

Volvo. for life

VOLVO CAR CORPORATION
SUSTAINABILITY REPORT 2005



We will be happy to receive your comments on this report, and to answer any questions you may have about Volvo Cars and corporate citizenship. Please contact us at: Volvo Car Corporation, Public Affairs, Corporate Citizenship, SE-405 31 Göteborg, Sweden. Tel. +46-31-59 00 00, e-mail: citizen@volvocars.com, or visit us at www.volvocars.com/citizenship

VOLVO

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 This symbol indicates that the data is a scorecard indicator within the area of sustainability at Volvo Cars.



During 2005 the automotive industry experienced a challenging year. Higher oil prices strongly influenced development in many countries. European car manufacturers were also facing growing competition from Asia, along with tougher price competition in the US. The many global natural disasters that occurred during the year led to an increased global concern for environmental issues. This trend, coupled with higher fuel prices and an increase in environmental regulations and incentives, made the public consider fuel economy more than ever before.

Volvo Cars sold 444,000 cars, a reduction of 3 percent compared with our record year 2004, mainly due to a decline in the US market. Our big product news was the new convertible, the Volvo C70, which was launched in September. During 2005 we focused on building up resources for the future. We implemented a number of structural measures and streamlined our operations so that we stand on a firm base. Our workforce shrank by about 1,400 through planned retirement and fewer consultant services.

Streamlining will continue during 2006 as part of the process of running a profitable company in an increasingly competitive environment. Our long-term objective of selling 600,000 cars in 2009, with an after tax return on sales of 5 percent, remains unchanged. I strongly believe that it will be achieved by the comprehensive product plan that we will present during the next coming years. We are facing the most intensive period ever in the company's history and during the next three years we will launch seven new models.

Volvo is one of the strongest brands in the automotive industry. The company's founders stated from the start that the operations should be based on care for the human being. That is why safety, quality and environmental care are the core values of Volvo Cars. They influence our business, our cars and our behaviour. They are also encompassed in our long-term strategy on safe sustainable mobility: Volvo Vision 2020. The objective is to produce

cars that are fun and exciting to drive, that capture the imagination of the main public and substantially improve energy efficiency.

Globalisation is the main force that shapes today's society. As a small company with a worldwide presence, the Volvo Cars products and brand need to respond to a wide range of requirements and customer aspirations. As a global employer we also influence local communities via our production and sales facilities.

A healthy and safe workplace is top priority wherever we operate in the world. The concept of a healthy workplace means more than employees not becoming ill, it also means empowerment, mutual respect and personal development.

This year our Sustainability Report focuses on the above three mentioned areas; safe and sustainable mobility, workplace health and safety, and globalisation. They are all of great importance to us. I am very confident about what we have achieved so far, and our sustainability scorecard continues to show a positive trend. I am also aware of the many future challenges facing us. Global results can only be achieved through cooperation and partnerships, and this report serves as one of the tools in engaging with our stakeholders.

I would like to use this opportunity to restate Volvo Cars' commitment to the ten principles of the Global Compact. They continue to serve as guidelines as we strive for a sustainable future.

I hope you will enjoy reading the report.

FREDRIK ARP
President and CEO, Volvo Car Corporation

Our responsibility

Our vision is to be the most desired and successful premium car brand by creating the safest and most exciting car experience. This vision guides us in our daily work. Our brand is global and so is our influence, even though Volvo Cars is a relatively small company.

Our roles can be defined on three levels: as a carmaker, as a local and global player. Our business objectives and our corporate citizenship commitments feed into each other. Our core values are safety, environment and quality – all human-centric values. From our perspective, we do not just have responsibilities, we act on them. Therefore, our responsibility is to live up to these values – because if we fail, the brand suffers and ultimately so do our sales.

In the end, it is our stakeholders that decide how well we shoulder our responsibilities. Our challenge is to continuously live up to their expectations. We actively engage our stakeholders in dialogue and use various channels, in a methodical way, to amass a wealth of information that helps us to be a responsible corporate citizen.

Our stakeholders include our customers, the communities in which we operate, employees and business partners – through dialogue and active investigation we gain insight into their reality. By identifying what is important for our stakeholders we can develop a complete corporate responsibility picture that defines our responsibilities in terms of our three important roles.

RESPONSIBILITY AS A CARMAKER

As a manufacturer of cars we provide personal transport solutions that benefit individual freedom and wellbeing, as well as contributing to socio-economic development. However, Volvo Cars contributes to negative mobility issues such as congestion, noise and air pollution.

It is our responsibility to ensure that we seek to minimise the negative impact of our products with sustainable business strategies. We have a long history of developing and incorporating features into our cars that benefit the community at large. One example is the Lambda sensor which, when it was introduced into Volvo cars 1976, reduced tailpipe emissions by up to 90%. The Lambda sensor is now industry standard. Another good example of how we share much of our knowledge is the three point safety belt, which is a Volvo innovation that is now standard in every car in the world.

In order to understand our complex reality, it is necessary to constantly acquire knowledge and inspiration from outside the company. For instance, we have taken onboard the con-

clusions regarding the seven goals presented in Mobility 2030 within the framework of the WBCSD Sustainable Mobility Project.

In our role as a carmaker it is crucial for us to identify product issues we need to work with. We achieve this through initiatives such as the **Volvo Accident Research Team, Stakeholder dialogues 2005-2006** and the **Traffic Accident Research Centre (TARC)**. +

RESPONSIBILITY AS A GLOBAL COMPANY

As a global brand and company we benefit from expanding markets worldwide. Our reputation allows us to attract expertise from around the world and source the best components that help us build the highest quality cars in the world. Through our supply chain network we extend our impact to incorporate our suppliers, their employees and the communities in which they operate.

Our supply chain and dealer network provide us with almost global coverage. As a result, our global responsibility extends to everything that we buy and sell. By systematising our work, we try to ensure that we and our business partners live up to high standards – regardless of geographical location.

Our commitment to these issues can be seen in Volvo Cars' stringent policies in our supplier agreements with regard to environmental controls, treatment of staff and human rights. In 2000, we signed the United Nation's Global Compact initiative to work for human rights, establish good working conditions,

take responsibility for the environment and combat corruption.

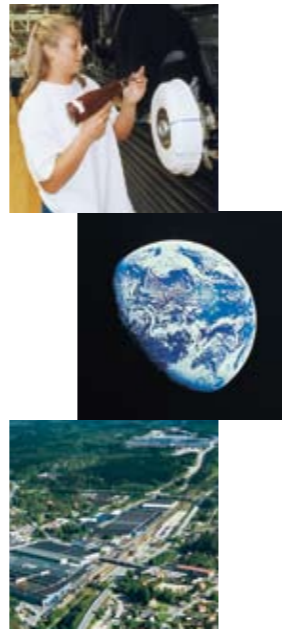
We identify our material issues in this area through global networks such as **UN Global Compact Nordic Network**, our **stakeholder dialogues 2002-2003** and **partnerships such as Biogas Cities**. +

RESPONSIBILITY AS A LOCAL PLAYER

As a local player, our most important stakeholders are our employees, the immediate communities where we operate and local authorities. We have a responsibility to be an honest, transparent and active company. We achieve this by being a developmental, ethical and reliable employer, by contributing knowledge, and taking into account our environmental and social impact in purchasing, production and distribution.

As an employer, our responsibility is to provide a safe and healthy work environment. We contribute to the community through the support of research as well as educational and cultural programmes in an effort to foster the next generation of employees and strengthen the reputation of Volvo Cars.

Our local environmental impact is something that Volvo Cars takes very seriously. As a result, our production facilities are amongst the cleanest in the world. As a local player, we define our material issues through our **internal employee survey** (Volvo Attitude Survey), **local Stakeholder dialogues** and through our **Governmental Affairs Department**. +



Corporate citizenship management

Corporate citizenship is an integrated part of how the company is run. Volvo Cars is governed by our core values. They are central to how we plan our business. Corporate citizenship is, above all, a mindset whereby people also consider the social and environmental consequences of their day-to-day decisions.

PART OF DAILY BUSINESS PLANNING

Our business plan is the basis on which all our activities are managed and run. As illustrated in the figure below, the starting point is our brand and our ambition to be the number one premium brand within the automotive sector. This ambition builds on our core values safety, environment and quality. To help us focus, we have four areas of priority – our common agenda: Customer satisfaction number one, Profitable growth, Next Generation of Cars, and Next Generation of Leaders and Employees. All activities must support these overall priority areas (see figure).

The strategic business plan has a five year perspective. Volvo Cars' success is reliant on the strength of the brand. The core values of safety, environment and quality all work together to support the brand and it is these concepts that govern everything we do at Volvo Cars.

The Volvo Cars Management Team (VCMT) has defined four agenda points with eight key business indicators that help us measure our progress. Each of these Key Business Indicators (KBI) relate to issues within the company called focus areas. For example, diversity is a focus area that relates to one of our agenda points Next Generation Leaders and Employees.

The strategic plan is updated annually. Each business unit develops an operational plan that is in-line with company objectives and incorporates relevant focus areas and issues. Some of these focus areas are explicitly connected to good corporate citizenship as they are about being responsible towards society, our employees and our customers.

In this manner, issues such as climate change, human rights, corruption, labour standards and community support are not only integrated in the strategic plan, but also into the daily decision-making of every manager and employee at Volvo Cars.

DEVELOPMENT OF CORPORATE CITIZENSHIP

We have an integrated approach to corporate citizenship; however, we understand that expectations regarding corporate behaviour vary over time. We have therefore established two specific forums to develop our understanding of and working approach to corporate citizenship.

The Corporate Citizenship Steering Committee is chaired by the CEO and consists of another five members from executive management representing Personnel; Purchasing; Business, Brand and Product Strategy; Marketing, Sales and Service and Public Affairs. The committee deals with strategic issues and development, and reports progress on objectives within the field of corporate citizenship.

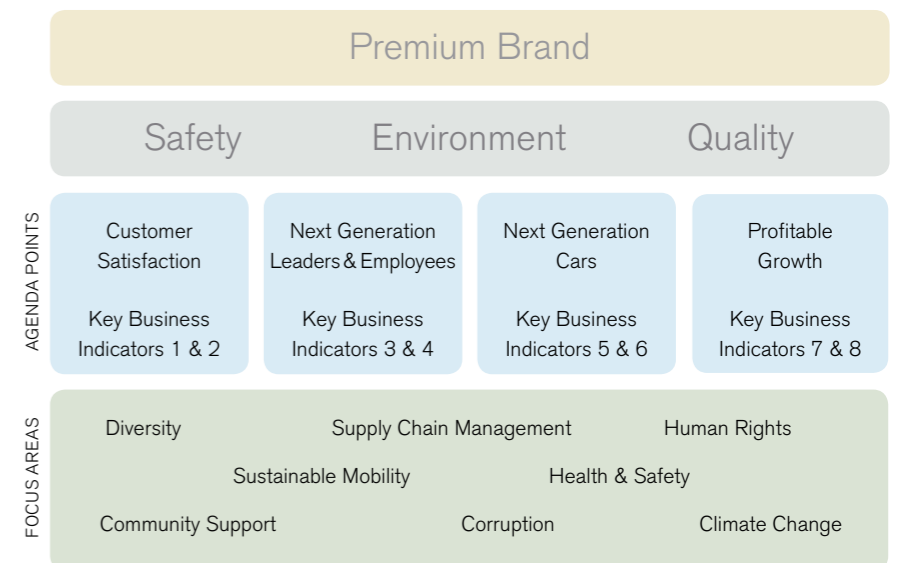
The inter-departmental Corporate Citizenship Council includes representatives from the main functions within the company (personnel, research and development, purchasing, quality, marketing, sales and service, public and governmental affairs). The council reports to the Corporate Citizenship Steering Committee and is led by the Corporate

Citizenship Manager. The main purpose of the council is to propose cross-functional strategies and objectives related to corporate citizenship.

The development of our working procedures is also discussed in this forum, together with ways and means of ensuring that corporate citizenship is both successfully integrated into our business plan and in the way this plan is implemented.

INTERNAL COMMUNICATION

Our employees are one of the main target groups for this report. Plans and results are communicated to every employee in the course of their ordinary work through our in-house magazine Agenda, through managerial communication, and the CEO's monthly newsletter. Everyone at Volvo Cars is regularly updated on the company's programmes.





A new road for safety and the environment

Mobility is an essential ingredient to the economic success of the past century. Cars have provided unprecedented access to markets, employment, health services, education as well as an ever advancing degree of performance, comfort and safety. However, to maintain our current view on personal transport solutions is short-sighted. The challenge facing us today is how to provide a high quality premium car, with all the features our customers expect from a Volvo, while also meeting the requirements of sustainable mobility in terms of resource use, environmental impact, reduced accidents and congestion to name but a few.

Increased severity in the effects of climate change around the world, congested cities, poor air-quality causing respiratory diseases and increasing allergies as well as the increased number of scrapped cars are forcing governments and communities to re-evaluate the use of resources that contribute to these effects. Legislation with regard to car waste and chemicals, emission levels, and CO₂-based taxation on transport in countries around the world together with rising oil prices have created a market for alternative fuels.

The World Business Council for Sustainable Development (WBCSD) set seven major goals for 2030 with regard to sustainable mobility and the car industry. These seven goals identified a

number of challenges we face as a society so that we can enjoy the freedom of mobility in a safe and a sustainable way into the future. The majority of them are directly linked to Volvo Cars' core values of safety and environment. However these goals are of such magnitude that we cannot achieve them on our own. They serve as an inspiration to our work in this area. We use them as guidelines and develop new creative partnerships to help us reach these goals.

The reality is that the car still represents the most flexible and efficient personal transport mode available. Therefore, our challenge at Volvo Cars becomes how to make sustainable and safe mobility solutions for this generation and for generations to come.

Safety has always been a core value of Volvo Cars and environment is a natural extension of safety. It doesn't make sense to us to build cars that can save your life, only to negatively affect the environment we all live in.

We are a producer of premium brand cars that provide mobility solutions for people all over the world. Our commitment is to create cars through creative partnerships that build on the positive benefits of independent mobility and co-exist with our environment, both now and in the future.

Volvo Vision 2020

Volvo Vision 2020 is our long-term safety and environment strategy. Volvo Vision 2020 aims to incorporate public and private benefits into each car. The aim is to create a car that is exciting to drive and that you can feel good about driving. This vision is Volvo Cars' way to differentiate ourselves in a competitive market and to strengthen Volvo Cars' position as an exciting and trustworthy brand.

