockholm Exchange, most of the trading takes place in London and on NASDAQ. Trading on the NASDAQ electronic exchange declined by 43% during the year and the number of outstanding American Depositary Receipts (ADRs – certificates representing Series B shares) decreased by 46%, to 16.9 million. Holdings of Volvo shares by foreign investors declined from 42% of the share capital (26% of the voting rights) to 35% (19) in 1997. During the year Volvo and Renault SA sold their remaining holdings of each other's shares.

Dividend and share redemption program

The Board of Directors and the President propose that shareholders at the General Meeting approve payment of a dividend of SEK 5.00 per share corresponding to a total of SEK 2,208 M, for the 1997 fiscal year. The dividend paid on 1996 operations amounted to SEK 4.30 per share, or a total of SEK 1,993 M. With a view of reducing shareholders' equity in the Volvo Group and the number of AB Volvo shares, shareholders at Volvo's Annual General Meeting on April 23, 1997 approved a share redemption offer to AB Volvo's shareholders. Twenty redemption rights (one redemption right per Volvo share held) entitled the holder to redeem one Volvo share. A total of SEK 5.8 billion was paid to the shareholders. (See "Redemption of shares," page 13.)

Data per share (adjusted for issues and splits)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Income[1]	14.60	12.70	12.30	(2.60)	1.80	(8.60)	(8.90)	31.80	20.20	26.90	22.90
Dividend, SEK	2.10	2.80	3.10	3.10	3.10	1.55	1.55	3.40	4.00[8]	4.30	5.00[9]
Share price at year-end, SEK (B share)	55	77	89	41	63	69	108	140	136	151	213
Direct return, % (B share)[2]	3.8	3.6	3.5	7.6	4.9	2.3	1.4	2.4	2.9	2.9	2.3
Effective return, % (B share)[3]	(18)	44	19	(50)	61	13	60	32	0	30	46
Price/earnings ratio (B share)[4]	4	6	7	neg	36	neg	neg	4	7	6	9
EBIT-multiple[5]	2	5	8	45	neg	neg	36	7	7	16	9
Payout ratio, %[6]	14	22	25	neg	176	neg	neg	11	20	16	22
Shareholders' equity, SEK[7]	75	86	97	91	87	77	70	98	110	125	137
Income as percentage of average shareholders' equity	21.0	15.8	13.3	neg	2.0	neg	neg	36.5	19.3	23.7	17.4

Other share data

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Number of shareholders at year-end	171,900	177,400	173,200	169,100	170,500	163,800	147,300	182,700	206,700	176,800	225,500
Number of Series A shares at year-end, millions	25.3	25.3	25.3	25.3	25.3	25.3	25.3	142.2	142.2	142.2	138.6
Number of Series B shares at year-end, millions	52.3	52.3	52.3	52.3	52.3	52.3	52.3	301.9	321.4	321.4	302.9
Number of Series A shares traded in Stockholm during the year, millions	2.9	2.4	1.3	2.1	64.7	16.6	32.8	54.1	23.2	23.7	23.7
Number of Series B shares traded in Stockholm during the year, millions	30.5	19.3	13.7	13.2	34.5	169.7	465.5	363.3	363.3	316.4	362.7
Number of A and B shares traded in London during the year, millions	n.a.	14.9	19.3	11.0	89.1	178.9	150.7	287.5	232.8	301.0	260.8
Number of shares traded in ADR, NASDAQ in 1997, millions	10.6	5.7	4.6	1.9	9.9	9.4	11.5	19.0	73.5	83.0	47.1

1 Income per share is calculated as net income divided by average number of shares.

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

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

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

5 Market value at year-end plus net financial debt and minority interest, divided by operating income.

6 Dividend divided by income per share.

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

8 Plus one share of Swedish Match per Volvo share, price of 21.74 (weighted average first 10 trading days following listing).

9 Proposed by Board of Directors.

The largest shareholders in AB Volvo, December 31, 1997

	Number of shares	% of total votes	Share of capital, %
The funds of FöreningsSparbanken	43,202,746	10.5	9.8
The National Pension Insurance Fund, Fourth Fund managing board	22,047,590	8.6	5.0
Försäkringsbolaget SPP (pensions funds)	16,509,912	4.8	3.7
S-E-Bankens aktiefonder (saving funds)	9,449,335	5.3	2.1
Svenska Handelsbanken pension fund	8,700,000	5.2	2.0
Skandia	13,009,877	4.7	2.9
AMF Pensionsförsäkring AB (labor market insurances)	15,150,000	4.2	3.4
Trygg-Hansa Försäkring (insurance group)	7,979,922	3.8	1.8
Nordbankens aktiefonder (saving funds)	7,975,725	3.3	1.8
Parcitas Investment SA	4,975,000	2.9	1.1

Exchange listings of Volvo shares, location and year

Stockholm	1935
London	1972
Frankfurt am Main, Düsseldorf, Hamburg	1974
Paris	1984[1]
USA (NASDAQ)	1985
Brussels, Antwerp	1985
Tokyo	1986
Zürich, Basel, Geneva	1987[1]

Distribution of shares, December 31, 1997

Volvo shareholders owning	Number of share-holders	%	Number of shares	Share of capital, %
1– 500 shares	195,409	86.7	19,913,413	4.5
501– 1,000 shares	15,984	7.1	12,199,259	2.8
1,001– 2,000 shares	7,960	3.5	11,626,389	2.6
2,001– 5,000 shares	4,111	1.8	12,850,685	2.9
5,001– 10,000 shares	991	0.4	7,054,585	1.6
10,001– 20,000 shares	411	0.2	5,793,582	1.3
20,001– 50,000 shares	265	0.1	8,290,788	1.9
50,001–100,000 shares	132	0.1	9,557,480	2.2
100,001– shares	273	0.1	354,234,704	80.2
Total	225,536	100.0	441,520,885	100.0

1 The Board of Directors decided on delisting in February 1998.

Share capital and dividend, 1926–1997

SEK Year	Share capital	Number of shares	Dividend per share	Dividend total	Event	Terms
1926	200,000	2,000				
1930	4,200,000	42,000			rights issue	20:1, SEK 100
1935	13,000,000	260,000[1]	2.50	650,000	rights issue	
1937	18,200,000	364,000	2.50	910,000	rights issue	2:5, SEK 50
1938	18,200,000	364,000	3.00	1,092,000		
1942	20,000,000	400,000[2, 3]	3.00	1,092,000	rights issue	
1943	25,000,000	500,000	3.00	1,500,000	rights issue	1:4, SEK 50
1945	37,500,000	750,000	3.00	2,250,000	rights issue	1:2, SEK 50
1951	56,250,000	1,125,000	3.00	3,375,000	rights issue	1:2, SEK 50
1952	75,000,000	1,500,000	3.00	4,500,000	bonus issue	1:3
1954	75,000,000	1,500,000	3.60	5,400,000		
1955	90,000,000	1,800,000	3.00	5,400,000	bonus issue	1:5
1959	108,000,000	2,160,000	3.00	6,480,000	bonus issue	1:5
1960	114,000,000	2,280,000[3]	3.00	6,840,000		
1961	114,000,000	2,280,000	3.75	8,550,000		
1962	142,500,000	2,850,000			rights issue	1:4, SEK 60
	171,000,000	3,420,000	3.00	10,260,000	bonus issue	1:5
1963	171,000,000	3,420,000	4.00	13,680,000		
1964	228,000,000	4,560,000	3.00	13,680,000	bonus issue	1:3
1965	228,000,000	4,560,000	3.90	17,784,000		
1966	273,600,000	5,472,000			rights issue	1:5, SEK 75
	342,000,000	6,840,000	3.50	23,940,000	bonus issue	1:4
1967	342,000,000	6,840,000	4.50	30,780,000		
1968	342,000,000	6,840,000	5.50	37,620,000		
1969	342,000,000	6,840,000	6.00	41,040,000		
1970	513,000,000	10,260,000	4.00	41,040,000	bonus issue	1:2
1972	598,500,000	11,970,000			rights issue	1:6, SEK 80
	607,180,000	12,143,600[3]				
	613,430,000	12,268,600[3]	4.00	49,074,400		
1973	624,505,000	12,490,100[3]	6.00	74,940,600		
1974	653,755,000	13,075,100[4]	6.00	78,450,600	special issue	SEK 171
1975	784,506,000	15,690,120	6.00	94,140,720	rights issue	1:5, SEK 70
1976	882,569,250	17,651,385	6.00	105,908,310	rights issue	1:8, SEK 70
1978	882,569,250	17,651,385	7.00	123,559,695		
1979	1,059,083,100	21,181,662	8.00	169,453,296	rights issue	1:5, SEK 60
1981	1,393,921,050	27,878,421[3]	9.00	190,634,958[5]		
1982	1,697,705,250	33,954,105[6]	10.00	339,541,050	rights issue	1:5, SEK 100
1983	1,735,205,250	34,704,105[7]	11.50	399,097,208	special issue	SEK 405
1984	1,763,750,250	35,275,005[8]			special issue	SEK 415, 45
	1,763,750,250[9]	70,550,010[9]			split	2:1
	1,940,125,225[9]	77,605,009[9]	5.30	411,306,548	bonus issue	1:10
1985	1,940,125,225	77,605,009	8.50	659,642,577		
1986	1,940,125,225	77,605,009	9.25	717,846,333		
1987	1,940,125,225	77,605,009	10.50	814,852,595		
1988	1,940,125,225	77,605,009	14.00	1,086,470,126		
1989	1,940,125,225	77,605,009	15.50	1,202,877,639		
1992	1,940,125,225	77,605,009	7.75	601,438,820		
1993	1,940,289,850	77,611,594	7.75	601,438,820	conversion of debenture loan	
1994	2,216,083,775	88,643,351[3]			special issue	
	2,216,083,775	443,216,755[10]			split	5:1
	2,220,207,125	444,041,425	3.40	1,512,085,233[11]	conversion of debenture loan	
1995	2,317,791,260	463,558,252[12]	4.00[13]	1,854,233,008	conversion of debenture loan	
1996	2,317,791,260	463,558,252	4.30	1,993,300,484		
1997	2,204,806,925	440,961,385[14]			redemption of shares	1:20, SEK 257
	2,649,125,310	441,520,885[15]	5.00[16]	2,207,604,425	special issue	207, SEK 31

1 The original par value of SEK 100 was changed to SEK 50.

2 Rights issue shares, ex-dividend.

3 New Volvo shares issued as payment for acquisition of the following companies.
1942 Köpings Mekaniska Verkstad
1960 Arvika Thermaenius
1972 Ailsa Trucks, DAF, Motauto
1973 Bilia, Bil & Truck, Verdexa
1981 Beijerinvest
1994 BCP Branded Consumer Products, 26%.