Volvo Vision 2020 is ambitious and in line with Volvo Cars' core values. It is a strategy developed from the desire to see a safer world – where motorists can continue to enjoy the freedom of mobility, while the negative environmental effects are substantially reduced.

Volvo Vision 2020 is a vision to produce cars that are exciting to drive and own; that add to the quality of life of the occupant, as well as focusing on significantly reducing the number of accidents and emissions produced. This in itself is not a great shift away from Volvo Cars' current aims – the difference lies in how far ahead in the future these plans are. Instead of focusing on the next product cycle Volvo Vision 2020 pushes the development beyond two product cycles.

To achieve this strategy we will need to do more than just place more emphasis on alternative fuels and powertrains, renewable and recycled non-metallic materials. What will allow us to achieve this vision is the creation

of stakeholder partnerships and productive relationships with society and other car manufacturers. Through this we can build a dynamic innovation system that can continuously drive and adapt to the changing insights and preferences of both customers and society. We need to move beyond our knowledge and process "lock-in" and to think beyond the existing structures of our own competence and technology.

MAKING THE VISION REALITY

Volvo Cars is devoted and committed to an integrated and single goal that converges safety, environment and quality into a common aim. By thinking in a cross-functional and even more open-minded way we believe we can reach this goal.

Volvo Vision 2020 corresponds to the main areas of our business activity – product development, organisational capabilities and profitable sales and services.

With organisational capability, we look at

how we present the offer to our customers by examining both our stakeholder and customer communication. Volvo Cars has a strong heritage of developing features that contribute to what the customer values and society appreciates. Environment and safety are issues of growing societal importance and we intend to contribute to their solutions.

A new car is a significant investment. As a result, many consumers are driven by financial rationality and are more willing to put "private good" benefits like comfort, performance and design above "common good" features that benefit the environment or contribute to safer roads. Growing societal importance on issues like safety and the environment, rising oil prices and government incentives (for cars with low emission levels) are helping many to recognise the personal benefits of cars that contribute to the "common good". Volvo Cars looks for ways to capitalise on our core values of environment and safety, by producing cars that are fun and exciting to drive, that capture

the imagination of the public but without negatively impacting on society. By combining "common good" with "private good" we plan to create cars that are not only good looking and fun to drive, but that you can also feel good about driving.

On the development side, we will continue to find new partnerships that support the development of new features that are in line with the Volvo Vision 2020 goals and targets. Today, Volvo Cars already has a strong alternative fuel vehicle range in Europe. When it comes to the car's materials, many of the existing and future products already utilise recycled and renewable materials.

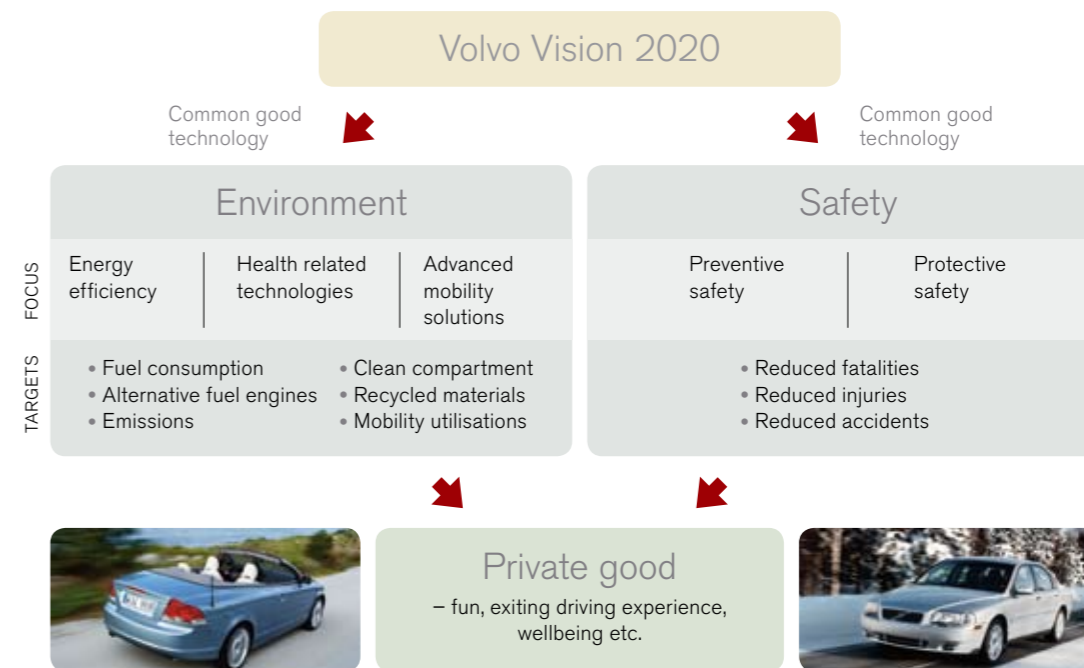
CLEAR TARGETS

The target setting for Volvo Vision 2020 is clearly defined in the two areas of environment and safety; and is presented as a final offer that highlights the "private good" benefits for the consumer.

On the environmental side, we aim to produce cars that are energy efficient, protect the occupants from environmental hazards, as well as providing advanced mobility solutions. These features will concentrate on delivering reduced fuel consumption, improved alternative powertrain options, reduced emissions, cleaner car interior environments, increased use of renewable and recycled non-metallic

car materials, as well as encouraging mobility utilization.

The safety focus of Volvo Vision 2020 is to develop a complete driver environment, including driver support functions that intuitively and effectively help the driver to avoid most accidents. Protective safety will still be in focus to ensure that in the event of an accident the occupants are shielded. These are targets that Volvo Cars have always aimed for, and we will continue to do so. By working towards clear targets in this area, we make the direction and focus of the company clear.



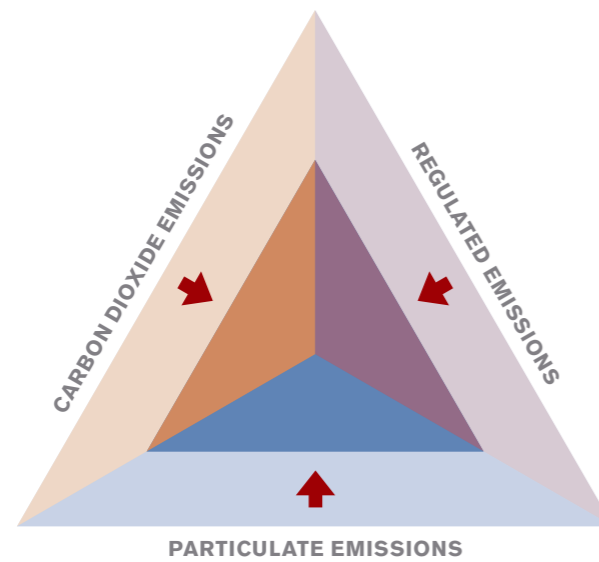
The three environmental target areas include energy efficiency, health-related technologies, and advanced mobility solutions. On the safety side, the targets are focused on preventive and protective safety measures. With Volvo Vision 2020, the focus will be on both areas together to produce the best car on the road. From these combined focus areas we will develop features that are attractive to the customer and increase the excitement and fun of the driving experience.

Improving fuel efficiency

Carbon dioxide, the greenhouse gas produced by the combustion of most fuels is considered by many observers to represent the greatest long-term threat to our planet's environment. The automotive industry has accepted its responsibility in this context and is working intensively not only on advanced engines and more efficient power trains, but also on developing engines for biobased alternative fuels. Today 98% of the cars sold world-wide are

powered by diesel or petrol. The proportion of diesels in the vehicle population in certain European countries is as high as 90%. Diesel is a fuel which, together with petrol, will most likely dominate the world market of automotive fuels during the coming decades. This means that improving the fuel efficiency of these cars will make a significant impact in total carbon dioxide emissions. Many stakeholders have a sceptical view on the diesel

engine based on its history as creating both noise and air pollution. The diesel engine has, however, undergone a technical revolution over the last twenty years. Benefitting from modern technology, carbon dioxide levels are significantly lower than those from a petrol fuelled car, the level of regulated emissions (CO, HC, NO_x) and the amount of particulates have decreased to levels comparable to the petrol engine.



CARBON DIOXIDE EMISSIONS

Diesel is a fossil fuel which, when burned, contributes to increased greenhouse gases. Volvo Cars participates in the undertaking by the European automotive industry to reduce average CO₂ emissions from new cars sold in 2008 by 25% compared with the 1995 level. One important way of contributing to this voluntary undertaking is to market a higher proportion of diesels which is in line with our business plan. Our recently launched Volvo S40 1.6D diesel car is the most fuel efficient Volvo car with an average fuel consumption of 4.9 l/100kms.

Although diesel is a fossil fuel, other renewable fuels can also be used in diesel engines. Volvo Cars believes that an environmentally efficient way of using liquified biofuels such as RME (rape methyl ester) is to mix it in low percentages in diesel fuels. This will also contribute to reduced net carbon dioxide emissions/greenhouse gases to the atmosphere. Today it is possible to run a Volvo diesel with diesel containing up to five percent RME. In the long run, we foresee a technical development by oil producers towards synthetic diesel fuels which in the future may be produced from biomass.

PARTICULATE EMISSIONS

The diesel engine has historically emitted higher emissions of particulate matter than a petrol driven car. However, the most recent advance in diesel technology is the particulate filter which significantly reduces the amount of particulate matter. The particulate filters are available in two main types – ADPF (Additive Diesel Particulate Filter) and CDPF (Catalysed Diesel Particulate Filter). Each of these devices is provided with a substrate similar to that in an ordinary catalytic converter and the gases are conducted through a large number of small passages. The rear end of the passages are closed and the gases are forced to flow through the porous walls into the other half of the filter whose passages are closed at the front end. In this way the particulates are bonded to channel walls. The accumulated particulates are burned off at regular intervals in an automatically controlled burn-off/regeneration process. With a particulate filter, the concentration of particulates is reduced to the same or lower level than from a petrol car. Compared to diesel cars without this modern technology, particulate matter is approximately 95% less in a modern diesel car than in an older model.

Trials using synthetic diesel have indicated the feasibility of reducing particulate levels by around 30%.

REGULATED EMISSIONS

The emissions of carbon monoxide (CO) and hydrocarbons (HC) are as low or sometimes even lower than those of a petrol engine. Nitrogen oxides (NO_x) are relatively higher from a diesel fuelled car than those from a petrol car but have reduced drastically. The nitrogen oxides are formed during combustion when oxygen is bonded with nitrogen at high temperatures. The nitrogen oxides are reduced in three ways – by controlling the fuel injection and combustion, by adding incombustible exhaust gas through exhaust gas recirculation (EGR) and, to a lesser extent, by post-treatment using oxidising catalytic converters.

Trials with synthetic diesel have shown the possibility of reducing NO_x emissions by up to 20%.

Working in partnerships

Volvo Cars has participated in a Swedish Partnership to improve the market for alternative fuels. The results from this partnership have demonstrated positive results mainly due to four factors:

1. THE OFFER

Develop alternative fuel cars

Volvo Cars has a broad offer of alternative vehicles in Sweden. In fact, of the eight car models currently in production, four of the models can be ordered with a Bi-Fuel (biomethane/natural gas engine) or FlexiFuel (powered on ethanol) engine.

2. GOVERNMENT ACTIONS & INCENTIVES

Swedish national government

- No tax on renewable fuels like biogas
- Vehicle taxation based on CO₂
- Reduction on the taxable value of alternative fuel company cars
- From 2006, major fuelling stations above a certain size must provide renewable fuel
- Governmental procurement

Swedish municipal authorities

- Free parking in many towns
- No road tolls/congestion charges in Stockholm
- Preferential taxi zones
- Rebates on additional costs
- Free electricity for electric vehicles

3. INFRASTRUCTURE

Fuelling options


Gas consists of a combination of biogas (biomethane) produced locally from organic waste and non-renewable natural gas formed in the earth's crust. E85 is produced from sugar cane or other crops.

Currently, there are 62 biogas fuelling stations and approximately 350 E85 fuelling stations throughout the country.

Dealerships as fuelling stations

Increased availability and appeal of alternative fuel vehicles prompted some Volvo dealerships to establish CNG/biomethane fuelling stations.

Encouraging infrastructure through partnerships


Biogas Cities, is a partnership to encourage investment in the biomethane fuel and vehicle market. 

4. SALES & MARKETING


Educating about alternative fuel cars

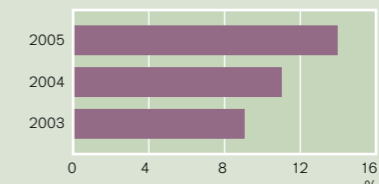
Training for sales people emphasised how to sell alternative fuel cars by focusing on the customer benefits.

Developing sales tools


Sales tools like the web-based price comparison were developed to counteract increased competition on the environmental market. The environmental impact of different Volvo models can also be compared on our website. 

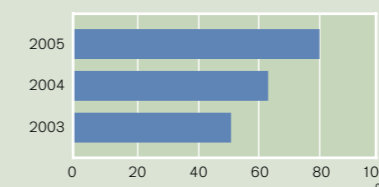
FUEL EFFICIENCY

Average reduction in carbon dioxide emissions, as per ACEA agreement 




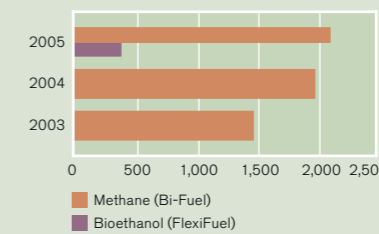
HARMFUL EMISSIONS

Percentage of cars sold complying with Euro4/ULEV standards 



ALTERNATIVE FUELS

Number of cars sold 



Cars running on fossil fuels, such as petrol, diesel and natural gas emit carbon dioxide (CO₂). From a climate point of view, fuel efficiency is the main parameter which determines the quantity of CO₂ generated by a car during its life.

The figure represents the reduction in average carbon dioxide emissions of Volvo cars sold in 2005 relative to the base year of 1995. In 2005, our investments in a more competitive Volvo S40/V50 programme and a broader and more fuel efficient diesel programme as well as a broader alternative fuel vehicle offer resulted in a reduction of our overall CO₂ emission level. In 2006, the Volvo C30 and a more efficient Volvo S80 will further contribute to reductions in average CO₂ emissions from new Volvo cars sold.

In 2005, there was a dramatic jump in the percentage of cars sold with low emissions of potentially harmful gases like hydrocarbons, nitrogen oxides and carbon monoxide. The percentage of cars sold complying with Euro4/ULEV¹ standards (or cleaner) increased to 80% of total sales to end customers. We introduced Euro4 emissions standard diesels with particulate filters. In Japan, we introduced our first SULEV² on the T5 version of Volvo S40/V50.