4 A special non-public issue of new shares to the National Pension Insurance Fund, Fourth Fund Managing Board .

5 Excluding Beijerinvest's dividend of SEK 60,270,831.

6 500,000 B shares were subscribed by Volvo employees resident in Sweden in connection with the new issue of share.

7 A special rights issue of 750,000 B shares was offered in the British capital market without preferential rights to Volvo shareholders.

8 In connection with an acquisition of additional shares in Hamilton Brothers Petroleum Corporation, AB Volvo issued 570,900 non-restricted Series B shares to the sellers.

9. In July 1984, each share with a par value of SEK 50 was exchanged for two new shares, with a par value of SEK 25. In August 1984, one new bonus share was distributed for each ten shares held.

10 In August 1994, each share with a par value of SEK 25 was exchanged for five new shares, with a par value of SEK 5, each.

11 Dividend based on 444,730,951 shares.

12 Until March 15, 19,516,827 new shares were issued on conversion of debenture loans.

13 Plus one Swedish Match share.

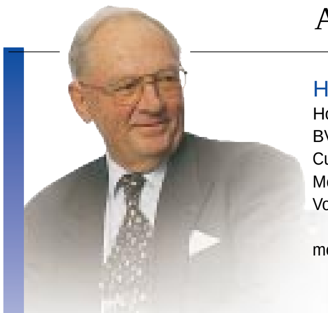
14 Redemption of 3,546,185 Series A shares and 19,050,682 Series B shares.

15 New issue of 559,500 Series B shares to the Volvo Profit-Sharing Foundation, plus bonus issue and write-up of par value of share from SEK 5 to SEK 6.

16 Proposed by Board of Directors.

Board of Directors and Auditors

Board members elected by Annual General Meeting



Håkan Frisinger Chairman. Born 1928. Master of Engineering, Hon. Dr. of Technology. Board Chairman: Atle AB, IRO AB and Swedwood Holding BV (The Netherlands). Board member: Sten A Olsson Foundation for Research and Culture, Catella AB, Ernström Holding AB and Ingka Holding BV (The Netherlands). 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. Also deputy member, 1981–1984; regular member, 1984–1987.

Holdings: 1,000 Volvo Series A shares.

Per-Olof Eriksson Born 1938. Master of Technology, Hon. Dr. of Technology. Chairman: Svenska Kraftnät. Board member: 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.

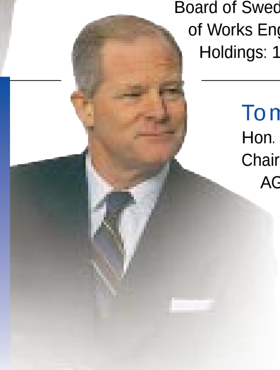
Member of Volvo Board since 1994.

Holdings: 1,000 Volvo Series B shares.

Sören Gyll Born 1940. Chairman: Pharmacia & Upjohn Inc. Board member: Bilia AB, AB SKF, Svenska Cellulosa Aktiebolaget SCA, Skanska AB, Oresa Ventures S.A., Federation of Swedish Industries and Swedish Employers' Confederation.

Member of the Royal Swedish Academy of Engineering Sciences, Supervisory Board of Swedish Metal Trades Employers' Association and Swedish Association of Works Engineers. Member of Volvo Board since 1992.

Holdings: 17,892 Volvo shares, including 3,942 Series B shares; 10,000 options.



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

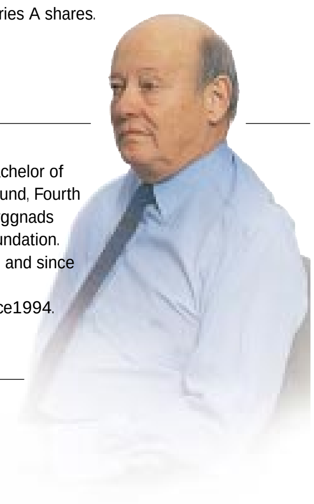
Chairman: Svenska Handelsbanken and Bergman & Beving AB. Vice Chairman: AGA AB, Telefonaktiebolaget LM Ericsson and AB Industrivärden.

Board member: Svenska Cellulosa Aktiebolaget SCA and SAS Representantskap.

Member of Volvo Board since 1994.

Holdings: 2,000 Volvo Series A shares.

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



Sören Mannheimer Born 1934. Bachelor of Laws. Chairman: National Pension Insurance Fund, Fourth Fund Managing Board, Lennart Wallenstam Byggnads AB and Chalmers University of Technology Foundation. Board member: Svenska Mässan, 1977–1992 and since 1995.

Member of Volvo Board, 1986-1994 and since1994.

Holdings: 100 Volvo Series B shares.

Björn Svedberg Born 1937. Master of Engineering. Hon. Dr. of Technology. Chairman: Telefon-aktiebolaget LM Ericsson and ABB AB.

Board member: ABB Ltd, Incentive AB and STORA.

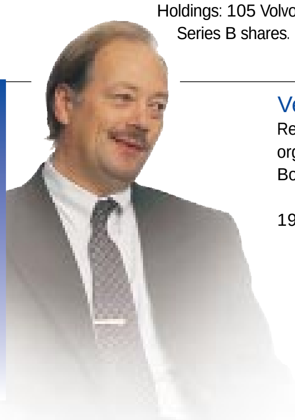
Member of Volvo Board since 1994.

Holdings: 4,000 Volvo Series B shares.

Board members designated by employee organizations

Lars-Göran Larsson Born 1947. Representative for organization of salaried employees (PTK). With Volvo since 1974.
Member of Volvo Board since 1994.
Holdings: 44 Volvo Series A shares.

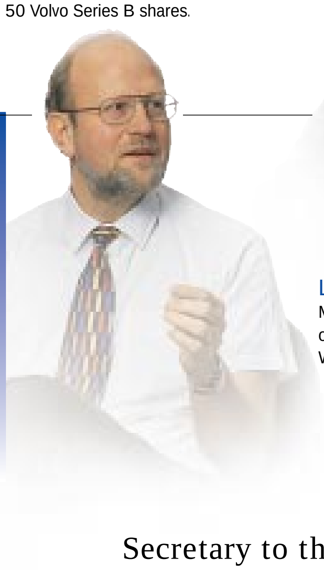
Olle Ludvigsson Born 1948. Representative for plant trade union organizations (LO). With Volvo since 1968. Deputy member of Volvo Board, 1983-1988; regular member since 1988.
Holdings: 105 Volvo shares, including 55 Volvo Series B shares.



Verner Pedersen Born 1952. Representative for plant trade union organizations (LO). With Volvo since 1975. Board member: Volvo Aero Corporation.
Deputy member of 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 Volvo Board since 1996.
Holdings: 50 Volvo Series B shares.



Lars-Erik Berg Born 1950. Master of Engineering. Representative for organization of salaried employees (PTK). With Volvo since 1975.
Deputy member of Volvo Board since 1995.
Holdings: 800 Volvo Series B shares.

Secretary to the Board

Eva Persson Born 1953. Senior Vice President, AB Volvo. Secretary to AB Volvo's 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.

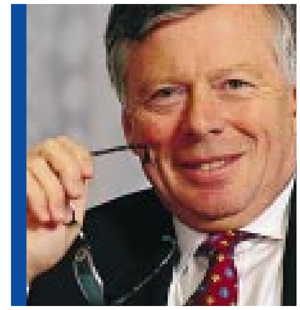
Group Executive Committee

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

Chairman: Gränges AB.

Board member: Federation of Swedish Industries and Swedish Metal Trades Employers' Association. Member of the Royal Swedish Academy of Engineering Sciences. Member of Volvo Board since 1997.

Holdings: 20,300 Volvo shares, including 20,000 Series B shares.



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

President, VME Group NV, 1988-1995. With Volvo since 1995.

Board member: Cardo AB, Trygg-Hansa and S-E-Banken.

Holdings: 7,000 Volvo Series 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.

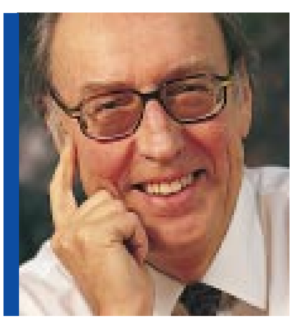
President of Volvo Car Corporation, 1990-1993. With Volvo since 1966.

Member of the Boards of AGA AB, Bilia AB, Atlas Copco AB and Storebrand ASA.

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

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

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



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

Board Chairman, Natural Science Research Council. Vice Chairman, Royal Swedish Academy of Engineering Sciences. Board member, Foundation for Strategic Research. Member of Industrial Research and Development Advisory Committee of the European Commission (IRDAC).

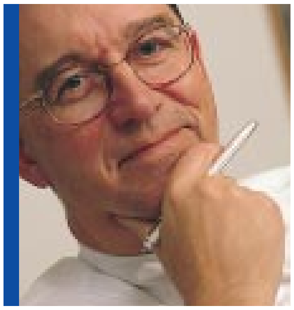
Holdings: 1,714 Volvo shares, including 1,670 Series B shares; 6,000 options.

Per Lindquist Born 1950. Master of Engineering. Acting President, AB Volvo Penta and member of Group Executive Committee since 1997.

Holdings: 1,124 Volvo shares, including 1,074 Series B shares; 6,000 options.

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

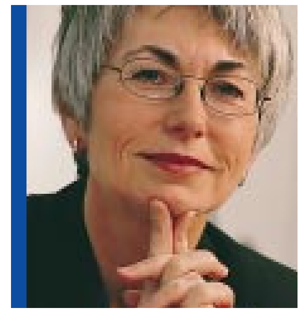
Holdings: 1,114 Volvo shares, including 965 Series B shares; 10,000 options.



Karl-Erling Trogen
Born 1946. Master of Engineering. President, Volvo Truck Corporation. Member of Group Executive Committee since 1994.

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

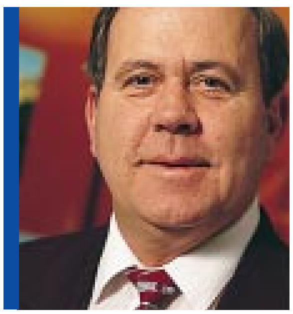
Holdings: 10,000 Volvo Series B shares; 10,000 options.



Eva Persson Born 1953. Bachelor of Laws. Senior Vice President, AB Volvo. Member of Group Executive Committee, responsible for legal matters, taxes and Group security since 1997. With Volvo since 1988.

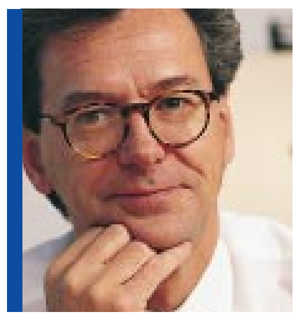
Secretary to AB Volvo's Board since 1997.

Holdings: 19 Volvo Series B shares.



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

Holdings: 1,330 Volvo shares, including 1,280 Series B shares.

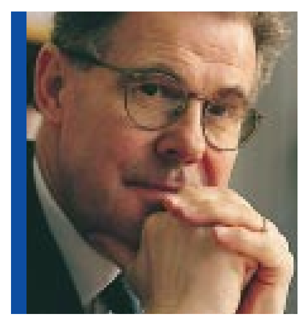


Claes Malmros Born 1952. Bachelor of Laws. Senior Vice President, AB Volvo. Member of Group Executive Committee, responsible for strategic matters and business development, since 1995. With Volvo since 1986.

Holdings: 135 Volvo Series A shares; 6,000 options.

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

Holdings: 44 Volvo Series A shares.



Lars Anell Born 1941. Master of Business Administration. Senior Vice President, AB Volvo. Member of Group Executive Committee, responsible for environment, brand management and public affair since 1994. With Volvo since 1994.

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

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

Board member, Aktiefrämjandet and BIORA AB.

Holdings: 3,174 Volvo Series A shares; 6,000 options.

Eleven-year summary for the Volvo Group

Income statements[1]

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Net sales	**92,520**	**96,639**	**90,972**	**83,185**	**77,223**	**83,002**	**111,155**	**155,866**	**171,511**	**156,060**	**183,625**
Cost of sales						(66,143)	(85,840)	(115,092)	(128,529)	(121,249)	(138,990)
Gross income						**16,859**	**25,315**	**40,774**	**42,982**	**34,811**	**44,635**
Research and development expenses						(6,243)	(4,438)	(4,652)	(7,343)	(8,271)	(8,659)
Selling expenses	(86,058)	(89,548)	(86,155)	(82,618)	(78,059)	(8,717)	(11,480)	(15,737)	(17,418)	(14,895)	(17,160)
Administrative expenses						(4,151)	(6,131)	(7,711)	(7,399)	(6,685)	(7,018)
Other operating income						3,720	4,102	3,317	4,168	5,086	3,187
Other operating expenses						(3,370)	(5,455)	(6,620)	(5,966)	(6,336)	(6,567)
Operating income (loss) before nonrecurring items	**6,462**	**7,091**	**4,817**	**567**	**(836)**	**(1,902)**	**1,913**	**9,371**	**9,024**	**3,710**	**8,418**
Nonrecurring items	–	113	313	(2,450)	–	(1,450)	(1,600)	–	1,215	–	–
Operating income (loss)	**6,462**	**7,204**	**5,130**	**(1,883)**	**(836)**	**(3,352)**	**313**	**9,371**	**10,239**	**3,710**	**8,418**
Income from investments in associated companies						120	(1,749)	5,861	2,119	314	2,929
Income from other investments						157	444	1,667	788	9,007	1,168
Interest income and similar credits	2,549	1,039	1,837	1,556	1,639	3,973	4,250	3,051	3,996	4,817	3,486
Interest expenses and similar charges						(5,111)	(5,599)	(3,608)	(3,757)	(3,271)	(2,748)
Other financial income and expenses						(536)	(301)	36	(337)	(374)	(77)
Income after financial items	**9,011**	**8,243**	**6,967**	**(327)**	**803**	**(4,749)**	**(2,642)**	**16,378**	**13,048**	**14,203**	**13,176**
Taxes	(3,272)	(3,200)	(2,145)	(719)	(560)	138	(468)	(2,783)	(3,741)	(1,825)	(2,705)
Minority interests	(74)	(103)	(35)	26	439	1,291	(356)	(365)	(45)	99	(112)
Net income	**5,665**	**4,940**	**4,787**	**(1,020)**	**682**	**(3,320)**	**(3,466)**	**13,230**	**9,262**	**12,477**	**10,359**

Balance sheets[1]

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Assets											
Intangible non-recurrent assets	350	297	429	318	373	298	2,284	4,545	5,626	2,277	3,284
Tangible non-current assets	13,373	15,610	19,449	19,897	18,549	20,130	28,157	28,196	27,941	31,426	44,294
Financial non-current assets	12,557	22,066	25,128	30,263	35,277	36,932	33,819	27,467	28,991	25,668	24,527
Non-current assets	**26,280**	**37,973**	**45,006**	**50,478**	**54,199**	**57,360**	**64,260**	**60,208**	**62,558**	**59,371**	**72,105**
Inventories	16,561	19,401	18,830	18,316	16,705	18,368	21,390	23,380	23,929	23,148	27,993
Current receivables	12,724	13,945	15,837	15,718	17,065	19,519	27,424	30,545	28,906	31,979	42,594
Marketable securities	17,359	11,264	13,096	12,301	14,477	14,950	13,123	15,878	15,817	21,577	10,962
Cash and bank accounts	5,138	4,368	5,374	5,284	4,302	6,810	8,319	8,571	7,489	5,084	9,641
Current assets	**51,782**	**48,978**	**53,137**	**51,619**	**52,549**	**59,647**	**70,256**	**78,374**	**76,141**	**81,788**	**91,190**
Assets	**78,062**	**86,951**	**98,143**	**102,097**	**106,748**	**117,007**	**134,516**	**138,582**	**138,699**	**141,159**	**163,295**
Shareholders' equity and liabilities											
Restricted equity	21,198	23,116	23,395	21,476	17,594	15,029	13,622	16,765	16,582	17,224	19,122
Unrestricted equity	8,079	10,124	14,244	13,815	16,270	14,692	13,466	26,567	34,618	40,652	41,309
Shareholders' equity	**29,277**	**33,240**	**37,639**	**35,291**	**33,864**	**29,721**	**27,088**	**43,332**	**51,200**	**57,876**	**60,431**
Minority interests	340	484	414	300	4,986	3,919	6,686	838	605	504	899
Provisions						16,738	20,374	20,011	21,492	18,138	22,953
Non-current liabilities	48,445	53,227	60,090	66,506	67,898	13,822	14,153	11,996	16,885	18,189	24,078
Current liabilities						52,807	66,215	62,405	48,517	46,452	54,934
Shareholders' equity and depts	**78,062**	**86,951**	**98,143**	**102,097**	**106,748**	**117,007**	**134,516**	**138,582**	**138,699**	**141,159**	**163,295**
Assets pledged	1,943	1,997	2,427	2,417	2,641	4,114	4,613	6,527	5,434	6,503	6,743
Contingent liabilities	3,417	3,095	2,986	3,270	4,691	6,808	8,656	7,581	7,450	6,188	5,406

1. Effective January 1, 1997, the new Annual Accounts Act is being applied by Swedish corporations and certain trading companies. Figures for the years 1992 through 1996 have been adjusted to conform with the new principles and forms of presentation.

Cash flow analyses

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Year's operations											
Net income	5,665	4,940	4,787	(1,020)	682	(3,320)	(3,466)	13,230	9,262	12,477	10,359
Depreciation and amortization	2,213	2,293	2,685	3,021	3,129	3,119	3,777	5,107	5,656	5,351	6,796
Write-down of shareholdings and fixed assets	–	–	–	674	725	315	–	574	1,817	–	–
Income from equity method investments after taxes	–	–	(337)	(704)	(899)	417	2,815	(1,274)	(730)	(222)	220
Dividends received from associated companies	–	–	225	277	675	700	717	160	404	119	145
Gain on sales of securities	(1,186)	(47)	(126)	(116)	(2,026)	(131)	(504)	(4,243)	(1,180)	(8,169)	(4,068)
Gain on sales of subsidiaries	–	–	–	–	–	–	–	–	(3,032)	–	–
Minority interests after taxes	74	103	35	(26)	(439)	(1,286)	356	365	45	(99)	112
Increase (–), decrease (+) in current short-term operating assets: Receivables	(378)	(1,221)	(1,892)	(966)	(1,347)	1,484	(2,732)	(3,538)	(962)	(4,777)	(7,452)
Inventories	1,674	(2,840)	571	(1,897)	1,611	2,373	2,209	(2,687)	(516)	(547)	(2,575)
Increase (decrease) in current operating liabilities	968	1.351	58	2,639	608	1,859	6,312	5,915	570	(618)	7,280
Increase (decrease) deferred tax liabilities and other provisions	352	14	98	(812)	(521)	(2,207)	(989)	(1,373)	(267)	23	711
Cash flow from year's operations	**9,382**	**4,593**	**6,104**	**1,070**	**2,198**	**3,323**	**8,495**	**12,236**	**11,067**	**3,538**	**11,528**
Investments (increase)											
Property, plant and equipment, etc: Fixed assets	(3,864)	(4,641)	(6,504)	(4,598)	(2,874)	(2,915)	(3,465)	(4,274)	(6,491)	(8,200)	(9,863)
Leasing vehicles	–	–	(400)	(1,200)	(1,000)	(1,352)	(1,678)	(2,495)	(2,585)	(3,851)	(9,773)
Disposals	334	274	747	180	1,243	299	770	1,460	1,351	1,958	1,855
Investments in shares and participations, net	1,852	(1,849)	(1,635)	(5,456)	(7,238)	(224)	464	8,182	1,953	14,080	10, 669
Long-term receivables, net	139	(3,008)	36	(28)	(102)	(1,620)	(280)	(1,563)	(1,953)	(2,804)	(6,031)
Acquisitions and sales of companies	8	(166)	(49)	(964)	(210)	323	393	–	(4,420)	(878)	(1,303)
Remaining after net investments	**7,851**	**(4,797)**	**(1,701)**	**(10,996)**	**(7,983)**	**(2,166)**	**4,699**	**13,546**	**(1,078)**	**3,843**	**(2,918)**
Financing, dividends, etc											
Increase (decrease) in short-term bank loans and other loans	(1,148)	1,781	8,288	5,124	(1,542)	(298)	(5,104)	(6,233)	(3,993)	5,151	995
Increase (decrease) in long-term loans and provisions for pensions	2	839	(1,445)	2,797	2,847	3,745	(753)	(2,011)	6,166	(1,844)	3,404
(Increase) decrease in restricted deposits in Bank of Sweden	(541)	(2,313)	(1,259)	3,221	2,031	39	2	–	–	–	–
Increase (decrease) in minority interests	134	41	(105)	(87)	5,282	122	15	145	(37)	45	(21)
Dividends paid to AB Volvo shareholders	(718)	(815)	(1,086)	(1,203)	(1,203)	(1,203)	(601)	(601)	(1,512)	(1,854)	(1,993)
Dividends paid to minority shareholders	–	–	–	–	(157)	(81)	–	(132)	(3)	(33)	(83)
Redemption of shares	–	–	–	–	–	–	–	–	–	–	(5,807)
New issue	–	–	–	–	–	–	–	–	–	–	116
Settlement of loan to Renault	–	–	–	–	–	–	–	(1,422)	–	(1,536)	–
Other	804	691	(355)	(342)	(7)	78	93	23	46	(121)	(22)
Increase (decrease) in liquid funds excluding translation differences	**6,384**	**(4,573)**	**2,337**	**(1,486)**	**(732)**	**236**	**(1,649)**	**3,315**	**(411)**	**3,651**	**(6,329)**
Translation differences in liquid funds	–	–	–	–	–	1,817	1,331	(308)	(732)	(296)	271
Decrease (increase) in investments in bonds	(1,664)	(2,292)	501	601	1,926	928	–	–	–	–	–
Increase (decrease) in liquid funds	**4,720**	**(6,865)**	**2,838**	**(885)**	**1,194**	**2,981**	**(318)**	**3,007**	**(1,143)**	**3,355**	**(6,058)**
Liquid funds, December 31	22,497	15,632	18,470	17,585	18,779	21,760	21,442	24,449	23,306	26,661	20,603

As from 1992 the effects of major acquisitions and divestments of subsidiaries as well as the distribution of the shares in Swedish Match in 1996 have been excluded from other changes in the balance sheet.