¹ Euro4/European Union. Limit, g/km Emission reduction compared with 2000. Hydrocarbons (HC) 0.1 50%, carbon monoxide (CO) 1.0 57%, nitrogen oxides (NO_x) 0.08 47%. ULEV CA, USA. Ultra Low Emission Vehicle, 50% cleaner than the average new model year car.

² SULEV is the most stringent emission standard in the Japanese low emission vehicle approval system – the SULEV emission reduction compared with the legal requirement is 75%.

Alternative fuels can be defined as any other power or fuel source other than petrol and diesel. This includes CNG (Compressed Natural Gas, or methane), biogas (biomethane), LPG (Liquefied Petroleum Gas), ethanol and RME (Rape Methyl Ester).


Carbon dioxide emissions are lower than petrol from alternative fuel engines – about 25% lower with CNG. When Bi-Fuel is fuelled with biomethane, the fossil carbon dioxide emissions are negligible.

In 2005, Volvo Cars offered Volvo S60 and V70 as Bi-Fuel variants in Europe. During the year, we also introduced Volvo S40 and V50 FlexiFuel in Sweden – the FlexiFuel is driven on E85¹ or any mixture of E85 and petrol. Powered by E85, Volvo FlexiFuel has up to 80% lower emissions of fossil carbon dioxide while driving.


During 2005, Volvo Cars global sales of alternative fuel vehicles increased. As a result of government incentives, sales campaigns and increased number of fuelling stations significant sales improvement was made in the Swedish market.

¹ E85: 85% ethanol and 15% petrol.

Volvo V50 PZEV – Pole Position

Volvo V50 compact sports wagon with Partial Zero Emission Vehicle (PZEV) engine is still cleanest in class according to the United States Environmental Protection Agency (EPA). The Volvo V50 came in equal first place with a score of 9.5 out of 10. 

The Californian PZEV standard is one of the world's strictest emission control standards. PZEVs meet the Super Ultra Low Emission Vehicle tailpipe emission standard which means they are 90% cleaner than the average new model car. A PZEV engine must also have zero evaporative emissions and a 15 year/150,000 mile (approx. 241,000km) warranty. No evapora-

tive emissions means that the Volvo V50 has fewer emissions while being driven than a typical petrol-fuel car has while just sitting. 



Actively helping to save lives

One of the most important factors in reducing the number of road accidents, is helping the driver to be informed and alert, but still relaxed behind the wheel. In the event of an accident, our protective safety measures work together to help shield the occupants of the car from harm. However, with new driver support functions and preventive safety systems we can help avoid accidents before they happen.

The new preventive safety measures fall under the Volvo CoDriver approach, which is a new ability-centric safety approach and part of our Volvo Vision 2020 aims. From the safety perspective, our safe sustainable mobility technologies are about developing the relationship between car, driver and the traffic environment into a dynamic, unthreatening, exhilarating and safe union – making everyday motoring enjoyable.

Volvo Cars research shows that driver error is a major contributor to collisions. That is why today's safety thinking at Volvo Cars focuses on the development of sophisticated new systems capable of helping drivers avoid accidents in the first place.

Managing the way that both driver and vehicle receive, relay or send, and assimilate information from things such as monitoring cameras, satellites, radar devices, the road infrastructure and other vehicles will be of

increasing importance to safety on the roads in the future.

It is also important to develop new technologies that are a natural extension of the car, and complement our human abilities when driving. This makes it easier to assimilate and act upon the information received – which includes unexpected or critical situations.

There are three key words in this context of preventive safety: updated, relaxed and alert. If we can help inform and update the driver on the car's status in a natural way, we will have achieved much. However, when we understand driver behaviour and how we can complement this, that is when we believe we are successfully meeting future safety challenges.

Volvo Cars is developing a whole series of systems which will help reduce the risk of accidents. Several of these are currently available or are going into production in the near future.

Already available are thinking systems such as the **Intelligent Driver Information System (IDIS)** that continuously monitors steering wheel movement, turn signal indicators and degree of braking, to delay incoming phone calls or SMS messages during intense driving activity.

The Blind Spot Information System (BLIS) is a side visibility aid that continually monitors the blind spot and helps to alert the driver to vehicles approaching alongside.

Many collisions are due to the driver not reacting in time or simply being distracted. As a result, we developed **Collision Warning with Brake Support** – a radar technology based system that is designed to sense an impending collision and help alert the driver to avoid or reduce the severity of a crash. If there is a risk of frontal collision, the driver is alerted by

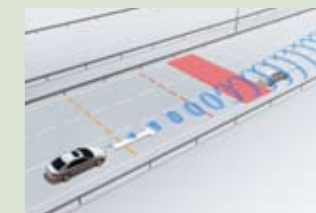
audible and visual signals. If the driver still does not react, the brakes are pre-charged to help the driver maximise their effectiveness in an emergency braking situation. This system is being introduced in the all-new Volvo S80 in early 2006.

The Driver Alert™ System uses a camera to monitor the distance between the car and the road markings, while sensors monitor vehicle motion. A computer stores and processes this information, calculating the extent to which the driver is at risk of losing control of the car. Unlike existing eyelid movement technologies, the Volvo Cars Driver Alert™ system provides warnings well in advance of sleep onset by monitoring a car's path between the lane markers on a highway. If the car detects growing irregularities in handling, it sends a warning to the driver that he/she may be getting drowsy.

The Lane Departure Warning System uses a camera to monitor the car's position relative to the lane markings on the road. If the wheels cross into another lane, a warning will sound.

Volvo CoDriver is a system which coordinates information from the various systems and functions of the car. It monitors traffic situations so that the driver is updated on what is happening, is alert and can make the correct decision in any given situation.

Together these systems are designed to improve the pleasure of driving by making everyday driving situations safer.



COLLISION WARNING WITH BRAKE SUPPORT

The Collision Warning system in the all-new Volvo S80 alerts the driver and can help reduce the severity of a collision. A radar sensor continuously monitors the road ahead. If the distance between the car and the vehicle in front becomes too close and the driver does not react, a red warning light on the windscreen and an audible alarm alerts the driver. If the risk of a collision seems inevitable, the car pre-charges the brakes to aid the braking action and minimise impact severity with a fast braking action – even if the driver doesn't press that hard on the brake. At the same time, the car's brake lights start to blink to warn approaching traffic of an impending sudden braking action.



NEWLY DEVELOPED SAFETY CAGE

The patented frontal structure in the all-new Volvo S80 is built with different zones of various steel strengths to help absorb the impact of a collision in an effective way. Side collision protection efficiently helps to distribute the force of an impact throughout the body of the car and is reinforced using high-strength steel to help maintain cabin integrity. The new generation side airbags have two separate filling circuits enabling the hip chamber to be inflated with five times as much pressure as the chest chamber for optimal protection.



PERSONAL CAR COMMUNICATOR AND HEART-BEAT SENSOR

Personal security is an important part of Volvo Cars' safety offer. Personal Car Communicator (PCC) in the all-new Volvo S80 is an advanced pocket-sized control centre. It displays information on certain situations that can provide a sense of security to the driver. With the touch of a button the car owner can remotely determine if the car is locked or if the car alarm has been disengaged. A very sensitive heart-beat sensor can detect if someone is in the car. PCC also has the usual central locking and alarm functions as well as a keyless locking and ignition system.

LATEST CRASH TEST RESULTS TO 2005 INCLUSIVE

Car safety is a complex area which is assessed on the basis of several different criteria. In addition to our own tests, our cars are tested by a number of independent bodies and insurance companies, and have been awarded the very highest ranking in no less than 39 out of 52 tests. The tests are based on crash testing, accident statistics and expert assessment. The Volvo C70 is not included since it was not tested during 2005.

| Test body | Test method | S40 | S60 | S80* | V70 | XC70 | XC90 | V50 |
|----------------------|--------------------------|-----|-----|------|-----|------|------|-----|
| EuroNCAP | Frontal crash test | 1 | 2 | 2 | n/t | n/t | 1 | n/t |
| US NCAP | Frontal crash test | 2 | 2 | 1 | 1 | 1 | 2 | n/t |
| | Side crash test | 1 | 1 | 1 | 1 | 1 | 1 | n/t |
| | Rollover test | 2 | 1 | 1 | 2 | 2 | 2 | n/t |
| IIHS | Frontal crash test | 1 | 1 | 1 | n/t | n/t | 1 | n/t |
| | Side impact crash test | 2 | 2 | n/t | n/t | n/t | n/t | n/t |
| HLDI | Injury reports | 3 | 1 | 1 | 1 | n/t | 1 | n/t |
| Folksam | Injury and fatality data | 1 | 1 | 1 | 1 | n/t | n/t | n/t |
| WHICH? | Expert assessment | 1 | 1 | 2 | n/t | n/t | n/t | n/t |
| IIHS/Thatcham | Whiplash test | 1 | 1 | 1 | 1 | n/t | 1 | 1 |
| Folksam | Whiplash test | 1 | 1 | 1 | 1 | n/t | 1 | 1 |

1 = highest rating
2 = next highest rating
3 = average rating
n/t = not tested

* The all-new Volvo S80 has not yet been tested.

30 years of safety

We can't learn enough about accidents, both how and why they occur. For this reason Volvo Cars has been working in partnership with insurance companies for the past thirty years to collect data on real life accidents. In total, they have analysed over 35,000 individual accidents involving Volvo cars in Sweden. Data collected includes front, side, rollover, and rear-end collisions, as well as cargo retention, occupant sizes, gender and sitting position. The benefit of this approach is that real life collisions provide information on the thousands of variables that cannot be replicated in a laboratory situation.

By working in partnership with the insurance company Volvia, photos and technical details of the cars are sent to

Volvo Cars' Accident Research Team. A detailed questionnaire is sent to the owner of the car to gather information like weather, road conditions, speed limits, sequence of crash events, and collision objects, seating position, age, gender, restraint use and even medical records are sent for (when applicable). All of which are reviewed by a physician at Volvo Cars' Traffic Accident Research Team.

The working process that was established at Volvo Cars in the early 70's is still in place today. Real life crash data conclusions are incorporated by researchers and designers into the next generation of cars.

Working together for sustainable solutions

Even though the Volvo Vision 2020 concept focuses on the importance of building partnerships, we have been working for a long time with our stakeholders to create new solutions to improve the wellbeing of the vehicle occupants and society in general. Some of the partnership projects that were started, developed or concluded during 2005 are described in the following section.

TARC

After three years, the Traffic Accident Research Centre project in Thailand has come to an end. As a result of Volvo Cars sponsorship in Thailand, a new commission has been set up to review accidents and develop recommendations for changes to the traffic environment in Bangkok.

Throughout the duration of the project, Volvo Cars sponsored the project and provided advisors both in Thailand and in Sweden to assist in the creation of the special task force. We also assisted in the development of accident assessment techniques that will benefit not only road users but also pedestrians and traffic congestion well into the future.

As a result of this three year project, the Thai government has decided to make the project permanent and incorporated the unit into their road and transport department.

Volvo Cars is currently evaluating the results from TARC in Thailand. At the same time, prestudies are being carried out to see if this partnership can be duplicated in other countries.

MULTILOCK/ALCO-LOCK

MultiLock alco-lock and speed-limiting key is a research project with the aim to help prevent the driver from driving while under the influence of alcohol. The alco-lock has a breathalyser integrated into the safety belt buckle. If it registers levels of alcohol in excess of legal limits the car will not start. Additionally, the ignition key can be programmed to help the driver reduce the risk of exceeding a set speed limit.

The MultiLock was developed in co-operation with the Swedish Abstaining Motorists' Association. Volvo Cars first approached them to determine the optimal construction of a locking system for the car to prevent drivers under the influence of alcohol from getting behind the wheel.

As a result of this co-operation and the

guidelines set by the Swedish Abstaining Motorists' Association, a breathalyser was incorporated into the safety belt locking mechanism. This construction can be used by any person, regardless of height or mobility and is safely protected inside the safety belt lock mechanism which makes it less prone to damage.

The MultiLock is currently available only in test vehicles. This kind of partnership demonstrates how shared knowledge can benefit both drivers and the community where they drive.

CLEAN INSIDE

In our efforts to improve the car's interior air quality Volvo Cars involved the Swedish Asthma and Allergy Association. Their experience and understanding of the specific issues helped us develop an improved environment for asthma and allergy sufferers. Through this partnership we were able to substantially reduce levels of allergens such as pollens, gases and other particulates.

The partnership is helping to develop some new ideas regarding air quality and filtration systems, as well as tackling the challenge of how to reduce potential areas of dust collection. This co-operation allowed us to focus on the real issues facing our most sensitive customers and take a more scientific approach to clean air.


Clean Zone Interior Package (the all-new Volvo S80 model) comprises of a series of modifications to improve the interior environment. Materials are chosen carefully to avoid harmful fumes, and surfaces are smooth so they are easy to clean – the natural rubber floor mats are a case in point. On days when it is at least 10°C outside, opening the car by remote triggers a 60-second ventilation cycle. The end result is cabin air that meets the approval of the Swedish Asthma and Allergy Association.

Volvo Cars intends to continue to develop new solutions which improve our customers' wellbeing.

MOBILIS – a Volvo Auto Italia and Bologna University partnership

Congestion and mobility are becoming issues in cities around the world. Congestion in some urban areas cannot be solved with more roads – and in the historic city of Bologna this is definitely the case. In November 2005, Volvo Auto Italia and Bologna University announced a long-term partnership agreement to develop sustainable mobility solutions in the city of Bologna. Mobilis is one project that will benefit from this agreement.

Mobilis is a scientific transport simulation programme, developed by Bologna University, to show how the university traffic impacts the community. University students make up almost a quarter of inhabitants in Bologna, therefore, the traffic congestion and emission levels in the city are highly dependant on the movement of students and staff.

Volvo Auto Italia's role in this project primarily involves financial assistance for the University to build more powerful models and more accurate simulations, as well as providing and sharing knowledge of mobility solutions. The simulation will then be used to test various scenarios. Mobilis will assess mobility issues like congestion and the environmental impact of traffic on the city of Bologna. It is expected that through the simulation model we will be able to help reduce congestion and create optimal traffic flow. 

“Mobilis will allow us to put into place the right measures at the right times.”

BRUNO GIORGINI
University Bologna



The co-operation with Volvo Auto Italia is rather unique for two reasons. Firstly, in Italy this kind of financial sponsorship given by Volvo Auto Italia to a public institution, like Bologna University, is not common. But also, because we work with theoretical physics, which does not usually attract this kind of funding. The financial backing will help us to attend seminars, conferences and convention opportunities both in Italy and internationally, as well as

funding some of our basic research activities.

Mobilis uses computer modelling to predict congestion and traffic situations in Bologna. This will hopefully allow us to prevent congestion by putting into place the right measures at the right times or construct optimum traffic flows that will preserve the unique nature of Bologna's medieval inner-city area and Bologna University – Europe's oldest university.



“We have a unique set of requirements.”

ROLAND EFRAIMSON
Swedish Asthma and Allergy Association

Allergy sufferers have a unique set of requirements when it comes to transport solutions. For some public transport is not an option and even travelling in their own car can be difficult as they react to the “new car smell”. That smell is a result of new materials reacting to the elements like sun, air, etc.

Volvo Cars first approached us, almost five years ago, with the idea of creating a car with interior air quality that was so pure, that it could be approved by the Swedish Asthma and Allergy Association.

The most common irritants are dust and pollens. We helped Volvo Cars understand our members' needs in terms of providing clean interiors that limit the amount of irritants entering the cabin, as well as removing unnecessary items that could potentially collect dust.



“We want to be a part of the solution.”

TOMAS JONSSON
Swedish Abstaining Motorists' Association

Volvo Cars came to us to help with the design and optimal construction of an alcohol lock that would not permit someone under the influence of alcohol to drive. What was unique about this co-operative project is that it combines Volvo Cars, ourselves and two industrial design students from Skövde University. The university students were completing the practical requirement of their degree and were working with us to develop the safety belt construction. The final design was chosen from 10 or 12 proposals. It is an optimal design and construction as the MultiLock alcohol lock only reacts to alcohol; not smoke or breath mints as other breathalysers can do.



“We will make safety and environmental features, desirable ‘must haves’.”

LEX KERSEMAKERS
Senior Vice President
Brand Business and Product Strategy
Volvo Car Corporation

Our survival strategy is to innovate and provide safety, design and environmental technology and forge closer partnerships with all the actors in our global industry on issues from safety and infrastructure to the environment in order to ensure everyone can benefit from sustainable mobility.

As a company, we need to focus on how to emphasise the personal benefits of “common good” features like PremAir® and Bi-Fuel. Because that is how we will create customer demand and willingness to see safety and environmental features as desirable “must haves”.

So the question remains, how do we turn “common good” into “private good”? We need to continue to develop technical solutions into commercial solutions, and think “reasons to have” rather than only technology. To survive in the competitive car manufacturing market we need to understand our customer segments better. And if the competence doesn't exist in the company then we need to build partnerships that provide insight into how these segments think and what they want.

Experience the brand!

Brand and core values. These words often arise when we explain how we do business or when we discuss the industry and our company in general terms. They indicate the key values of the company but for many of us they appear as abstract terms with meanings that are less than clear. What do these words mean, and how do they influence Volvo Cars in how we do business in the short and long term?

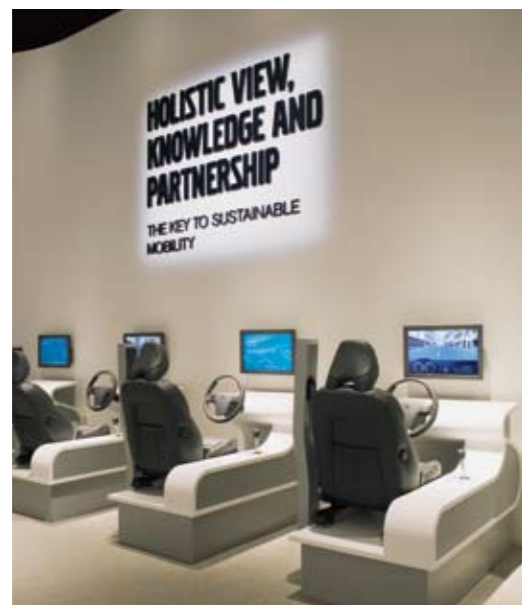
Now we can provide our stakeholders with a concrete answer to these questions – welcome to Volvo Cars Brand Experience Centre in Göteborg, Sweden! Here you can step into a world that visualises Volvo Cars core values – Safety, Environment and Quality. The thought behind the installation is to create an understanding around our core values; what they mean, and how our work within these areas contributes to sustainable development.

The exhibition presents not only the technical solutions in a more accessible way but it also physically demonstrates the challenges and issues that drive us. For example, many realise that we should use safety belts but only those people who have been in a traffic accident know exactly the enormous forces that affect us, even at low speeds. Even complex problems like the greenhouse effect are presented in a pedagogic way.

The message is presented to the visitor through a combination of personal presentations, computer animations and interactive screens in an original and imaginative way.

A single picture says a thousand words but a simulator lets you experience how it feels! By testing your braking reflexes and your simultaneous reactions behind the wheel (during periods of stress), the simulators involve the visitor in a way that words alone cannot achieve. Some installations challenge you to a virtual eco-driving race based on how efficiently you drive, another allows you to test different alternative fuels that release the least carbon dioxide. The remains of a Volvo car after a real-life crash serves as a brutal reminder of the unique combination of safety features that protect the occupants of the car. The unexpected and dramatic experiences in the exhibition are designed to prompt reflection.

But Volvo Cars third core value – Quality – how does that fit into the picture? This core value has steered the guiding principle behind the Volvo Cars Brand Experience Centre. The captivating and exciting experience is a result of the kind of quality initiatives that run throughout Volvo Cars, regardless if it is an exhibition or out on the open road.





Global actor with human values

Volvo Cars is a global company with a Swedish heart. We have been active in global markets almost since we opened our doors in 1927. However, the world is quite a different place from what it was almost 80 years ago. Globalisation affects everybody both positively and negatively. Markets are deregulating and countries are opening up their economies towards free trade. Faster and better transport and communication are connecting people to the global village; and mobility is key to prosperous and sustainable development.

Production and consumption patterns for goods and services are becoming increasingly global. New possibilities are emerging for companies and individuals. In particular, some developing and transitional countries are drastically improving their situation by utilising these new possibilities.

Simultaneously, competition and demand for change is increasing. Jobs move to less expensive areas. Environmental threats like climate change,

resource depletion and the subsequent natural disasters such as floods, landslides and water pollution, are not limited by boundaries. Fundamental societal resources, such as water and energy, are increasingly becoming scarce. Health issues like HIV/AIDS, malaria and avian flu, as well as access to healthcare, are today global concerns.

War, terrorism and security issues are front page news, as is lack of respect for fundamental human rights, labour conditions and individual freedom. In context, Volvo Cars seems like a small cog in the machine; however, all of these issues affect Volvo Cars directly or indirectly. Our goal is to ensure that we maximise the positive and minimise the downsides of our business activities. There is a strong belief that, as a global player, Volvo Cars has the opportunity to encourage every element within our global reach, to constantly improve in areas of social, environmental and human impact.

Ensuring positive impact

Volvo Cars global presence allows us to be closer to the customer. This helps us to understand what our markets want so that we can produce cars that better suit our current and future customers. At the same time, it forces us to be more attentive and adaptive. Only by understanding and adjusting to changing conditions, will we be able to survive and prosper as a company.

In order to succeed, we need to involve ourselves in close dialogue with our stakeholders and actively work not only with our direct sphere of activity, but also within our broader sphere of influence; by being successful and doing the right thing, we can inspire others to do the same.

In this chapter, we highlight four aspects of globalisation that are of special concern to us and to the communities in which we operate:

- Environment
- Competition
- Jobs
- Sourcing

These four aspects touch upon our relationships with our most important stakeholders; our customers, our employees and dealerships, our suppliers and local communities.

Our customers have the greatest impact on us. Everything we do at Volvo Cars is focused on providing our customers with the best possible car experience. However, to create customer loyalty we must also understand our impact on our customers' lives.

There has always been a concern for the individual employee. Our commitment to labour rights, to fair treatment and equal access to employment opportunities also extends to our suppliers.

In our relationships with our suppliers and our dealerships we are at all times aiming to be honest and open.

We value our excellent relationships with the communities where we operate. Neighbours, public authorities and NGOs all have an interest in our business practices.

By exchanging information and ideas with these groups through ongoing dialogues, we strive to achieve co-operative engagement and strong partnerships.

As the first car manufacturer to publicly accept accountability for the environmental effect of the car, our commitment to the promotion and dissemination of environmental technologies is well documented. We work with our suppliers to continuously improve environmental and human rights standards.

Volvo Cars has, throughout 2005, worked to improve in all these areas through special projects, changes in processes and active participation.

THE GLOBAL COMPACT GUIDES US IN OUR GLOBAL RESPONSIBILITY

Our responsibility as a global company extends to everything we do, as well as everything we buy and sell.

The Global Compact areas of main concern include human rights, labour standards, environment and anti-corruption. These principles strike at the heart of Volvo Cars founding principles, our heritage of safety and the protection of individuals. The ten principles of the Global Compact serve to guide us in our efforts to be a responsible corporate citizen.

In the age of globalisation, there are strong incentives for business to show leadership in the areas of human rights, labour standards, environment and anti-corruption. The transformations currently occurring in world markets are still fragile and uneven. Business increasingly needs a stable international environment in which to operate with a "level playing field" of opportunities and limitations. We believe that our influ-

ence in the global marketplace can be significant and contribute to a more robust and sustainable world market. In the end, the betterment of individual and market circumstances benefits everyone.

THE TEN PRINCIPLES OF THE GLOBAL COMPACT*

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

Labour Standards

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Businesses should work against all forms of corruption, including extortion and bribery.



* Read about the UN Global Compact at www.unglobalcompact.org

ENVIRONMENT IN PRODUCTION

A car impacts the environment throughout its life cycle. Most of the car's environmental impact occurs during its life on the road – which is around twenty years. Even if we include the extraction of resources and raw materials, as well as transportation, the manufacture of the car accounts for only a small proportion of the vehicle's total environmental impact. Nevertheless, the production of cars can have major impact at a local level and we are working continuously to reduce our levels of resource consumption, emissions, noise and waste from our production processes.

Thirty years ago, environmental care focused on industrial effect rather than on the product and thanks to the work that Volvo Cars did during that time, our production and assembly plants are among the cleanest in the industry. However, it is important to remember that each car requires resources, energy, and water which directly impacts the environment. Still, there is always room for improvement. During 2005, some of the initiatives we worked with included:

Maximising transport efficiency

Transport is one area that came into focus during 2005. This includes transport of the components to the production and assembly plants, as well as delivery of vehicles to customers around the world. To limit transport inefficiencies, production facilities have been creating so called "pick-up zones" to limit on-site congestion and transport idling times. Containers used for transporting components are increasing space utilisation to help make transportation more efficient. In 2005, we carried out an analysis of our transportation modes in an effort to find the most optimal and environmentally efficient transport methods.

Energy consumption

In 1994, 4 MWh of energy was consumed to produce one car at the Torslanda plant. In 2005, the figure is 1.6 MWh. In 2004, although Volvo Cars increased production by 30%, energy consumption remained almost flat. The target for 2005 was to reduce energy consumption by 5% per car produced. Energy efficiency efforts were increased. Concrete projects identified unnecessary standby losses, which resulted in reprogramming equipment to run more efficiently and in some cases machines were replaced with newer more energy efficient machines that are best-in-class.

Emissions of volatile hydrocarbons

Emissions of volatile hydrocarbons into the atmosphere have fallen from 30 kilograms per car in the 1970s to 1.3 kilograms in 2005. During 2005, Volvo Cars continued to lead the automotive industry with the lowest emission levels in the world. Work is in progress to substitute existing chemicals with lower Volatile Organic Components (VOC) emitting substances.

Waste management

Waste and resource utilisation and efficiency, is part of a continuous improvement strategy. In 1985, one manufactured car produced 40 kilograms of hazardous waste (such as paint residues, paint shop chemicals and effluent treatment sludge), the figure now is 12 kilograms at our Torslanda plant.

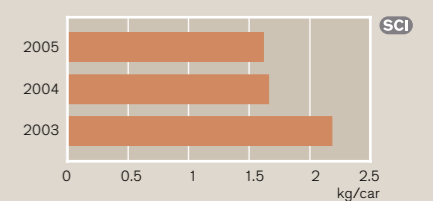
In 2005, water conservation was also on the agenda in the form of environmental seminars and information meetings. In Skövde, hazardous waste from cutting fluids (oily water waste) was reduced by 10% in 2005. This was achieved by more efficient use of cutting fluids and the introduction of dry machining processes. Grinding sludge recycling programmes, introduced in 2002, have resulted in a reduction from 2000 tonnes to almost nothing in 2005.

In other non-hazardous waste reduction, production facilities contributed to the reduction of waste by re-using packaging containers or by selling the container material. For example, in Malaysia the wooden boxes are sold on to furniture manufacturers.

Community dialogue

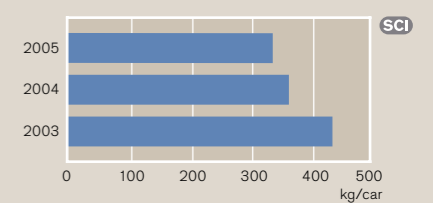
Despite being within the regulated noise limits, the Olofström plant in Sweden opened a dialogue in August 2005 with community members to discuss their concerns. As a result of the dialogue we are asking our neighbours to report the time and type of disturbance. At the same time, we will be performing more testing of noise and vibration – that way we get a better idea of the sources of disturbances and can develop solutions for noise pollution. At Floby, the community dialogue resulted in Volvo Cars rebuilding the access road to the plant in 2005 to redirect traffic away from the local primary school and private households which effectively reduced noise in the area.

ENERGY CONSUMPTION IN CAR PRODUCTION



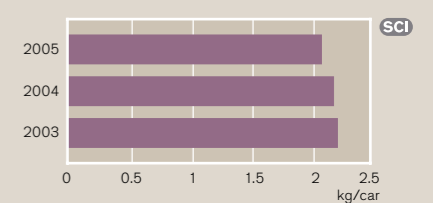
Production of cars from our facilities rose by 2% during the year while energy consumption is more or less flat. Energy consumption per car fell correspondingly in 2005.

CARBON DIOXIDE EMISSIONS FROM CAR PRODUCTION



Production of cars from our facilities rose by 2% during the year while energy consumption is more or less flat. Carbon dioxide emissions per car fell correspondingly in 2005.