Furthermore, the effects of changes in exchange rates at translation of foreign subsidiaries have been excluded, since these effects do not influence cash flow.

Salaries, wages and other remuneration (including social costs)

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
	14,106	15,434	16,875	17,865	17,654	16,857	19,489	24,156	27,248	25,997	26,951

Key ratios

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Gross margin, %[1]						20.3	22.8	26.2	25.1	22.3	24.3
Research- and development expenses as percentage of net sales[1]						7.5	4.0	3.0	4.3	5.3	4.7
Selling expenses as percentages of net sales[1]						10.5	10.3	10.1	10.2	9.5	9.3
Administrative expenses as percentages of net sales[1]						5.0	5.5	4.9	4.3	4.3	3.8
Operating margin, %	7.0	7.5	5.6	(2.3)	(1.1)	(4.0)	0.3	6.0	6.0	2.4	4.6
Return on shareholders' equity, %	21.0	15.8	13.3	neg	2.0	neg	neg	36.5	19.3	23.7	17.4
Interest coverage, times	5.4	5.3	3.6	0.9	1.1	0.2	0.6	5.5	4.6	5.5	5.8
Self-financing ratio, %	243	99	88	18	57	78	165	181	122	29	59
Net financial assets (net debt), SEK M	5,583	(1,610)	(3,011)	(9,256)	(11,357)	(18,117)	(20,592)	(5,999)	1,245	12,007	19,108
Net financial assets (net debt) as percentage of shareholders' equity and minority interests	18.8	(4.8)	(7.9)	(26.0)	(29.2)	(53.9)	(61.0)	(13.6)	2.4	20.6	31.2
Shareholders' equity and minority interests as percentage of total assets	37.9	38.8	38.8	34.9	36.4	28.8	25.1	31.9	37.4	41.4	37.6
Shareholders' equity and minority interests, as percentage of total assets excluding sales financing, %[2]								34.5	40.8	48.0	50.8
Shareholders' equity as percentage of total assets	37.5	38.2	38.4	34.6	31.7	25.4	20.1	31.3	36.9	41.0	37.0
Excluding nonrecurring operating items and gain on sales of shares											
Operating margin, %	7.0	7.3	5.3	0.7	(1.1)	(2.3)	1.7	6.0	5.3	2.4	4.6
Return on shareholders' equity, %	16.6	15.3	13.3	3.6	neg	neg	4.1	24.2	14.7	8.1	10.4

1. Key ratios are stated in accordance with the new 1997 Annual Accounts Act. Figures for the years 1992 through 1996 have been adjusted to conform with the new principle.
2. Sales-financing operations had a marginal effect on the percentage of risk capital and minority capital prior to 1994.

Exports from Sweden

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Volvo Group, total	29,319	30,151	32,181	32,182	31,881	30,344	36,130	43,330	56,059	54,589	51,872

Business area statistics

Number of employees at year-end

Number	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cars	34,050	34,280	34,610	33,630	29,570	28,450	26,800	29,080	31,050	29,600	27,920
Trucks	18,490	21,460	22,310	20,550	20,290	19,480	17,780	19,790	21,670	21,160	22,520
Buses	810	2,800	2,810	3,690	3,050	2,620	2,610	2,600	3,620	3,750	4,220
Construction Equipment	–	–	–	–	–	–	–	–	7,610	7,300	8,560
Marine and industrial engines	2,650	2,620	2,550	2,190	2,040	1,540	1,420	1,540	1,570	1,420	1,400
Aero	3,550	3,760	3,800	4,000	4,420	4,290	4,040	3,770	3,890	3,740	4,170
Other	6,500	4,160	4,310	4,740	4,210	3,740	3,350	2,350	2,600	3,350	4,110
Automotive operations	**66,050**	**69,080**	**70,390**	**68,800**	**63,580**	**60,120**	**56,000**	**59,130**	**72,010**	**70,320**	**72,900**
Operations being divested, etc	9,300	9,530	8,300	–	–	–	17,640	16,420	7,040	10	–
Group total	**75,350**	**78,610**	**78,690**	**68,800**	**63,580**	**60,120**	**73,640**	**75,550**	**79,050**	**70,330**	**72,900**

Net sales

SEK M		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cars	Western Europe					21,641	27,741	31,354	40,546	47,043	49,066	57,443
	Eastern Europe					–	391	719	572	746	888	1,238
	North America					10,860	11,224	17,360	20,613	21,553	21,228	26,024
	South America					121	88	288	468	847	482	672
	Asia					4,053	4,277	8,150	10,365	11,974	10,868	9,618
	Other markets					347	877	287	1,034	1,177	1,057	1,458
	Total	**38,523**	**38,392**	**41,356**	**39,569**	**37,022**	**44,598**	**58,158**	**73,598**	**83,340**	**83,589**	**96,453**
Trucks	Western Europe					16,718	15,252	15,851	22,718	27,613	27,014	28,087
	Eastern Europe					528	518	599	948	1,299	1,721	2,274
	North America					5,714	6,933	11,817	13,951	13,075	8,564	12,610
	South America					1,606	484	3,188	4,780	4,641	2,912	3,904
	Asia					3,066	1,675	2,170	2,474	2,863	2,577	2,410
	Other markets					435	1,130	330	1,379	1,536	1,487	1,555
	Total	**17,938**	**26,025**	**28,999**	**27,492**	**28,067**	**25,992**	**33,955**	**46,250**	**51,027**	**44,275**	**50,840**
Buses	Western Europe					2,600	2,581	3,380	3,838	4,709	4,660	5,082
	Eastern Europe					12	3	62	102	34	80	190
	North America					2	1	43	34	736	1,575	2,314
	South America					522	728	897	1,005	1,087	853	1,002
	Asia					514	572	986	868	844	1,112	1,562
	Other markets					170	566	119	289	285	247	432
	Total	**2,006**	**3,384**	**3,682**	**3,927**	**3,820**	**4,451**	**5,487**	**6,136**	**7,695**	**8,527**	**10,582**
Construction Equipment[1]	Western Europe									4,199	7,163	7,836
	Eastern Europe									112	93	263
	North America									1,403	3,385	5,785
	South America									556	598	991
	Asia									339	937	1,036
	Other markets									307	628	847
	Total									**6,916**	**12,804**	**16,758**
Marine and industrial engines	Western Europe					1,563	1,478	1,541	1,753	2,065	2,048	2,219
	Eastern Europe					0	0	0	0	1	2	34
	North America					437	483	859	1,326	1,139	1,142	1,332
	South America					159	92	74	92	99	109	136
	Asia					406	407	434	464	458	486	643
	Other markets					20	82	78	107	116	98	102
	Total	**2,361**	**2,593**	**2,735**	**2,927**	**2,585**	**2,542**	**2,986**	**3,742**	**3,878**	**3,885**	**4,466**
Aero	Western Europe					2,473	2,146	2,281	2,400	2,590	2,950	3,682
	Eastern Europe					4	0	0	13	27	8	6
	North America					1,208	1,244	1,326	1,104	1,100	1,071	3,066
	South America					0	13	4	0	4	4	257
	Asia					11	6	5	66	66	89	264
	Other markets					4	9	11	5	3	21	201
	Total	**1,990**	**2,495**	**2,635**	**2,591**	**3,700**	**3,418**	**3,627**	**3,588**	**3,790**	**4,143**	**7,476**
Other and eliminations		4,562	2,131	2,267	2,157	2,029	2,001	2,986	614	(2,150)	(3,006)	(3,016)
Automotive operations		**67,380**	**75,020**	**81,674**	**78,663**	**77,223**	**83,002**	**107,199**	**133,928**	**154,496**	**154,217**	**183,559**
Operations being divested, etc		25,140	21,619	9,298	4,522	–	–	3,956	21,938	17,015	1,843	66
Group total		**92,520**	**96,639**	**90,972**	**83,185**	**77,223**	**83,002**	**111,155**	**155,866**	**171,511**	**156,060**	**183,625**

1. Subsidiary in the Volvo Group as from July 1995. Net sales for the Construction Equipment business area in the years 1991 through 1995, calculated using the average exchange rate for the U.S. dollar in each year, amounted to SEK 8,273 M, SEK 7,890 M, SEK 9,665 M, SEK 12,084 M and SEK 13,684 M, respectively.

Effective in 1997, the Volvo Group's accounting per market area reflects new geographical definitions, based on an ISO-standard. The figures for 1991–1996 has been adjusted to conform with the new principle.

Operating income before nonrecurring items

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cars	4,311	2,680	1,168	(957)	(1,597)	(1,691)	626	2,771	1,089	1,498	4,510
Trucks	1,606	2,736	2,058	1,114	941	(619)	585	4,051	5,073	878	1,812
Buses	179	286	228	53	(166)	71	313	318	405	331	550
Construction Equipment[1]	–	–	–	–	–	–	–	–	717	1,162	1,444
Marine- and industrial engines	223	161	93	20	(113)	(76)	125	223	212	(27)	181
Aero	227	240	248	8	202	305	143	60	103	153	472
Other and eliminations	(489)	898	(68)	(35)	(103)	108	121	63	(106)	(376)	(577)
Automotive operations	**6,057**	**7,001**	**3,727**	**203**	**(836)**	**(1,902)**	**1,913**	**7,486**	**7,493**	**3,619**	**8,392**
Operations being divested	405	90	1,090	364	–	–	–	1,885	1,531	91	26
Group total	**6,462**	**7,091**	**4,817**	**567**	**(836)**	**(1,902)**	**1,913**	**9,371**	**9,024**	**3,710**	**8,418**

1 Included in the Volvo Group as of mid-year 1995. Operating income for the Construction Equipment business area in the years 1991 through 1995, calculated using the average exchange rate for the U.S. dollar in each year, amounted to SEK (193) M, (436), 502, 1,621 and 1,679 respectively.