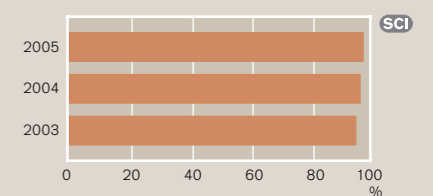
SOLVENT EMISSIONS FROM CAR PRODUCTION



The trend towards lower solvent emissions from painting operations continued in 2005, a result of improved efficiency, mainly in our two major plants in Göteborg and Ghent.

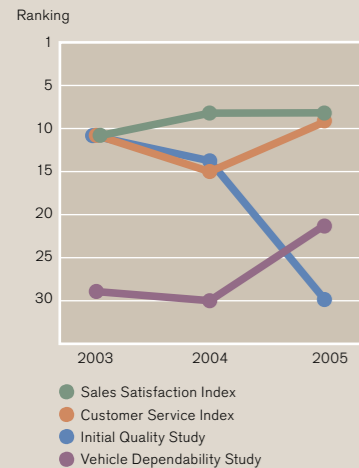
ENVIRONMENTAL MANAGEMENT VOLVO CARS

Percentage of employees working in facilities with ISO 14001 certification.



The task of certifying the entire Volvo Cars operation to achieve a multi-site quality and environmental certification under ISO 9000 and ISO 14001 continued during the year. By the end of the year, 97.8% of all employees were working in facilities certified to ISO 14001. For more information on Volvo Cars Environmental Management and the full life cycle of our products please visit www.volvocars.com/EPI.

CUSTOMER SATISFACTION, 2005 RESULTS OF J.D. POWER & ASSOCIATES SURVEYS



WHAT DOES J.D. POWER & ASSOCIATES MEASURE?

Sales Satisfaction Index (SSI):

Measured after 3 months of ownership – describes dealer performance from initial contact to delivery of car

Customer Service Index (CSI):

Measured after 3 years of ownership – describes quality of service and repairs provided by dealer

Initial Quality Study (IQS):

Carried out after 3 months of ownership – describes quality of car (problems per hundred cars)

Vehicle Dependability Study (VDS):

Carried out after 3 years of ownership – describes reliability of different cars. Replaced VDI in 2003

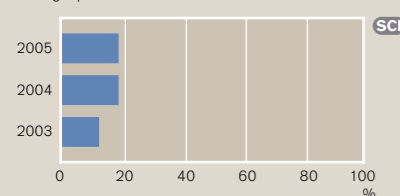
Vehicle Dependability Index (VDI):

Carried out after 4-5 years of ownership – describes reliability of different cars.

Visit www.jdpower.com for more information. +

CUSTOMER SATISFACTION, RANKING 1-3

Percentage of independent surveys in which Volvo is ranked among top three car brands



Trend in 2005

Despite our continuous focus on improving customer satisfaction, the level of the SCI remains flat in 2005, due to similar efforts and improvements by competitors. Thanks to a systematic approach Volvo is in the forefront when it comes to sales and service satisfaction but due to strong improvements by competing car makes the overall vehicle satisfaction with Volvo Cars' products stayed flat or dropped in US and most European countries. The introduction of three new models in 2006, and an even stronger focus on product quality will hopefully change the trend.

COMPETITION

Competition in the automotive market is fierce and the conditions in the markets where we operate, change quickly. Economic decline and tax increases in one market directly influence the number of cars sold. Rising fuel prices have a similar effect on global scale. Only those companies that are able to adapt to these changes will be able to survive in the long run.

Our ambition is to be a leader in the premium segment of the automotive market with the most satisfied customers. Satisfaction is based on the brand experience and the quality of the product both in terms of product performance, as well as dealer service and handling. Without superior quality, our brand suffers and so does our customers' satisfaction level.

In order to maintain our competitive edge in an ever changing marketplace, several measures have been taken or are under way:

New unit

The Brand, Business and Product Strategy unit was established in early 2005 to lead and facilitate the formulation and implementation of the future business strategies of VCC.

The unit aligns and directs strategy and business development throughout the company, in an effort to grow business and profitability. The unit is responsible for developing new business ideas, concepts and models for existing and new markets; and linking these ideas to operational work plans. Business inventions that capitalize on the company core values of safety, quality and environment is one of the three core foundations of the unit.

A broadened focus on diversity as a tool to achieve business success

Greater diversity allows us to choose the best competency available; it provides greater diversity of opinion, new ideas and therefore, greater understanding of our customers' needs – which we feel will ultimately result in more satisfied customers and increased car sales.

In line with our aspirations and efforts in creating a diversified workplace, Volvo Cars has a target of increasing the number of female managers to 25% by 2008. Volvo Cars organised external and internal seminars and

training programmes throughout 2005 to encourage women in industry, by challenging entrenched ideas in ourselves and our stakeholders.

To Volvo Cars, diversity is more than gender. It is everything that makes people different, including age, ethnicity, physical ability, education, life experience, personal values, religious belief, sexual orientation, and other factors. By the end of 2005, the first steps were taken in developing a broadened diversity strategy, recognising the direct benefits of diversity to the overall business priorities such as customer satisfaction and profitable growth. +

Interactive Service Reception

The Interactive Service Reception (ISR) in Spain, Germany and two pilot dealerships in Sweden, were developed during 2005 to take greater care of the customer. The customer service role was divided into two; the original customer interface was maintained and complemented with an additional technical expert who was assigned to spend approximately 15 minutes listening to the customer's technical problems and then, step-by-step, taking them through the actual work to be done on the car. As a result, customers are more satisfied and productivity in the workshop has risen by 5% and repeat visits have been reduced.

Customer for life

Customer for life is a global customer satisfaction programme that collates customer opinion on service and sales experiences from 27 markets around the world. In Germany, over 44,000 sales customers and over 180,000 service customers have responded to the Customer for life questionnaire since the start of the programme. Results indicate areas for increased focus to improve our strong position in terms of customer satisfaction. In the 4 years since we started using Customer for life, customers that respond with 'outstanding' have more than doubled to 45% for sales customers; and 31% for after sales service customers in 2005. +

JOBS

Our ambition is to be an attractive employer, regardless of geographical presence. We believe that it is not only possible to combine cutting edge productivity and cost efficiency with human responsibility, but that it is financially smart.

In practice, this encompasses good working conditions, equality and labour rights. It is even more important to be a responsible employer in times of restructuring and workforce redundancies.

This year our initiatives focused on long-term goals to improve the workplace environment and Volvo Cars, some of which are mentioned below:

Streamlining the organisation

In early 2005, Volvo Cars recognised the need to streamline operations and restructure the organisation for optimum future profitability. The decision to restructure during a time of profitable growth was seen by many as a surprise. However, Volvo Cars decided to proactively, preview itself in a time of strength and investigate where we could save money by cutting back areas that were outside the core business and removing duplicated work. Originally, it was estimated that up to 1,400 positions would go, however, the aim was to keep forced redundancies to an absolute minimum.

The overview, occurred between August and November 2005. Volvo Cars worked together and in close co-operation with a number of specialists such as the Employment Security Council (Trygghetsrådet), Volvo Cars' health services and the national employment exchange, in order for the process to be carried out in the best possible way for all parties concerned.

In all, 440 white collar employees, primarily in Göteborg, left the company with early retirement offers, severance pay, or will have to leave their job because of redundancy. Another 310 blue collar employees, also primarily in Göteborg, will leave the company with offers of early retirement.

A total of 330 contract and temporary employees will be reduced mainly at plants outside Göteborg between May 2005 and early 2006. A further 90 individuals will be leaving to study. The remaining 300 consultancy positions will be discontinued and a further 300-400 employees were transferred to other duties.

In total 720 positions in production or blue collar work and 750 white collar positions will be removed.

Mentor programme

During 2005, the Business Women's Advisory Board (BWAB) together with the Volvo Cars Management Team (VCMT) investigated the reasons for the low number of women in higher management positions. In 2005, the two groups had a workshop to identify ways to increase the number of women into management positions – one of the actions from BWAB was to start a mentor programme for women.

Volvo Cars has had a mentor programme for a long time. However, the BWAB now wanted to start a mentor programme for our network. By presenting a number of potential mentors using our website, this would establish a more visible and continuous mentor programme.

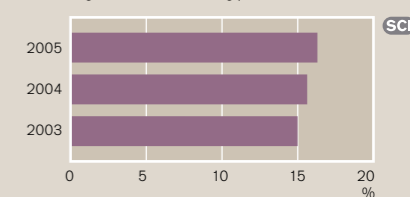
The website would list the potential mentors, including information related to their profession, experience and general background. Interested individuals could then actively apply for mentors that best suited them. After evaluating compatibility and agreeing on the level of commitment from both parties and length of time the mentorship would be active, an agreement would be drawn up and the mentorship would begin.

Coaching programme

Improving leadership and employee satisfaction is important to the productivity and success of Volvo Cars. An annual employee survey is conducted at Volvo Cars to assess employee opinion, satisfaction and attitude. In 2005, a target of 80% employee satisfaction was set and exceeded. This was due, in large part, to the coaching programmes set up by the Human Resource department that targeted teams with low employee satisfaction results of 60% or below. Together with a Human Resources representative, the groups worked with the coaching programme to identify the issues facing the group and co-operatively find solutions. The improvement in satisfaction from these groups was a significant and contributing factor to the company-wide increase in employee satisfaction and helped us to exceed the 2005 target.

GENDER BALANCE

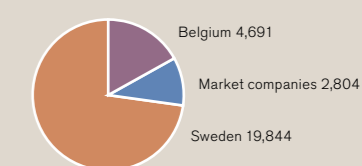
Percentage of women in leading positions



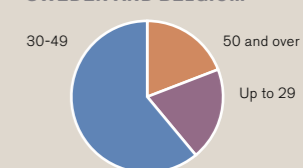
79% of all our employees are men and 21% women. In order to increase gender equality and better utilise the competence of our female employees, one of our goals is that by 2008, 25% of our managers should be women. The proportion of female managers has increased from 12% in 2002 to 17% in 2005.

The positive change is expected and continued improvement is needed to reach the targets for 2008. During 2005 every unit has produced action plans with unit specific targets and annual follow-up.

EMPLOYEES NUMBERS BY COUNTRY



AGE DISTRIBUTION AT VOLVO CARS IN SWEDEN AND BELGIUM

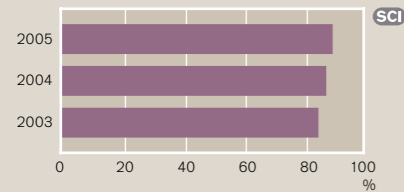


GENDER DISTRIBUTION AT VOLVO CARS IN SWEDEN AND BELGIUM



ENVIRONMENTAL MANAGEMENT SUPPLIERS

Percentage of production material suppliers with ISO 14001 certification

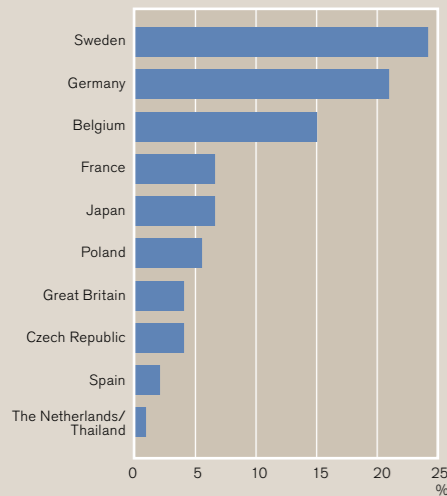


Volvo Cars imposes high standards on its suppliers in terms of quality, product development, cost effectiveness, delivery capacity and environmental care. Almost 90% of these have now implemented certified environmental management systems.

All production-related suppliers must possess environmental certification under ISO 14001 verified by a third party. We had established a goal to ensure that all of these suppliers should be certified before the end of 2004. Those few suppliers which have still not commenced the certification process are subject to severe restrictions in terms of contract renewal and the placement of new orders.

TOP SUPPLIER COUNTRIES, 2005

Invoiced proportion as a percentage of total purchases



TOP TEN SUPPLIERS, 2005

Aisin AW Automatic transmissions
www.aisin.com

Benteler Suspension components
www.benteler.com

Bosch Control modules, alternators, engine components
www.bosch.com

Continental Tyres and tracks
www.conti-online.com

Eurofitting Assembly tyres and rims
www.eurofittingmanagement.com

Getrag Gear boxes, wheel assemblies
www.getrag.com

Johnson Controls Seats, headliners
www.johnsoncontrols.com

Lear Seats, Instrument panels
www.lear.com

SAS Automotive Assembly Instrument panels
www.sas-automotive.de

Valeo Climate control, lightning systems
www.valeo.com

SOURCING

Every aspect of business has a social element. Suppliers have a great impact on Volvo Cars as approximately 80% of the car is procured from external sources. Diminished trade barriers, deregulated and open markets allows us to source the best materials possible for the highest quality end product. Our supply chain also extends our impact beyond our own company and into the workforce and communities of our suppliers. With increasingly global suppliers the automotive industry has the opportunity to learn from the mistakes of other industries, like the clothing industry and set up monitoring and enforcement mechanisms within the supply chain. This may enable us to ensure that human rights and core labour standards are upheld and that anti-corruption and ethical business behaviours are maintained. These issues constitute a significant risk to not only the quality of the delivered product but also the integrity of our brand.

Our ambition is to maintain high standards wherever we operate, be an honest partner to our suppliers and assist them to pursue and maintain high standards in environmental protection, labour and human rights, as well as anti-corruption. To ensure an environment of openness in our supplier relationships during 2005, we have taken a number of measures:

Aligned Business Framework

The objective of the Aligned Business Framework announced in September 2005 is to build a long-term close relationship between Ford Motor Company and our suppliers. This means that both parties will increase transparency to improve quality and delivery precision, increase sharing of technical innovation and improve efficiency in common processes. In the long run this will also lead to improved relationships with these suppliers. To become a preferred supplier according to this framework, the supplier is expected to fulfill certain requirements, among others those encompassed by Ford Motor Company's Global Terms and Conditions that define supplier practices and legal requirements; including working conditions and environmental requirements.

Commodity Business Plan

The Commodity Business Plan process performs yearly review of suppliers within a certain area (commodity). An evaluation is made based on a number of parameters to ensure that suppliers live up to expected requirements. The result of this process is

expected to be a core group of suppliers with which we will work in a long-term basis, thus the link to Aligned Business Framework. The advantage of this process is that the supplier knowledge within the Ford group is gathered and is made available to others. At the same time, we will minimize the number of suppliers and deepen our co-operation. This will also facilitate our co-operation within the area of social responsibility with these suppliers.

Supplier Evaluation Model

The aim of the Supplier Evaluation Model (SEM) is to assist purchasing buyers in the selection process and develop a more complete picture of the potential supplier. The SEM uses financial and non-financial metrics by which to judge potential suppliers. The Supplier Evaluation Model consists of eleven assessment areas such as environment, logistics, human rights and sourcing.

5-year Supplier training plan

The 5-year training plan adopted from Ford in 2005, places the emphasis on suppliers to continuously improve, reach and exceed the environmental and human rights standards and requirements, rather than passing the test by fulfilling a set of requirements. The 5-year training approach builds-up our suppliers' capacity and provides a basis for ongoing engagement and co-operation in areas of corporate social responsibility.

Buyer's Quick Guide

As human rights and environmental standards can vary from region to region, the Buyer's Quick Guide gives assessment recommendations for buyers when visiting suppliers to ensure that there is a continued level of compliance.

Benchmarking Master Thesis

In autumn 2005, two master thesis students performed a benchmarking exercise on Volvo Cars' performance in areas of Corporate Social Responsibility (CSR) in the supplier base. As a result, Volvo Cars has gained a better understanding of what CSR processes other car manufacturers use, as well as learning from other industries like the furniture industry. It will also help us to see the gaps in our sourcing practices.



"Continuous efforts to reduce the amount of waste."

VOLKER HEUZEROTH
CEO, Yazaki Europe Ltd

Yazaki is a global supplier of electronic solutions to the car industry and to Volvo Cars – we hold ISO 14001 certification for global

environmental processes. Working with environmental process has benefitted the company in many ways, for example Yazaki's Turkish production facilities where a combination of solar power cells in the roof and energy efficiency initiatives has resulted in a total energy reduction of 52 MWh.

Another impressive example of some of our environmental initiatives, comes from Yazaki in Japan, where the continuous efforts to reduce the amount of waste that contributes to landfill through recycling initiatives has really paid off. Yazaki had a potential landfill weight of 4,600 tonnes which they managed to reduce to 22 tonnes – that means that approximately 99.5% of the original waste was eliminated or recycled.

For Volvo Cars the benefits of working with an environmentally like-minded company, is that they know that Yazaki are working with them to reduce the total environmental impact of car production.



"Treating people with respect and fairness is ultimately the right thing to do."

STEVEN ARMSTRONG
Chief Operating Officer
Volvo Car Corporation

The automotive industry is a tough market and the variety of offers available to the customers makes it difficult to stand out in a crowded marketplace.

Beyond the impact our cars have on peoples everyday life, our most significant global impact is through our supplier relationships. Increasingly, we are sourcing from new markets and it is important for us to realize that even though this represents an opportunity for us to source the best products, it also presents us with an opportunity to ensure that working conditions of our suppliers' employees are satisfactory.

It is important for Volvo Cars to ensure that the company's social requirements on human rights, and labour standards as well as the environment requirements are enacted for two main reasons. Firstly, we are a premium brand and therefore if we expected less than proper treatment, payment and advocacy then this would negatively affect our brand. Secondly, if we work with companies that have similar ideals to our own we naturally have an easier time achieving common goals. This in turn makes it easier to continue our growth and meet the levels of profitability we must achieve for our business to be sustainable in the future. Overall, of course, treating people with respect and fairness is ultimately the right thing to do.

Volvo Cars Award of Excellence

Suppliers form part of a team effort and play an important role in the continuing success of Volvo Cars. Through the supplier awards we show our appreciation for outstanding performance and efforts. The prize represents the highest possible recognition a supplier can attain. Other than the encouragement and praise suppliers' receive, it also builds Volvo Cars reputation as an attractive and professional supply partner.

"In three years we have reduced short-term sickness absence by 60%."

JÖRGEN MOSCHINI
VD, Lear Corporation, Seating System Div.

"One of the three criteria for distinction is diversity and social issues at our Torstlanda plant", says Jörgen Moschini, VD, Lear Corporation – Seating Systems Division Europe and Africa. "When we launched the plant in 1999 around 95% of our workforce were first or second generation immigrants from over 30 countries. The variances gave rise to misunderstanding between different groups. General work satisfaction and efficiency diminished, while recruiting costs increased. The management realised this and took action and we decided to incorporate a program to reduce sickness absences and reduce personnel turnover. Since its conception there has been an intensive period of knowledge exchange regarding diversity and our partner



relationships, not the least Volvo Cars but also government authorities and other Lear plants. As a result, we educated our foremen and team leaders in production and refined our recruiting processes.

The result can be seen clearly in a marked increase in employee satisfaction. Turnover of personnel has fallen by two thirds from 40% to just under 9% per year. Short-term sickness absence has more than halved from 8.5% to just 3%. And long-term sickness absence has almost halved dropping from 19% to just 11%."

2005 winners: Berendsen Textile Service (Textile service), Johnson Controls (Seats/interiors), Lear Corporation (Seats/electronics/interiors), Novem (Interior panelling) and VM Data Caran AB (Technical consultation).



Only winners in a healthy company

In October 2005, Fredrik Arp, CEO of Volvo Car Corporation, indicated the need to reduce sickness absenteeism to 5% by 2007. We recognise that long-term sick leave can be symptomatic of other workplace and personal issues. Empowerment, work-life balance, diversity and respect, as well as issues relating to leadership are all factors that play a role. By addressing sickness absenteeism, these issues have come into focus in the company. This work improves not only the bottom line profitability of the company but it also improves the wellbeing of one of our most important resources – our employees.

Sickness absenteeism is central to one of Volvo Cars' business agenda points – to cultivate the next generation of leaders and employees.

From a purely financial perspective, absence from work due to illness is costly. Short-term sick leave accounts for approximately 90% of the total cost of sickness absenteeism ~ 12 million EUR. This figure triples if we include loss of productivity and efficiency, as well as reductions in quality and competence, administration costs and added pressure on

colleagues. Reducing sickness absenteeism statistics to 5% would effectively save Volvo Cars around 2.2 million EUR annually.

From a community perspective, the cost and drain on health care resources as well as public and private insurance agencies, is high. These costs are transferred to society in the form of taxes and increased insurance rates. Not to mention the personal impact that sickness has on an individual and their outlook on life. The argument for encouraging proactive and preventive health care as well as rehabilitation is convincing. Therefore, to not work with these issues would go against what the company stands for and also against our own business strategies for success. Sickness absenteeism is a part of life, however what makes individuals stay away from their place of work for longer periods of time can be symptomatic of other work or personal issues.

By identifying the causes of both long and short-term absences, we can use the findings to not only proactively reduce sickness absenteeism but also encourage a more profitable employee and company environment.

Achieving a healthier workplace

Health and safety is a vital investment in the continuing profitability and success of Volvo Cars. We have always had a strong commitment to ensuring that employees are respected and their individual skills are encouraged. Therefore, to achieve the goal of 5% sickness absenteeism we have modified our approach to this issue. We are implementing common processes that build on our existing work in this area, as well as involving managers in a more active role to rehabilitate those already sick and map the causes of absence to proactively improve the workplace.

Every day at Volvo Cars hundreds of people, safety committees and safety consultants, assess our workplace to ensure that our working environment is as safe as possible. From air quality to ergonomics, the work is constant, consistent and systematic. In production, any work-related injuries are reported and assessed for potential solutions and changes to assembly lines and machining practices. Office environments are also regularly assessed. In fact, Volvo Cars believes that workplace safety is so important that everyone working in production as well as all managers, throughout the company, have gone through safety training.

Health promotion programmes exist, in various forms, to encourage preventive and proactive health care that helps avoid injury and illness. We work systematically through-

out the company to reduce potential hazards – as a result the risk of suffering a work-related injury or illness in production has fallen steadily over the past decade.

Increased awareness by all employees of health and safety at work helps keep potential injuries and accidents to a minimum. In production, the most common injuries remain strain injuries and accidents. Whereas, in the office environments, back and neck injuries are more common. Still, sickness absenteeism is more than just illness or accident-related absence. In fact, between 80 to 90 percent of all sickness absenteeism is not work-related in origin. Nevertheless, the reasons why employees stay away from work are complex and can also be attributed to stress, managerial or societal factors. Currently, Volvo Cars uses the annual employee survey to highlight

departments or teams that require help to identify and work on issues that are affecting their satisfaction level. This work improves not only the employees' attitudes but also has a positive effect on absenteeism.

To reach the 5% sickness absenteeism goal will require a multi-faceted approach that tackles all the contributing factors of short and long-term sick leave. In the case of short-term sick leave, to aim for zero is not wise. Some sources believe rates of 1% or less represent a number of sick present employees. This in turn can have detrimental effects on co-workers in the same environment.

The challenge for long-term absenteeism is getting people back to meaningful work from both a company and an individual perspective. However, the step between short-term and long-term sick leave can sometimes be decided in the first few days. It is at this point where other issues in the work environment such as respect, empowerment, diversity and leadership can affect how quickly a person returns to work. In short, if an individual does not feel valued, what reason do they have to return to work?

Anonymity is a factor

The effects of anonymity in the workplace can be seen clearly in comparison between two assembly plants. On one hand, at one of our larger plants with many employees there is high anonymity and a higher than average rate of sickness absenteeism figures. On the other hand, in our smallest plant with less than 200 workers we have extremely low sickness absenteeism rates.

At this plant, there is a non-systematic approach to sickness absenteeism. As many employees also socialise outside of the work environment, if one person is not present one of their colleagues calls to check on them. In other words, they take an active interest in each other's wellbeing. They are, in many ways, like a family.

The corporate family

We can never duplicate the complex friendships and social network that exist at the small plant, however, we can transfer the idea. By transferring the concepts of care, respect, involvement and accountability, we can demonstrate to our co-workers how we value the work they do.

We have seen in other companies that this approach has also resulted in a reduction in sickness absenteeism from work. In much the same way that team building in groups creates greater understanding and a more productive team, this approach supports a sense of belonging. To affect change, Human Resources, created common processes as well as support tools for managers to increase their capabilities when dealing with the team and to develop this sense of family in each group.

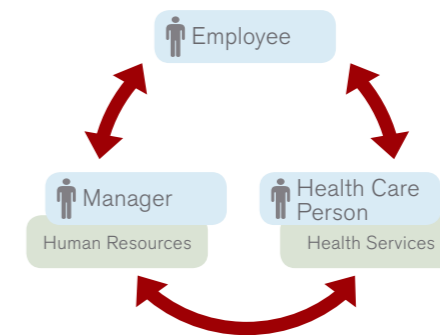
New approach

Whilst creating a more family-centric model, other issues associated with previous processes were also revealed. The Volvo Cars Human Resources department found that rehabilitation varied greatly from department to department, as did the level of communication and contact between the absent employee and their direct managers.

To adequately manage all sick leave cases, the only solution is a collaborative process between the employee, the manager and health services. Without good communications processes that make absent employees know they are missed as a valuable part of the team, individuals can easily fall between the cracks – managers and employees may miss that critical step in the process which can provide for a quicker return to work. As a result, Human Resources identified stages of sick leave where they could empower the employees, and support managers and health care services in a collaborative process.

In 2005, Human Resources and the health services at Volvo Cars created a series of tools that support managers with advice, action plans and active participation in the rehabilitation and return to work process. Human Resources also identified the responsibilities of the employees, managers and health services in the process.

With this new approach, employees have a responsibility to call their manager on the first day that they are ill. Volvo Cars Health Services also have a more involved role and actively call the employee on that first day with advice and recommendations, as well as following up their progress.



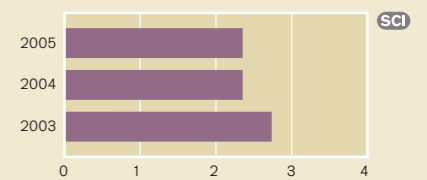
The approach encourages co-operation between the employee, Health Services and the employee's manager to facilitate a return to work.

The results

The added benefit of this new common approach is that information regarding the health of employees can be collected. This can then be used to develop proactive health promotion activities. The results, together with the employee attitude survey, will serve to identify how we can best use Volvo Cars resources to empower employees, encourage diversity, promote clearer working roles and increase the positive attitude of employees through new programmes. This is only the first step to finding solutions.

OCCUPATIONAL INJURIES

Number of accidents resulting in at least one day of sick leave per 100 employees per year

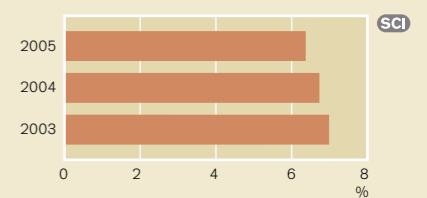


An occupational injury includes on-premises work-related accidents. It is encouraging to see that although an extra shift was introduced at the Ghent assembly plant and two new vehicles were added onto the production lines at Torslanda, Olofström and Ghent, there was no change in the rate of accidents.

We will continue to monitor work-related accidents carefully and follow up all injuries to develop assembly line improvements to avoid future occurrences.

HEALTH

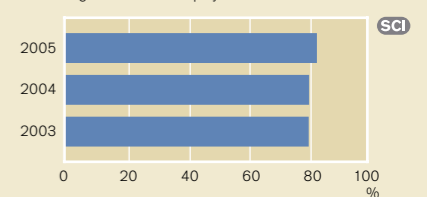
Percentage of sickness absenteeism per hours worked



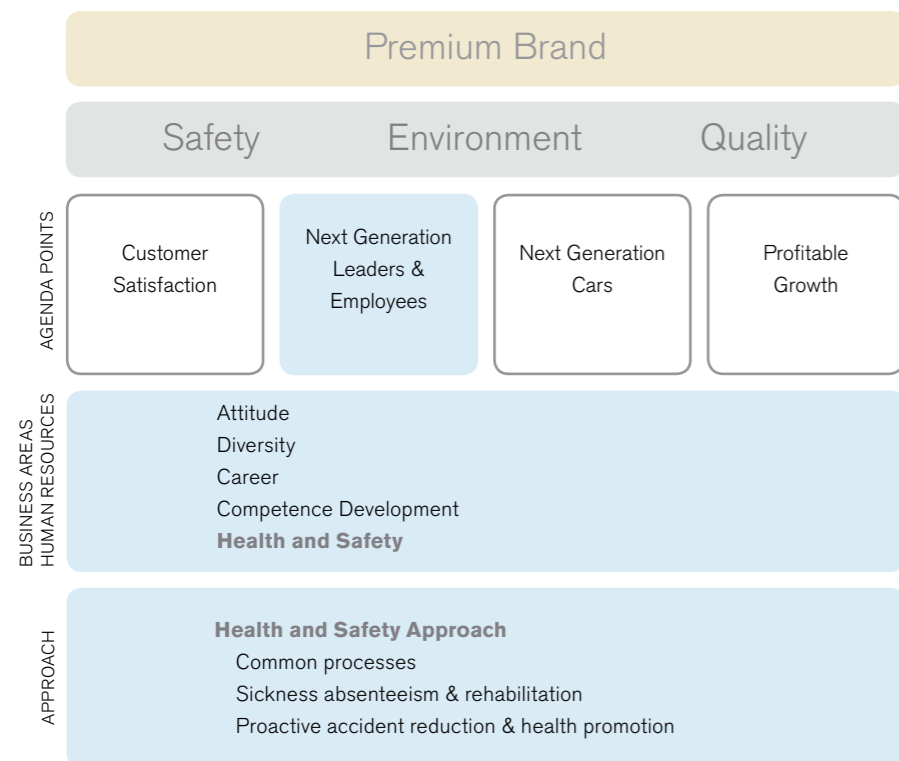
Sickness absenteeism constitutes any time away from work. Sick leave has been slowly but surely decreasing over the past few years. This area has come into focus during the last half of 2005. During 2006, we should see the effect of our efforts. We have a tough target of 5% to meet by the end of 2006, but we are confident we can achieve this.