Operating margin

%	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cars	11.2	7.0	2.8	(2.4)	(4.3)	(3.8)	1.1	3.8	1.3	1.8	4.7
Trucks	9.0	10.5	7.1	4.1	3.4	(2.4)	1.7	8.8	9.9	2.0	3.6
Buses	8.9	8.5	6.2	1.3	(4.3)	1.6	5.7	5.2	5.3	3.9	5.2
Construction Equipment[1]	–	–	–	–	–	–	–	–	12.3	9.1	8.6
Marine and industrial engines	9.4	6.2	3.4	0.7	(4.4)	(3.0)	4.2	6.0	5.5	(0.7)	4.1
Aero	11.4	9.6	9.4	0.3	5.5	8.9	3.9	1.7	2.7	3.7	6.3

1 The operating margin for the years 1991 through 1995 amounted to (2.3), (5.5), 5.2, 13.4 and 12.3 respectively.

Return on operating capital

%	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cars	>25	>25	14	neg	neg	neg	4	21	8	12	>25
Trucks	24	>25	>25	21	12	neg	8	>25	>25	10	18
Buses	23	>25	18	4	neg	5	18	22	18	12	17
Construction Equipment	–	–	–	–	–	–	–	–	>25	23	23
Marine and industrial engines	18	16	13	5	neg	neg	11	19	17	neg	14
Aero[1]	14	17	17	neg	12	22	11	5	13	19	>25

1 As of 1997, return on operating capital for Aero is excluding AGES.

Capital expenditures for property, plant and equipment

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cars	2,455	2,140	3,594	3,051	1,413	1,562	2,072	1,596	2,540	4,425	5,544
Trucks	628	932	820	1,073	786	912	725	979	2,072	2,589	2,439
Buses	37	92	206	116	114	101	64	54	124	199	276
Construction Equipment	–	–	–	–	–	–	–	–	204	286	484
Marine and industrial engines	73	77	104	43	36	24	35	96	79	67	86
Aero	146	240	490	156	258	199	157	170	180	173	413
Other and corporate capital expenditures	243	51	608	159	267	117	412	227	387	403	612
Automotive operations	**3,582**	**3,532**	**5,822**	**4,598**	**2,874**	**2,915**	**3,465**	**3,122**	**5,586**	**8,142**	**9,854**
Operations being divested	282	416	459	–	–	–	–	1,152	905	58	9
Group total	**3,864**	**3,948**	**6,281**	**4,598**	**2,874**	**2,915**	**3,465**	**4,274**	**6,491**	**8,200**	**9,863**
Assets under operational leasing[1]	–	–	400	1,200	1,000	1,352	1,678	2,495	2,585	3,851	9,773

1 Until 1996 including company vehicles.

Research and development expenses

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cars	2,925	3,478	4,329	4,851	3,895	3,346	2,462	2,502	4,561	4,901	5,055
Trucks	1,088	1,006	1,245	1,525	1,870	2,258	1,365	1,399	1,760	2,078	2,051
Buses	159	209	181	213	256	251	240	265	306	343	434
Construction Equipment	–	–	–	–	–	–	–	–	221	555	627
Marine- and industrial engines	128	124	127	178	180	166	154	148	177	183	213
Aero	95	100	151	150	163	194	196	160	150	155	205
Other	47	36	73	114	50	28	21	21	30	36	74
Automotive operations	**4,442**	**4,953**	**6,106**	**7,031**	**6,414**	**6,243**	**4,438**	**4,495**	**7,205**	**8,251**	**8,659**
Operations being divested	179	186	70	30	–	–	–	157	138	20	–
Group total	**4,621**	**5,139**	**6,176**	**7,061**	**6,414**	**6,243**	**4,438**	**4,652**	**7,343**	**8,271**	**8,659**

Figures for the years 1992 through 1996 have been adjusted to conform with the new Annual Accounts Act.

Market area statistics

Effective in 1997, the Volvo Group's accounting per market area reflects new geographical definitions based on an ISO standard. The accounting for the years, 1991–1996, has been adjusted to conform with the new principle.

Net sales

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Western Europe					46,072	50,658	56,200	71,763	86,056	90,322	101,444
Eastern Europe					560	927	1,385	1,636	2,222	2,794	3,939
Europe total	**40,349**	**44,018**	**45,670**	**46,463**	**46,632**	**51,585**	**57,585**	**73,399**	**88,278**	**93,116**	**105,383**
North America	21,134	22,978	26,218	21,398	18,285	19,828	31,364	37,034	39,011	36,560	51,052
South America					2,419	2,362	4,334	6,324	7,117	4,844	6,983
Asia					8,170	7,208	11,842	14,372	17,097	16,151	15,545
Other markets	5,897	8,024	9,786	10,802	1,717	2,019	2,074	2,799	2,993	3,546	4,596
Automotive operations	**67,380**	**75,020**	**81,674**	**78,663**	**77,223**	**83,002**	**107,199**	**133,928**	**154,496**	**154,217**	**183,559**
Operations being divested	25,140	21,619	9,298	4,522	–	–	3,956	21,938	17,015	1,843	66
Group total	**92,520**	**96,639**	**90,972**	**83,185**	**77,223**	**83,002**	**111,155**	**155,866**	**171,511**	**156,060**	**183,625**
Of which Sweden	10,501	12,199	12,282	10,968	10,994	11,010	12,154	14,083	16,223	16,631	19,816

Capital expenditures for property, plant and equipment

SEK M	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Sweden	2,768	2,589	4,424	2,943	2,046	2,046	2,788	2,208	3,918	5,586	6,800
Europe, excluding Sweden	517	580	1,081	1,320	583	502	438	432	871	1,655	1,475
North America	205	289	207	191	125	83	130	354	557	649	916
South America										8	416
Asia										28	214
Other markets	92	74	110	144	120	284	109	128	240	216	33
Automotive operations	**3,582**	**3,532**	**5,822**	**4,598**	**2,874**	**2,915**	**3,465**	**3,122**	**5,586**	**8,142**	**9,854**
Operations being divested	282	416	459	–	–	–	–	1,152	905	58	9
Group total	**3,864**	**3,948**	**6,281**	**4,598**	**2,874**	**2,915**	**3,465**	**4,274**	**6,491**	**8,200**	**9,863**
Assets under operational leasing[1]	–	–	400	1,200	1,000	1,352	1,678	2,495	2,585	3,851	9,773

1 Until 1996 including company vehicles.

Employees

Number	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Sweden	55,440	54,970	54,740	47,260	42,960	39,130	43,980	44,880	47,000	43,330	43,650
Europe, excluding Sweden	11,870	14,530	14,180	12,180	11,630	12,040	16,280	18,040	16,930	15,290	16,100
North America	4,880	5,680	6,040	5,720	5,320	5,540	6,950	6,100	7,860	6,900	8,450
South America	1,350	1,890	2,010	1,940	1,730	1,520	3,400	3,400	3,620	2,130	2,000
Asia	640	850	1,030	1,270	1,460	1,380	2,170	2,380	2,830	2,260	1,720
Other markets	1,170	690	690	430	480	510	860	750	810	420	980
Group total	**75,350**	**78,610**	**78,690**	**68,800**	**63,580**	**60,120**	**73,640**	**75,550**	**79,050**	**70,330**	**72,900**

Operating statistics

Number of invoiced Volvo vehicles

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Large cars	290,900	278,370	271,800	237,350	200,850	214,110	216,710	255,800	293,540	269,200	272,290
Medium-size cars	118,500	120,100	127,200	118,800	97,100	93,200	85,400	95,200	81,100	99,050	114,150
Total, cars	**409,400**	**398,470**	**399,000**	**356,150**	**297,950**	**307,310**	**302,110**	**351,000**	**374,640**	**368,250**	**386,440**
Heavy trucks	41,200	53,000	53,000	50,700	47,600	43,000	47,200	63,600	71,400	59,100	63,900
Medium-heavy trucks	6,500	6,500	6,200	5,000	6,200	5,100	4,000	4,900	5,100	4,600	5,100
Total, trucks	**47,700**	**59,500**	**59,200**	**55,700**	**53,800**	**48,100**	**51,200**	**68,500**	**76,500**	**63,700**	**69,000**
Buses and bus chassis	**3,920**	**5,120**	**5,550**	**4,830**	**4,650**	**5,580**	**5,450**	**5,770**	**6,830**	**7,410**	**8,730**

		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cars	Total Europe	271,000	275,670	261,310	231,890	199,880	205,270	179,560	214,950	225,160	224,890	239,960
	Western Europe	271,000	275,670	261,310	231,890	199,880	199,610	170,850	208,280	219,340	219,980	234,050
	Eastern Europe	–	–	–	–	–	5,660	8,710	6,670	5,820	4,910	5,910
	North America	117,790	100,910	111,020	93,270	69,290	75,400	80,110	90,820	99,230	95,660	101,980
	South America	–	–	–	–	620	210	720	1,860	2,840	950	2,280
	Asia	10,150	12,470	15,120	21,250	20,520	23,130	35,330	37,690	42,130	40,280	36,170
	Other markets	10,460	9,420	11,550	9,740	7,640	3,300	6,390	5,680	5,280	6,470	6,050
	Total	**409,400**	**398,470**	**399,000**	**356,150**	**297,950**	**307,310**	**302,110**	**351,000**	**374,640**	**368,250**	**386,440**
Trucks	Total Europe	27,650	31,310	31,300	28,700	27,000	22,200	17,100	27,000	34,160	34,970	34,460
	Western Europe	27,420	30,960	30,550	27,980	25,800	21,250	16,240	25,450	32,330	32,310	31,030
	Eastern Europe	230	350	750	720	1,200	950	860	1,550	1,830	2,660	3,430
	North America	13,180	21,530	20,150	16,460	13,380	16,720	21,860	26,460	27,090	16,850	20,900
	South America	3,300	3,290	3,630	3,980	3,480	3,590	5,900	8,320	7,800	4,980	6,970
	Asia	2,120	1,670	2,210	4,610	8,100	4,120	4,840	4,830	5,270	4,850	4,710
	Other markets	1,450	1,670	1,910	1,970	1,800	1,500	1,530	1,890	2,170	2,030	1,940
	Total	**47,700**	**59,470**	**59,200**	**55,720**	**53,760**	**48,130**	**51,230**	**68,500**	**76,490**	**63,680**	**68,980**
Buses	Total Europe			3,830	2,970	2,430	2,360	2,610	3,040	3,570	3,840	4,190
	Western Europe			3,740	2,940	2,410	2,320	2,520	2,900	3,510	3,770	4,030
	Eastern Europe			90	30	20	40	90	140	60	70	160
	North America			70	30	–	10	30	10	340	750	1,110
	South America			970	1,070	1,340	1,780	1,320	1,630	1,510	1,460	1,350
	Asia			240	270	640	1,270	1,050	780	920	1,060	1,410
	Other markets			440	490	240	160	440	310	490	300	670
	Total	**3,920**	**5,120**	**5,550**	**4,830**	**4,650**	**5,580**	**5,450**	**5,770**	**6,830**	**7,410**	**8,730**

Effective in 1997, the Volvo Group's accounting per market area reflects new geographical definitions, based on ISO standard. Values for the years 1991–1996 has been adjusted to confirm with the new principle.