EMPLOYEE SATISFACTION

Percentage of satisfied employees



Employee satisfaction is reliant on many factors including respect, leadership, work assignments, empowerment and understanding of goals. Human Resources has worked very hard this year as facilitator with individual groups that have demonstrated low satisfaction. They work together with managers and their teams to work through issues of communication, respect and empowerment to co-operatively find solutions. The results of this work throughout 2005 can be seen in the jump in employee satisfaction statistics. Our goal was to achieve 80% satisfaction and we are pleased to report that we exceeded this.



Health promotion initiatives

Our continuous improvement work in the area of health and safety is demonstrated in the projects we have undertaken during the year. From stress to preventive healthcare, each of these initiatives aim to create a positive workplace environment.

TACKLING INFO STRESS

VCC has identified three main problem areas for information stress among mainly white collar employees: email stress, stress from administrative IT programmes as well as frustration on how to find and store information. In an effort to relieve information stress, the project identified the causes of stress and is currently rolling out some interesting solutions.

Email guidelines

The directives and training package are designed to reduce the stress of email by making email use and etiquette clearer. The pilot project showed a drop in email administration time by at least 60 minutes a week (and this was still while receiving mail from outside the pilot project). This represents a saving for the company of around 15.5 million EUR per year. It is a very convincing business case for this type of project. By autumn 2006 the programme will be rolled out worldwide.

Common interface guidelines

Initial investigations revealed that people believed they were wasting time on administrative tasks which they felt they never did well.

In response, a common graphical user interface (GUI) was developed for all administration programmes. The advantage of a common user interface is that users can work any programme and immediately understand how it works due to common action buttons and menus.

PROMOTING PREVENTIVE HEALTH CARE

At the Body Components plant in Olofström, a revolution in health promotion is occurring. A programme that was piloted at the Tool & Die department in 2003 is now being implemented throughout the Olofström plant.

The aim of the project was to promote preventive health care and a healthy lifestyle by enlisting the help of champions, or health motivators, from within the organisation.

Each health motivator is given two days training on health, dietary matters and stress. They are supported by a health consultant and act as a champion for change for a small group within the organisation. Each health motivator meets regularly with their group to discuss health issues and devise group activities, like lunchtime walks.

Encourage better health at our restaurants

One of the major components of health promotion, is making sure you eat right. To achieve these aims Volvo Cars works in conjunction with their suppliers such as Fazer Amica Restaurants. Since autumn of 2004, Fazer Amica has introduced healthier options in the restaurants at Volvo Cars.

Fazer Amica have a motto: In the right proportions everything is good for you. However, getting the right proportions is sometimes difficult as many of our restaurants are self-service. In addition, customers often have preconceived ideas of about the fat content of various foods. As a result, high-fat foods and sauces are highlighted so that the individual can choose the portions that suit their dietary requirements.

Ultimately, it is better to motivate the restaurant guests to eat better through informed choices. At the same time Fazer Amica inspire their chefs to cook healthier as well. It is just one way we encourage better health.



Preventative healthcare project

At Research & Development (R&D) in Göteborg, the project Plot Your Course was launched in September 2005 with the aim of inspiring people to exercise more and improve their lifestyle. The target group is the staff at R&D – a total of some 4,000 employees. The cooperative project between the company healthcare service and the company's fitness centre Sörredsgården, is systematically rolled out throughout all subsections until the end of May 2006.

The employees are given the chance to try three fitness sessions, free of charge, out of a total of eight types of exercises. The third free session can be taken during paid working hours. Plot Your Course also includes free seminars and lectures during working hours, with the exception of the quit smoking and weight-control courses. They take place outside normal working hours but half of the cost is subsidised by Volvo Cars.

Torslanda Case

In a judgement passed by the Industrial Relations Court of Sweden in October of 2005, it was determined that Volvo Car Corporation was guilty of indirect discrimination towards women. The decision resulted from the height criteria used in the recruitment processes by Volvo Cars for production workers in assembly plants. As a result of the industrial court's decision Volvo Cars no longer use height as a requirement for recruitment.

Prior to this decision, Volvo Cars used height as the only determining factor during the employment selection process for two reasons. Firstly, the machinery is optimally built for body sizes within a particular range. Secondly, the cars on the

production line require work on the roof that is difficult for individuals under a particular height to achieve – especially for the larger models like the Volvo XC90.

The height restrictions were determined to be more favourable to men, as the minimum height of 163 cm eliminated a greater percentage of women than the maximum height of 195 cm did for men. The Swedish Labour Court ruled that height restrictions alone did not constitute the best method of evaluation when reducing potential risk to employees. However, there has been much discussion regarding this decision, as it reveals a conflict within labour laws – one that protects against discrimination and the other that protects against physical risks to employees.

Specifically, the industrial relations court

determined that Volvo Cars could not prove the height restriction of exactly 163 cm constituted a definitive boundary that would lead to a work related injury. They also recognised that Volvo Cars had taken all measures to avoid any potential work-related injury to employees.



Halving sickness absence

The highest employee sickness absence rate at Volvo Cars can be found in the Customer Service department. The rate for 2005 was 10.5% which is an improvement of 1.5% from the year before.

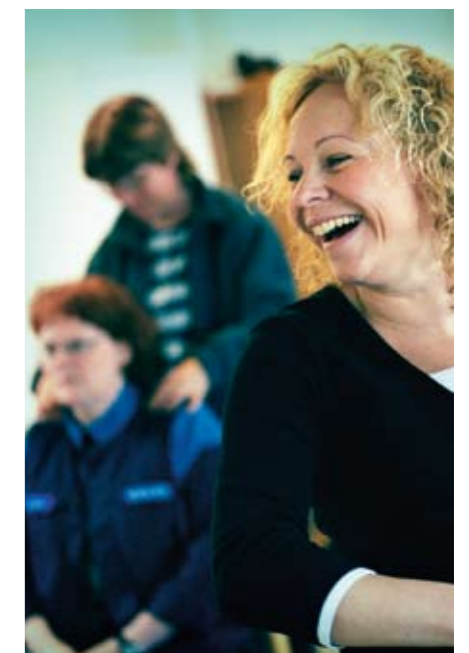
At the end of 2003, a 6-year project was launched to increase staff wellbeing by improving the working environment and encouraging good health. The explicit goal of the project is to halve sickness absence within five years. The chosen means of achieving this goal was the implementation of systematic health and lifestyle campaigns.

The various campaigns are a result of health surveys carried out among the staff

members, at the beginning of the project. For example in 2004, WeightWatchers was engaged for 24 weeks in order to work with a group of 50 people.

A total of 300 kilos were lost and the sickness absenteeism in the group fell by about 25%.

In 2005, the initial survey was followed up by more detailed health profiling within the Logistics department. In total 87% of staff took up the offer to create a personal profile and action plan, based on a 90-minute lifestyle interview with a health coach. Each group then devised their own plan for activities for a healthier lifestyle and reduced sickness absence.





“The message is pretty clear: if you are sick and cannot work – stay at home.”

MICHAEL EBNER
On-site Manager for Feelgood Health Services

The message is pretty clear: if you are sick and cannot work – stay at home. I think 3% is a realistic level of short-term sick-leave. However, many people are still coming in or working from home when ill. The cost, in terms of efficiency, of people coming to work sick is seldom talked about. And there are no reliable figures to work with either. Revealing the true cost of sick-present staff is a major task.

Many employees resist reporting sick for many reasons. They (the employee) may be concerned about their personal money situation. Also, when people are not coping, they tend to see it as a personal failure, not as a structural problem.

Our focus at Feelgood (Volvo Cars' health care services provider in Göteborg) is to develop preventive measures. However, fast diagnosis and prompt rehabilitation are very important if you want to keep people out of long-term sick-leave situations.

Traditionally, I think the company healthcare service has been viewed as a cost. In actual fact, it is an investment as staff who are not feeling well will perform badly.



“It is important to work on issues of conflict resolution and employee recognition.”

SIV EINERUD & GUNILLA HESSELSTÖ
National Health Insurance – Case Workers

As a state-run sickness benefits organisation, we evaluate cases and assist in the rehabilitation process by reviewing workplace changes or reassignment together with Human Resources personnel and management. We also do periodic follow ups on the individual's progress. Volvo Cars is a very professional organisation and the Human Resources personnel are very keen to find solutions. However, we often find that Volvo Cars find it difficult to reassign employees outside their original job description or internal organisation – which can slow down the rehabilitation process.

The main issues we see that Volvo Cars has to work on are conflict resolution and employee recognition. We see many cases where, a breakdown in communication between colleagues and management has resulted in stress. We also see recognition issues; but this is more an issue for production employees than administrative employees.

On the positive side, Volvo Cars is a large company with many possibilities for rehabilitation solutions. However, they need to work on their response times to recommended workplace changes, as this can prolong the length of time an individual is away from work.

“New employees need more time – especially in a high tempo workplace.”

MUSTAFA ATIK
Competence Development Manager

Towards the end of 2004, Volvo Cars took on 180 new employees at the plant. We reviewed this group approximately 3 months after they began working at the Torslanda plant and found that their rate of sickness absence was dramatically higher than other employees at Volvo Cars.

One of the many reasons for this phenomenon was attributed to the amount of information the new employees needed to absorb in a relatively short period of time after they began, which could have led to a lack of clarity in roles and processes. When they first arrive they are expected to learn about the organisation and administration processes, get to know their colleagues and new production processes and machines, all in a short space of time.

By re-establishing the introductory work-



shop to the induction process, new employees can alternate the theoretical knowledge with a practical segment and physical recreation. I am convinced that this combination of activities in the induction process would result in a fall in sickness absenteeism to below the company average. This way, during the first two weeks of employment, we would provide a good base from which we could build competence within areas of company processes, correct working procedures, safety and ergonomics, workplace rights and responsibilities, union information and much more.

“Without focus you have anarchy.”

PETTER HALLING
Public Affairs



We have a very democratic and horizontal business culture – we have to find a way to harness this democratic characteristic but also maintain focus – without focus you have anarchy. This causes uncertainty and creates stress.

People are really keen to help the company to succeed. They are extremely motivated to help, however, they feel that they aren't given the tools to work properly – for example, admin programmes are perceived as time wasters. And as a result, most people are desperate for help with these issues.

“We update each employee after an absence.”

JOSÉ MAES
Director of Environmental Health and Safety in Ghent Belgium



At Ghent, we have a follow-up system for all employees on their first day after they return from a period of absence. If the absence was due to an accident, we let them know what has changed within the production process so that we can avoid this type of accident in the future. We also let them know what has occurred during their absence – it is a general catch-up.

When it comes to non-specific and frequent absenteeism, we involve the employee's manager. Together, we sit down with the individual

and talk about the issues and how we can work together to handle future absences.

We are very human in our approach to this issue but at the same time we are not naive and we try to minimise, as much as possible, anyone taking advantage of sick-leave.



“To stay competitive, we need to reduce sickness absence.”

PETER BAILLIÈRRE
Senior Vice-President
Human Resources, Volvo Car Corporation

In an ever more competitive market our employees are what make us at Volvo Cars strong. It is our skills and competence that have consistently throughout the years produced some of the best premium brand cars in the world. Therefore, it is vital that we reach our target of 5% sickness absence.

What is unique about Volvo Cars is the concept that we are all in this together – that together we work to innovate and create. This was demonstrated during the year via a company wide survey on the Volvo Cars' philosophy. It revealed that we are keen to make a positive contribution in everything we do. It has something to do with our concept of “medarbetskap” – a Swedish word that can be best translated as active participation.

Everyone at Volvo Cars is a significant employee – we don't work in isolation but understand our relation to each other and to Volvo Cars as a whole. We aim to stand up and be heard and realise the consequences of what we do. We take responsibility for what we produce but also how we treat each other.

Our company culture of openness, honesty, trust and integrity remain the cornerstones of our leadership. Volvo Cars has a very exciting future – our success as a profitable company is due to our people. Therefore, Volvo Cars is committed to building new competences and empowering our employees. We know we have the right mix of core values, key personnel competencies and innovation to meet the challenges of the future.

The world of Volvo Cars

The first serial produced Volvo car was made in 1927. Since then, Volvo Cars has developed into one of the best-known car brands in the world, and we now enjoy a strong position in the premium car segment. Although most of our operations are located in Sweden, Volvo Cars is an international company with sales in over 100 countries. Our foremost challenge, today and in the future, is to strengthen our position even further and to become No. 1 in customer satisfaction – in a responsible way and in harmony with the world in which we operate.



History in brief

Volvo Cars was founded by Gustaf Larson, an engineer, and Assar Gabrielsson, an economist. Series production commenced in Göteborg in 1927 with the Volvo ÖV4, nicknamed the 'Jakob'. Since then, the company has produced over 14 million cars.

The Torslanda plant near Göteborg was inaugurated in 1964, and the production plant in Ghent, Belgium was commissioned the year after. Cars were also produced in Born in the Netherlands from 1972 until 2004. Production at the Uddevalla plant commenced in the mid-1990s.

In the component sector, we have been manufacturing our own engines in Skövde, Sweden since the 1930s. We also produced our own manual gearboxes in our Köping plant from 1942 to 2004. In addition, we have been producing our own body components in Olofström, Sweden since 1969.

Sweden is – and always has been – an important market for Volvo Cars. In the mid-1950s, we began to export cars seriously to foreign countries, including the USA, which is now our biggest market.