Manufactured Volvo cars

Number	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Volvo Cars Europe Industry, Belgium	88,500	91,000	94,000	83,400	69,500	77,300	102,700	147,600	144,100	144,300	145,200
Volvo Car Corporation, Torslanda Body and Assembly Plant, Sweden	165,700	150,400	139,600	121,000	73,900	82,100	72,800	93,700	132,200	113,200	114,100
NedCar, the Netherlands[1]	124,800	115,000	133,200	121,300	84,500	94,000	80,200	92,100	79,600	101,700	115,000
Volvo Canada Ltd, Canada	8,500	6,650	8,300	8,100	7,700	6,300	5,500	6,700	6,900	7,000	7,100
Volvo Car Corporation, Uddevalla Assembly Plant/Auto Nova AB, Sweden[1]	700	1,900	9,200	16,100	19,100	21,800	4,400	–	100	1,750	2,000
Thai Swedish Assembly Co. Ltd, Thailand	1,300	1,800	2,200	3,100	3,500	3,600	5,000	3,600	4,700	4,300	1,300
Swedish Motor Assemblies Sdn Bhd, Malaysia	200	1,100	1,800	2,450	1,600	1,600	500	2,300	2,100	2,900	1,850
PT ISMAC, Indonesia[1]	200	400	300	550	400	–	300	700	800	550	700
Star Motors, The Philippines[1]	–	–	–	–	–	–	–	–	–	100	150
Volvo Car Corporation, Kalmar Assembly Plant, Sweden	29,100	28,000	23,400	18,800	18,100	17,500	19,300	5,000	–	–	–
Assembled in other markets	4,800	4,350	2,000	1,300	–	–	–	–	–	–	–
Total Volvo cars	**423,800**	**400,600**	**414,000**	**376,100**	**278,300**	**304,200**	**290,700**	**351,700**	**370,500**	**375,800**	**387,400**

Manufactured Volvo trucks

Number	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Volvo Truck Corporation, Tuve Plant, Sweden	14,200	14,400	14,500	12,700	13,800	9,060	8,660	11,730	14,340	14,890	13,660
Volvo Europe Truck NV, Belgium	13,800	17,200	17,300	15,500	16,400	12,700	11,060	17,920	21,150	19,790	21,210
Volvo Trucks (Great Britain) Ltd, Great Britain	2,480	3,660	3,530	2,430	1,950	2,310	2,520	3,190	3,930	2,590	2,270
Volvo Truck Poland Co, Poland	–	–	–	–	–	–	–	500	930	1,010	1,280
Volvo Trucks North America Inc. United States	11,470	19,990	19,120	15,860	13,480	17,120	21,930	26,450	27,630	16,630	20,760
GM Planta Motores y Fundición Toluca, Mexico[1]	–	–	–	–	–	–	–	–	–	60	330
Volvo do Brasil, Brazil	2,820	3,190	3,220	3,560	2,600	2,390	4,220	6,010	5,740	3,710	5,080
Volvo del Peru SA, Peru	840	540	310	370	450	190	350	590	620	190	400
General Motors Colmotores SA, Colombia[1]	–	–	–	180	220	480	850	1,180	600	490	1,660
Volvo Australia Pty Ltd, Australia	450	830	1,120	1,020	580	700	630	1,040	1,150	820	670
SAIDA/Star Auto, Marocco[1]	190	330	360	620	190	520	210	310	430	210	310
Magrimex, GPI Km Route de Sousse, Tunisia[1]	–	–	–	–	–	–	–	–	–	–	100
Swedish Motor Corporation Pty Ltd, Botswana[1]	–	–	–	–	–	–	–	40	480	770	470
Swedish Motor Assembly, Malaysia	–	–	40	–	–	–	30	210	350	600	510
Zamyad Co Ltd, Iran[1]	40	–	400	2,470	3,190	940	480	–	20	950	900
Volvo Pakistan Ltd, Pakistan	–	–	–	–	–	–	–	–	–	–	110
Assembled in other markets	210	360	300	190	140	60	–	20	40	40	–
Total Volvo trucks	**46,500**	**60,500**	**60,200**	**54,900**	**53,000**	**46,470**	**50,940**	**69,190**	**77,410**	**62,750**	**69,720**

Manufactured buses and bus chassis

Number	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Volvo Bus Corporation, Borås Plant, Sweden	2,490	2,800	2,820	2,170	2,250	2,900	2,830	3,110	3,620	3,370	3,870
Volvo Truck & Bus Assembly, Great Britain	–	1,330	1,230	840	760	550	890	1,020	920	1,550	1,860
Volvo do Brasil, Brazil	690	800	830	1,070	1,230	1,980	1,020	1,290	1,390	1,370	1,620
Volvo del Peru SA, Peru	80	210	210	100	90	80	90	160	180	40	10
Prévost Car Inc., Canada	–	–	–	–	–	–	–	–	330	700	880
Xian Silver Bus, China[1]	–	–	–	–	–	–	–	–	90	230	320
Volvo Australia Pty Ltd, Australia	140	140	120	90	80	110	90	100	40	–	–
Assembled in other markets	530	220	350	390	300	40	120	90	300	180	370
Total buses and bus chassis	**3,930**	**5,500**	**5,560**	**4,660**	**4,710**	**5,660**	**5,040**	**5,770**	**6,870**	**7,440**	**8,930**

1 Volvo has owned or currently owns between 0% to 50%.

Volvo cars registered

Number	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Western Europe	259,900	260,000	259,100	227,900	197,300	200,100	171,000	200,500	220,000	205,900	230,900
United States	105,100	97,800	101,900	89,000	67,200	67,900	72,200	80,800	87,000	87,600	90,000
Sweden	72,500	74,600	66,600	47,600	37,900	35,800	33,000	42,700	49,000	43,700	51,400
Great Britain	70,900	80,400	81,700	66,000	46,700	43,100	43,500	41,200	39,600	33,700	40,700
Germany	17,300	17,500	18,000	17,300	21,900	21,200	20,500	26,000	31,400	31,700	37,000
Italy	16,300	14,800	15,100	23,000	20,600	22,100	15,700	19,700	27,200	21,900	25,300
Japan	3,400	4,600	7,100	10,900	10,100	8,600	11,900	15,400	20,500	24,000	19,900
the Netherlands	26,100	21,800	24,100	24,200	21,000	23,200	15,400	16,700	19,000	19,700	19,200
Spain	3,400	4,400	5,200	6,100	8,700	10,800	7,600	9,500	9,200	9,300	10,400
Canada	7,400	6,200	7,000	5,600	4,200	3,500	5,100	7,100	7,800	7,300	10,200
Belgium	9,200	9,000	9,800	9,300	8,400	9,600	6,300	8,400	8,600	9,300	9,200
France	18,800	17,300	16,600	12,400	8,900	12,100	8,500	9,500	6,800	8,200	7,600
Switzerland	5,300	5,500	5,500	4,600	5,400	4,800	4,100	4,800	6,000	6,000	7,000
Finland	8,100	8,000	7,500	7,100	4,200	4,300	3,900	4,200	5,500	6,400	6,800
Norway	9,200	5,000	3,500	3,900	3,200	4,200	4,100	6,300	6,300	5,800	5,600
Australia	3,400	3,900	3,500	2,600	1,900	2,100	2,600	3,000	3,400	3,200	3,900
Taiwan	–	–	7,500	4,500	2,800	5,000	7,500	9,200	10,000	5,700	3,600
Denmark	4,400	2,700	2,500	1,900	1,600	2,800	2,700	4,700	4,500	3,500	3,400
Austria	2,900	3,000	3,600	3,000	3,300	3,000	2,500	2,800	2,900	3,000	3,000
Thailand	–	–	2,200	2,800	3,500	3,600	5,400	5,500	5,400	4,900	2,800
Portugal	–	–	2,600	3,000	2,700	2,600	2,000	1,700	1,500	1,700	2,200
Ireland	–	–	1,800	1,800	1,300	1,300	1,100	1,600	1,600	1,600	1,700

Market share in percent	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Western Europe	2.2	2.2	2.1	1.7	1.5	1.5	1.5	1.7	1.8	1.6	1.7
United States	1.0	0.9	1.0	1.0	0.8	0.8	0.9	0.9	1.0	1.0	1.1
Sweden	22.9	21.7	21.7	20.7	20.2	23.2	26.6	27.4	28.9	23.8	22.8
Great Britain	3.5	3.6	3.6	3.3	2.9	2.7	2.5	2.2	2.0	1.7	1.9
Germany	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.8	1.0	0.9	1.0
Italy	0.8	0.7	0.6	1.0	0.9	0.9	0.8	1.1	1.6	1.2	1.0
Japan	0.1	0.1	0.2	0.2	0.2	0.2	0.4	0.5	0.5	0.7	0.6
the Netherlands	4.8	4.5	4.9	4.8	4.3	4.7	3.9	3.9	4.3	4.2	4.0
Spain	0.4	0.4	0.5	0.7	1.0	1.1	1.1	1.1	1.1	1.0	1.0
Canada	0.7	0.6	0.7	0.6	0.5	0.4	0.7	1.0	1.2	1.1	1.4
Belgium	2.3	2.1	2.2	2.0	1.8	2.1	1.7	2.2	2.4	2.4	2.3
France	0.9	0.8	0.7	0.5	0.4	0.6	0.5	0.5	0.4	0.4	0.4
Switzerland	1.8	1.7	1.8	1.4	1.7	1.6	1.6	1.8	2.2	2.2	2.6
Finland	5.4	4.6	4.2	5.1	4.8	6.2	6.7	6.3	6.9	6.7	6.6
Norway	7.9	7.4	6.4	6.3	5.9	7.1	6.8	7.4	7.0	4.6	4.4
Australia	0.9	1.0	0.8	0.8	0.5	0.5	0.6	0.7	0.7	0.6	0.7
Taiwan	–	–	2.0	1.3	0.8	1.2	1.9	2.1	2.4	1.6	1.0
Denmark	3.6	3.0	3.2	2.4	1.8	3.2	3.3	3.4	3.3	2.5	2.2
Austria	1.2	1.1	1.3	1.0	1.1	0.9	0.9	1.0	1.0	1.0	1.1
Thailand	–	–	4.4	4.3	5.3	2.9	3.1	3.6	3.3	2.8	2.2
Portugal	–	–	1.4	1.4	1.2	0.9	0.8	0.7	0.8	0.8	1.0
Ireland	–	–	2.4	2.2	2.0	2.0	1.7	2.0	1.9	1.4	1.3

Volvo buses registered

Number	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Western Europe	2,540	3,030	3,480	3,230	2,430	2,140	2,350	2,400	3,140	3,530	3,680*
Great Britain[1]	410	1,320	1,700	1,430	840	720	880	820	1,380	1,500	1,450
Brazil[9]	560	720	660	850	1,070	950	650	890	1,010	1,170	920
United States[9]	–	–	–	–	–	–	–	–	250	540	650
Sweden[1]	380	340	440	370	360	290	250	270	410	420	550
Hong Kong[9]	–	10	60	100	110	160	150	210	210	380	540
Spain[7]	100	150	160	120	120	110	120	140	180	220	340
China[9]	–	–	–	–	–	–	–	30	100	230	320
South Africa[9]	–	–	–	–	–	–	–	10	220	110	230
Canada[9]	–	–	–	–	–	–	–	–	80	160	200
France[1]	70	90	70	70	80	90	90	90	90	160	180
Finland[3]	280	230	270	210	200	100	110	120	130	200	160
Norway[6]	210	200	100	140	140	180	160	220	210	190	160
Chile[9]	20	10	–	10	60	110	180	210	80	90	160
Singapore[9]	90	120	20	–	–	300	260	270	290	200	150
Denmark[2]	130	150	120	100	70	100	100	230	110	160	140
Germany[4]	–	–	–	–	–	20	40	40	70	130	140*
Austria[1]	–	–	100	110	90	90	110	100	80	120	120
Tunisia[9]	20	70	60	60	40	40	200	20	70	50	110
Italy[5]	100	120	140	140	120	120	100	40	70	90	70
Portugal[1]	150	100	110	90	80	70	60	40	60	40	70
Greece	30	40	70	50	20	20	70	70	80	10	60
Peru[9]	80	140	240	190	150	220	190	250	280	60	50
Belgium	60	80	80	70	50	40	50	70	40	120	40

Market share in percent	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Western Europe	14.6	15.4	17.7	17.0	13.4	11.7	13.3	15.6	18.1	19.0	20.3*
Great Britain[1]	31.2	66.4	64.2	66.6	66.2	58.0	58.7	57.1	60.5	63.8	62.7
Brazil[9]	18.9	18.6	18.1	21.9	19.3	24.4	10.4	9.4	6.9	8.5	7.5
United States[9]	–	–	–	–	–	–	–	–	n.a.	n.a.	n.a.
Sweden[1]	52.4	48.9	46.1	46.1	51.1	54.8	55.1	53.7	54.8	48.7	58.4
Hong Kong[9]	–	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain[7]	5.2	6.7	6.7	6.1	6.1	6.5	9.5	12.2	10.7	11.8	15.0
China[9]	–	–	–	–	–	–	–	n.a.	n.a.	n.a.	n.a.
South Africa[9]	–	–	–	–	–	–	–	n.a.	n.a.	n.a.	n.a.
Canada[9]	–	–	–	–	–	–	–	–	n.a.	n.a.	n.a.
France[1]	2.4	3.0	2.5	2.5	2.6	2.9	2.9	3.3	3.0	5.4	5.9
Finland[3]	53.6	53.4	52.7	49.3	59.9	55.4	66.3	63.0	47.4	56.2	54.5
Norway[6]	42.8	40.5	44.6	44.0	37.3	47.3	41.0	56.9	51.2	52.4	48.2
Chile[9]	n.a.	n.a.	–	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore[9]	n.a.	n.a.	n.a.	–	–	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Denmark[2]	32.3	43.3	35.4	31.8	26.6	31.4	29.5	46.2	33.0	34.5	45.0
Germany*	–	–	–	–	–	0.3	0.6	0.6	1.5	2.5	2.9*
Austria[1]	–	–	20.6	22.9	22.1	19.5	19.3	19.2	15.3	22.5	23.7
Tunisia[9]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Italy[5]	3.8	3.4	4.4	4.8	5.7	7.6	10.5	4.8	5.3	5.0	4.2
Portugal[1]	63.6	36.1	37.0	32.8	29.3	28.8	24.5	16.8	23.1	14.6	19.4
Greece	31.1	42.6	24.3	17.6	10.8	9.2	25.7	12.1	51.9	14.3	59.0
Peru[9]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Belgium	20.8	18.6	17.7	13.3	7.3	7.4	7.1	13.1	8.7	19.3	11.2

* Germany is included with the 12-months period, December 1996 through November 1997.

1 Buses ≥ 12 tons.
2 Buses ≥ 20 passengers.
3 Buses ≥ 25 seats.
4 Buses ≥ 9 tons from 1991.
5 Buses ≥ 7 tons.
6 Buses ≥ 26 seats.
7 Buses ≥ 16 tons.
8 Buses ≥ 33 passengers.
9 Deliveries.

Heavy Volvo trucks (>16 t) registered

Number	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Western Europe[1, 3]	22,380	24,740	26,710	23,150	21,760	18,300	14,100	21,300	28,000	29,200	26,200
United States [5]	10,840	17,090	17,340	14,770	12,110	14,640	19,380	22,990	23,410	15,460	17,290
Brazil [4]	2,100	2,370	2,410	2,910	2,210	2,350	4,110	5,870	5,820	3,570	4,510
Great Britain [4]	5,550	6,260	6,440	4,010	2,930	3,210	4,210	5,480	6,140	5,780	4,420
France [4]	3,650	3,940	4,030	4,000	4,050	3,000	2,060	3,490	4,500	4,770	4,130
Germany [1, 3]	880	930	1,170	1,460	3,570	2,520	1,390	1,700	2,740	3,270	3,090
Canada [5]	440	1,800	2,140	1,370	880	1,100	1,510	1,630	1,700	1,320	2,470
the Netherlands [3]	1,760	1,740	1,660	1,780	1,740	1,740	940	1,630	1,900	2,210	2,140
Spain [3]	840	1,480	1,890	1,390	1,420	1,050	610	1,060	1,560	1,540	1,940
Italy [3]	1,170	1,580	1,860	1,840	1,610	1,440	1,020	1,280	2,040	2,170	1,850
Sweden [3]	2,400	2,500	2,880	2,170	1,250	900	670	1,090	1,430	2,070	1,640
Belgium [3]	1,190	1,300	1,590	1,320	1,380	1,070	760	1,130	1,790	1,520	1,550
Norway [3]	1,080	700	440	500	370	370	420	990	1,220	1,200	1,220
Poland [7]	110	130	110	130	240	160	250	530	910	890	1,140
Turkey [7]	60	110	190	340	300	490	500	670	880	770	1,090
Denmark [4]	970	890	900	830	740	790	610	1,030	1,440	1,480	1,050
Portugal [3]	880	1,170	1,210	950	920	770	480	480	630	660	830
Finland [3]	840	920	1,110	960	490	300	200	490	870	780	750
Iran	–	40	400	2,310	4,480	1,360	720	–	–	950	730
Australia	470	760	1,080	1,000	650	470	480	710	720	520	590
Malaysia [7]	10	50	120	110	60	160	170	250	450	670	560
Austria	360	510	470	740	500	450	360	640	610	590	530
Israel [3]	740	660	240	420	980	620	980	1,050	840	840	390
Switzerland	500	520	600	670	400	340	210	350	480	500	380

Market share in percent	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Western Europe [1, 3]	14.4	14.0	14.1	12.9	12.5	12.0	12.1	15.8	16.1	16.7	15.3
United States [5]	8.3	11.5	12.0	12.2	12.3	12.3	12.3	12.4	11.6	9.1	9.7
Brazil [4]	23.2	23.3	23.4	26.8	21.6	26.9	29.0	29.7	28.8	24.3	23.3
Great Britain [4]	17.7	16.7	16.5	16.2	18.2	19.5	20.2	20.3	18.9	19.2	16.7
France [8]	11.7	11.2	10.7	11.0	12.5	11.9	10.3	14.1	13.7	13.7	13.5
Germany [3]	3.5	3.7	4.1	4.0	6.2	4.7	3.6	5.0	6.9	8.5	7.5
Canada [5]	2.2	8.4	9.9	9.7	9.7	10.1	8.8	7.8	7.5	6.5	9.5
the Netherlands [3]	17.1	16.1	16.4	16.0	16.8	16.4	14.1	18.3	17.5	17.8	18.4
Spain	6.8	8.4	9.8	8.0	10.5	10.5	11.7	14.2	13.9	14.7	14.0
Italy [3]	7.7	8.5	9.0	9.3	9.7	10.7	10.7	12.7	13.4	13.5	13.2
Sweden [3]	47.2	50.7	46.9	47.7	44.0	50.4	49.0	51.9	51.5	46.1	49.2
Belgium [3]	20.0	20.2	19.6	17.7	19.6	18.9	18.6	23.3	25.0	24.0	21.3
Norway [3]	40.8	39.1	42.9	42.0	35.5	38.0	43.1	48.5	46.0	42.6	40.9
Poland [7]	38.5	36.5	27.9	23.9	20.3	29.7	34.5	53.0	35.1	39.8	29.1
Turkey [9]	6.0	14.9	16.9	14.5	8.5	11.7	8.4	33.4	17.0	9.4	n.a.
Denmark [4]	29.0	33.5	35.1	33.6	29.9	31.7	33.7	37.2	34.2	35.9	25.2
Portugal [3]	38.9	36.6	35.5	32.5	34.8	33.8	34.6	34.6	33.8	31.3	28.4
Finland [3]	31.0	31.4	32.4	31.4	30.0	32.1	30.5	34.5	36.6	35.7	32.7
Iran [9]	–	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–	–	n.a.	n.a
Australia [2]	10.1	14.7	14.5	14.6	16.1	12.4	9.3	11.4	12.2	10.6	10.6
Malaysia [9]	2.6	16.1	14.6	15.0	9.6	24.3	35.5	38.1	28.6	21.0	n.a.
Austria [3]	9.7	11.3	11.0	14.0	10.8	10.6	9.2	14.4	13.0	12.7	9.9
Israel [3]	51.7	51.4	35.1	40.9	43.6	39.6	43.4	42.2	34.0	38.3	31.7
Switzerland [6]	19.4	15.4	17.6	17.5	16.6	17.5	14.7	20.3	19.7	20.1	16.3

1 Including former East Germany from 1991.
2 Trucks ≥ 10 tons payload up to 1987. From 1988 ≥ 15 tons GVW.
3 Trucks ≥ 16 tons GVW.
4 Trucks ≥ 15 tons GVW.
5 Trucks ≥ 15 tons GVW (Class 8).
6 Trucks ≥ 14 tons GVW up to 1990. From 1991 ≥ 16 tons GVW.
7 Trucks import ≥ 16 tons GVW. Registrations as from 1996.
8 Trucks ≥ 15 tons GVW 1987–1996. Trucks ≥ 16 tons 1997.
9 Trucks import ≥ 16 tons GVW.

Medium Volvo trucks (10.0–15.9 t) registered

Number	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Western Europe [2]	4,140	3,580	3,990	3,770	3,300	3,190	2,290	2,540	3,040	3,220	3,050
France [4]	680	640	710	640	550	440	340	470	540	500	570
Great Britain [3]	340	350	440	530	360	370	390	470	450	480	430
Israel [5]	100	80	60	60	70	310	330	380	360	270	360
United States [6]	1,670	1,430	1,010	830	1,300	780	680	740	800	670	330
Sweden [2]	570	530	670	520	290	210	130	170	180	360	330
Belgium [2]	410	300	360	370	340	300	260	260	250	320	270
Italy [5]	250	240	260	330	320	340	180	220	380	290	240
Spain [2]	170	220	250	190	240	260	240	170	240	210	230
the Netherlands [2]	380	330	350	360	280	350	160	170	180	190	210
Norway [2]	200	100	80	70	70	110	90	120	200	180	170
Germany [1, 2]	70	90	100	100	290	350	170	120	160	190	150
Portugal [2]	140	110	120	120	120	130	120	90	120	140	150
Denmark [3]	350	230	180	160	150	120	90	130	130	130	110
Finland [2]	220	200	190	130	70	20	20	40	60	90	80
Switzerland [2]	150	90	90	130	70	50	40	20	40	50	30
Austria [2]	80	90	90	70	90	80	30	40	40	30	30

Market share in percent	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Western Europe [2]	10.0	8.6	9.8	9.4	8.9	8.7	7.5	8.7	9.4	10.1	10.3
France [4]	8.1	6.9	7.9	7.2	7.1	6.5	4.5	6.3	6.4	5.8	6.9
Great Britain [3]	6.1	6.4	8.4	11.9	11.6	12.4	12.3	15.0	14.2	14.0	14.7
Israel [2]	21.8	19.3	23.7	20.1	20.9	42.2	47.6	48.0	39.0	33.2	39.1
United States [6]	1.6	1.4	1.1	1.0	1.8	1.1	0.8	0.8	0.8	0.6	0.3
Sweden [2]	76.1	74.4	75.6	71.7	68.5	75.4	64.6	72.7	74.0	80.4	66.4
Belgium [2]	28.0	19.3	21.0	21.1	22.5	22.1	23.4	27.4	23.0	27.1	23.3
Italy [5]	3.6	3.3	3.5	4.7	5.7	6.0	4.1	5.0	6.6	5.1	5.8
Spain [2]	5.2	6.2	6.8	4.6	7.3	8.7	13.1	9.6	11.1	10.4	9.9
the Netherlands [2]	20.9	18.0	22.3	21.4	20.6	24.3	17.6	18.9	23.1	17.0	21.2
Norway [2]	40.0	28.9	39.1	32.6	31.9	44.2	36.9	38.1	46.5	40.1	33.3
Great Britain [1, 2]	1.0	1.5	1.7	1.5	3.0	3.0	2.0	1.6	2.2	2.9	2.4
Portugal [2]	12.4	7.1	8.8	10.4	11.3	13.0	15.5	15.3	28.4	30.4	25.5
Denmark [3]	32.2	31.5	31.6	28.8	32.9	31.0	31.5	35.3	33.3	30.8	27.1
Finland [2]	37.9	38.2	34.2	31.2	27.3	24.7	23.9	35.0	28.7	36.4	38.3
Switzerland [2]	27.9	19.0	21.3	26.5	15.5	17.7	13.9	9.0	15.0	20.8	17.5
Austria [2]	5.7	7.9	9.3	6.8	8.5	8.4	4.0	5.7	6.8	6.5	6.3

1 Including former East Germany from 1991
2 Trucks 10.0 – 15.9 tons GVW
3 Trucks 10.0 – 14.9 tons GVW
4 Trucks 9.0 – 14.9 tons GVW 1993–1997, trucks 6–16 tons
5 Trucks 9.0 – 15.9 tons GVW
6 Trucks 9.0 – 12.0 tons GVW

Environmental performance of Volvo production plants relative to net sales

Absolute values: relative to net sales	1994	1995	1996	1997	Goal 1998
Energy consumption (GWh: MWh/SEK M)	2,807: 18.0	3,042: 17.7	3,277: 21.0	3,021: 16.8	–: 16.0
Water consumption (´000 m³: m³/SEK M)	9,765: 62.6	10,620: 61.9	10,836: 69.4	11,596: 64.4	–: 55.7
No_x emissions (tons: kilos/SEK M)	663: 4.3	621: 3.6	600: 3.8	639: 3.5	–: 3,4
Solvent emissions (tons: kilos/SEK M)	2,570: 16.5	2,520: 14.7	2,633: 16.9	2,348: 13.0	–: 11.0
Sulphur dioxide emissions (tons)	168	152	169	95	No goal
Hazardous waste (tons)	13,353	15,840	16,570	17,746	No goal
Net sales	155,866	171,511	156,060	179,950 [1]	

1 Excluding Champion and AGES.

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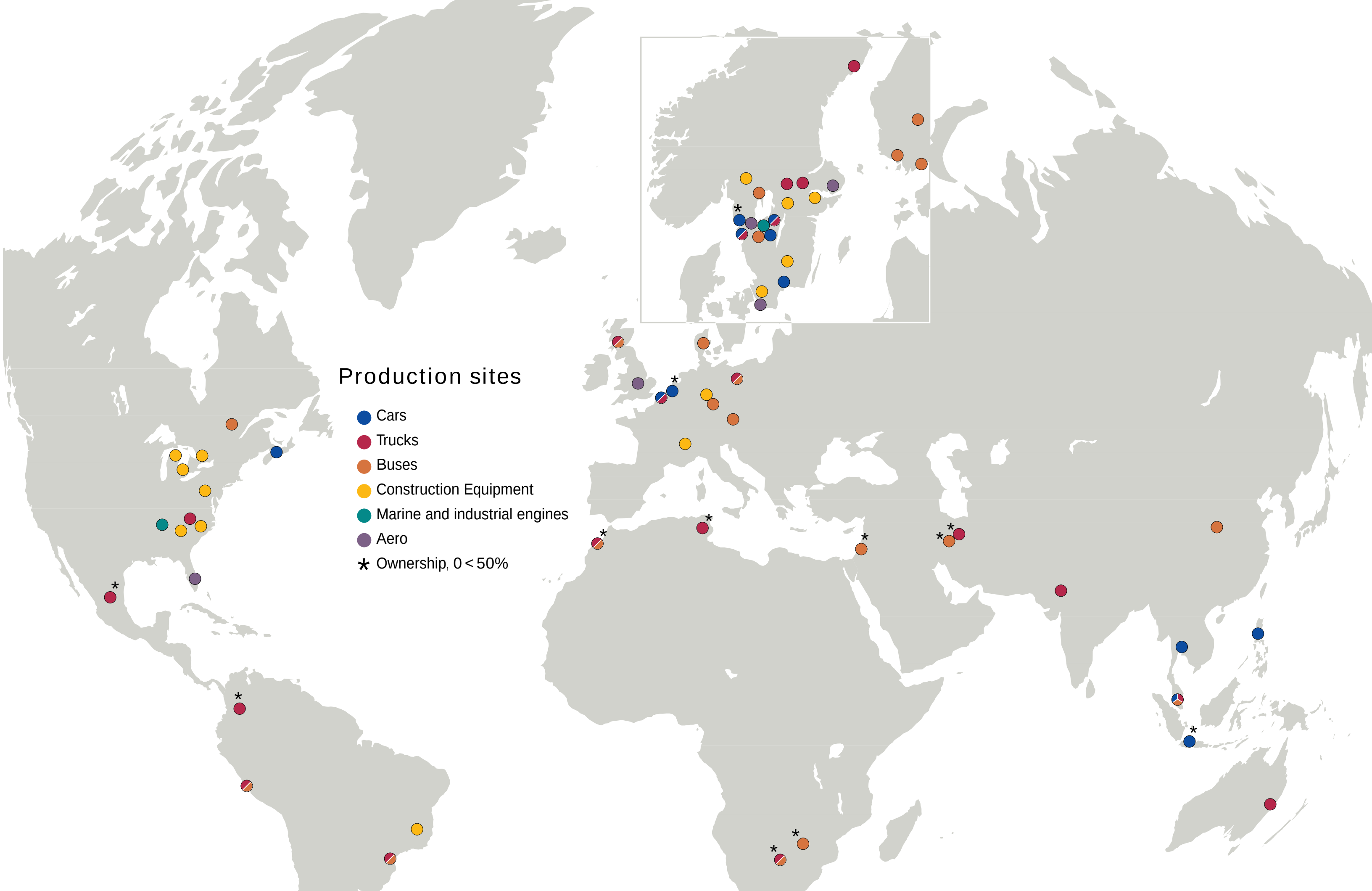

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* From June 1, 1998 area code 704 will be replaced by 828

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Report on first nine months 1998	October 21, 1998
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Annual Report 1998	March, 1999

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The reports shown in boldface type are available on the World Wide Web (www.volvo.com) on date of publication and are sent directly to all shareholders who have advised Volvo that they wish to receive Group financial information.

Annual General Meeting

The Annual General Meeting of AB Volvo will be held in Göteborg, in Lisebergshallen (entrance from Örgrytevägen), on Wednesday, April 22, 1998, at 2:00 p.m.

Notice

Shareholders who wish to participate must:

be recorded in the share register maintained by Värdepapperscentralen VPC AB (Swedish Central Securities Depository) not later than April 9, 1998,

give notice of intention to attend not later than 12:00 noon, Friday, April 17, 1998

- by telephone, +46-31 59 00 00 beginning April 1.
- by mail addressed to AB Volvo (publ), Legal Department, SE-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 reregistered in the shareholder's name several banking days prior to April 9, 1998.

April 27 has been proposed as the record date for payment of dividends, which are expected to be distributed on May 5.

Volvo's Nominating Committee

The following persons were named members of Volvo's Nominating Committee at the 1997 Annual General Meeting:

Thomas Halvorsen	The National Pension Insurance Fund, Fourth Fund managing board
Bo Eklöf	Försäkringsbolaget SPP
Lars-Erik Pettersson	Skandia
Håkan Frisinger	Chairman of the Board of AB Volvo
Bengt Hane	Representative for shareholders with smaller holdings

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 and as auditors and deputy auditors. The Committee also proposes the amount of fees to be paid to the holders of these positions.

VOLVO

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