Volvo Cars was part of the Volvo Group until 1999, when it was sold to Ford Motor Company.

Sales and markets

Of the 62.2 million cars* sold worldwide in 2005**, about 0.7% are Volvos.

In global terms, Volvo Cars is a relatively small car maker, with a market share of approximately 1-2% in its principal markets. However, the exception is Sweden, where approximately every fifth car sold is a Volvo.

In 2005, we sold a total of 443,947 cars, a reduction of about 3% compared with the previous year's 456,224 cars. Our largest market is the USA, which accounted for 28% of the total sales volume in 2005, followed by Sweden (12%), Britain (8.6%), Germany (7.9%) and Italy (4.6%).

The markets that grew the most in 2005 were China (+83%), Ireland (+39%), Portugal (+34%), South Africa (+30%) and Greece (+25%). Our best-selling model in 2005 was the Volvo XC90 with 85,994 cars sold, with most going to the USA (35,974). This was followed by the Volvo V50 and S40 with 83,202 and 75,136 cars respectively.

Our model range comprises of sedans (S), versatile estates (V), SUV/cross-country vehicles (XC) and coupé/convertibles (C).

International network of dealers

Our dealer network consists of about 2,400 sales outlets and workshops in about 100 countries throughout the world. About 1,500 dealerships exist in Europe with 400 or so in North America and the remainder throughout the rest of the world. In the fast-growing Chinese market, there are today more than 40 dealers with the very latest facilities.

In addition to new-car sales, activities include the sale of accessories, parts, workshop services, pre-owned cars as well as financial services of various types. We have approximately 23,000 sales and service personnel throughout the world.

From a customer and commercial perspective, aftersales is one of our most important areas. At Volvo Cars, around 1,250 employees are committed to ensuring that our dealers and service workshops have everything they need to keep Volvo car owners happy. This means ensuring fast and reliable access to spare parts – Volvo Genuine Parts – and providing dealer support, service systems and individually tailored training programmes.

Production

Our own car production plants are located in Göteborg, Sweden and Ghent, Belgium. Since 2005, the Pininfarina Sverige AB plant in Uddevalla, Sweden has been owned jointly by Volvo Cars (40%) and Pininfarina SpA (60%). Volvo Cars also operates small assembly plants supplying the local markets in Malaysia, Thailand and South Africa.

In terms of value, approximately 20% of the materials used in Volvo cars are produced at the company's own plants in Sweden, including Skövde (engines), Floby (connecting rods and brake disks) and Olofström (body components). The remaining 80% is purchased from over 400 suppliers in about 20 countries, mainly in Europe. Sweden, Germany and Belgium are the leading supplier countries, accounting for approximately 58% of total purchases.

Organisation and employees

The Volvo Cars head office, product development, marketing and administration functions are located in Göteborg. Sales are handled through approximately 2,400 local dealers from around 100 national sales companies. Most of the dealerships are independent companies.

At the end of 2005, the Volvo Cars work-force numbered 27,339 employees – somewhat less than the previous year. Of the total number, 19,840 were employed in Sweden. A further 23,000 people are employed in the company's global network of dealers and service workshops.

Part of Ford Motor Company

Volvo Cars has been a wholly-owned subsidiary of Ford Motor Company since 1999. Together with Jaguar, Land Rover and Aston Martin, the company is part of the Premier Automotive Group (PAG), Ford's premium car division.

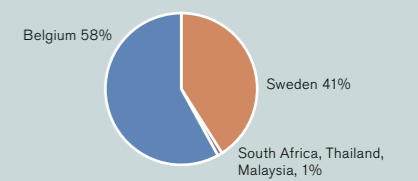
Volvo Cars is a Centre of Excellence for Safety for Ford Motor Company, as well as a Centre of Excellence for Telematics for PAG. The 'Volvo' name is the property of Volvo Trademark Holding AB, which is owned jointly by Volvo Car Corporation and the company's former owner AB Volvo.

Financial performance

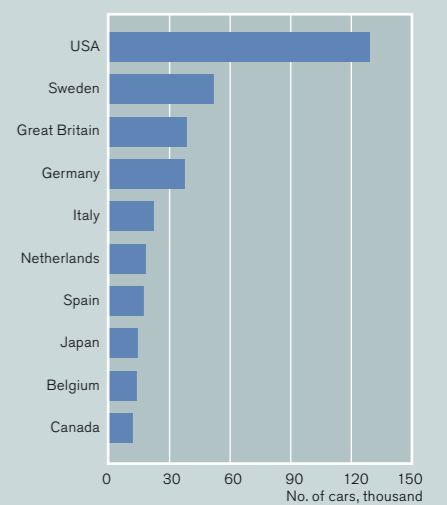
The trend in profitability was positive despite the weakness of the dollar. Volvo Cars has recorded a profit each year since the company was acquired by Ford Motor Company in 1999. Volvo Cars has a long-term objective of selling 600,000 cars in 2009, with after tax return of 5 percent. Ford Motor Company (FMC) does not publish separate financial information for its individual brands.

Information regarding PAG, of which Volvo Cars is a member, is contained in FMC's Annual Report for 2005, which is available on www.ford.com

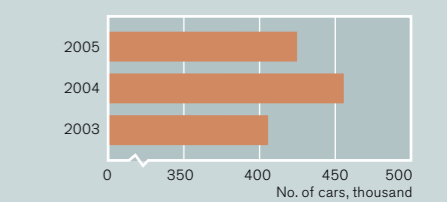
CAR PRODUCTION BY COUNTRY, 2005



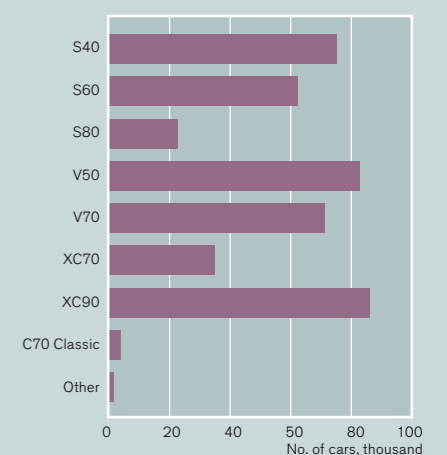
CAR SALES* IN VOLVO'S TEN LEADING MARKETS, 2005



CAR SALES*, 2003-2005



CAR SALES* BY MODEL, 2005



VOLVO CARS EXECUTIVE MANAGEMENT, 1 MARCH 2006

Fredrik Arp President and CEO
Steven Armstrong COO
Olle Axelson Public Affairs
Peter Baillièrè Human Resources
Albie van Buel Purchasing
Hans Folkesson Research & Development (until 1 May 2006)
Magnus Hellsten Manufacturing
Magnus Jonsson Research & Development (from 1 May 2006)
Gerry Keaney Marketing Sales and Customer Service
Lex Kerssemakers Brand, Business and Product Strategy
Steve Mattin Design
Lena Olving Process and Operational Excellence
Magnus Ragnmark General Legal Counsel (Acting)
Stuart Rowley Finance
Paul Welander Quality and Customer Satisfaction

* Total includes 18.3 million 'light trucks', including SUVs
 ** Source: Global Insight

* Sales are defined as cars delivered to end customer.

This report

OUR REPORTING COMMITMENT

To Volvo Cars, sustainability reporting is a way to demonstrate transparency and engage in dialogue with our stakeholders. The reporting process also provides an opportunity for discussion, evaluation and reflection on an annual basis, supporting our efforts to develop our business in line with our ambitions in the area of sustainable development.

Our intention is to continue to publish an annual sustainability report in printed form and on the web.

REPORTING OBJECTIVE

This report is our way of presenting and discussing social, environmental, ethical and socio-economic issues as they relate to our business. Our objective is to do this in a transparent manner that also involves our stakeholders.

COMPLETENESS

The Sustainability scorecard is intended to facilitate the assessment and understanding of our performance in a number of key areas.

As we are a wholly owned subsidiary of Ford Motor Company, financial issues are dealt with only briefly in this report.

A third party has not verified this report. Although we regard third-party verification of sustainability reports as an important step towards transparency, we continue to seek an approach that suits Volvo Cars. To us, it is important that third-party verification should reinforce our legitimacy and preserve our owner's integrity, while reflecting the values that our brand represents. We are working intensively to achieve progress in this vital area of transparency.

INDEPENDENT STAKEHOLDER ASSESSMENT

Volvo Cars is always looking for ways to improve our reports and communication with stakeholders. In 2005, in an effort to increase our direct engagement, we asked a selection of our key stakeholders to assess and comment upon the completeness, materiality and responsiveness of the information presented in our 2004 Sustainability Report. The comments from this Independent Stakeholder Assessment served as a good basis for our

ongoing improvement process for reporting on sustainability issues, increasing our efforts and making the 2005 reporting as relevant as possible.

The review resulted in several changes:

A slimmer and more focused document complemented by a more extensive web report

A process is in place whereby we aim to determine the most relevant issues for us as a company and our stakeholders alike. The result is a report that focuses on three main areas. The web report has additional information and we have made efforts to facilitate the interface between the printed report and the website.

More discussion on key performance indicators

The key performance indicators (shown in the Sustainability scorecard on page 36), measure our progress and give an overview of trends in areas that are relevant to our contribution to sustainable development. In this year's report the key performance indicators are discussed at greater depth and linked to the relevant area of operations.

Increased dialogue with stakeholders

To develop the report's thoroughness and transparency and to monitor expectations, Volvo Cars will continue to perform the Independent Stakeholder Assessment.

We believe these changes make the report more valuable, for us as a company and our stakeholders. We will continue to monitor feedback and adjust our approach in the future.

HOW WAS THE INDEPENDENT STAKEHOLDER ASSESSMENT CARRIED OUT?

Potential participants from all regions of the world were identified in 2005 by Volvo Cars together with an independent organisation. Twelve individuals (including academics, non-government organisations and government agency representatives, suppliers and customers) familiar with the car industry and sustainability issues took part. The stake-

holders participated as individual respondents rather than as representatives of any organisation.

The actual assessment consisted of a questionnaire with open as well as multiple-choice questions. The questions addressed completeness (to what extent and how well issues were covered and explained), materiality (to what degree the most relevant issues were emphasised), and responsiveness (how well the report described stakeholder engagement, changes in policies, and activities in response to stakeholder concerns).

We would like to thank all our stakeholders for contributing to this Independent Stakeholders' Assessment. Your views and feedback have been of great value to us.

THE REPORTING PROCESS

The choice of the three key areas in this year's sustainability report is not an arbitrary choice or a coincidence. Instead they are identified in a process where internal and external stakeholder input form a basis for a prioritization process. In recent years, we have structured the report more strictly around our three core values and our four stakeholder groups. Going from this year's report forward we will apply a more open approach that is adaptable to the issues of the day; allowing us to shed light on current issues of greatest importance to us and our stakeholders. It is important however that we do not compromise continuity and thereby the possibility for our readers to make informed judgements of our progress. That is why we have chosen to more fully discuss our Sustainability scorecard indicators.

What is important?

We used two criteria to determine which issues to include in the report: they should be of significance to Volvo Cars and they should be of significance to our stakeholders. Issues important to our stakeholders are, by necessity, also important to us if they are within the boundaries of our business aims and are within our ability to affect change.

We define an issue of such significance as those which are in accordance with:

- Our three core values
- Our three responsibilities as carmaker, global company and local player
- Our strategic agenda points

How do we choose key areas?

The starting point for the choice of the key areas in the report is that they should reflect the material issues of the Corporate Citizenship work at Volvo Cars. The process by which we identify the key areas is characterized by intense internal and external dialogue.

This process of identifying key areas starts within the Corporate Citizenship Council. Each of the departments represented in the council possess various instruments, for example, the employee attitude survey, customer complaints database, as well as, media and business

environment monitoring. The council also receive input from the Independent Stakeholder Assessment and the Corporate Citizenship Steering Committee. In this way, the Corporate Citizenship Council maps the important issues in accordance with the described significance criteria.

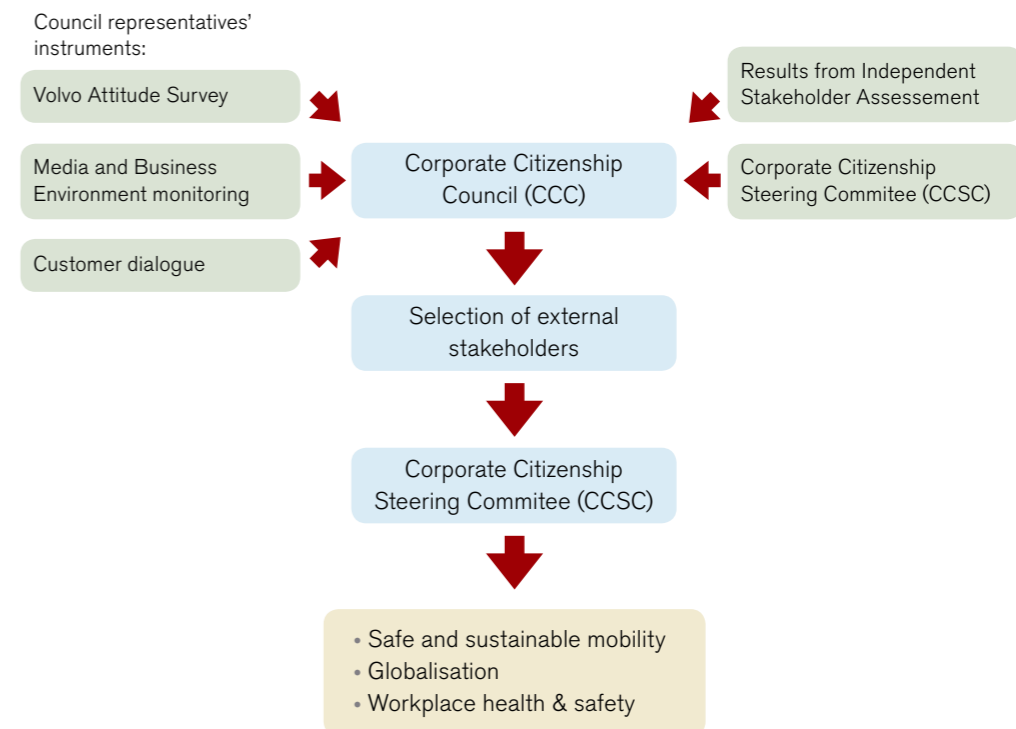
On the basis of these selected issues the council chooses the key areas and proposes them to a selection of stakeholders and to the Corporate Citizenship Steering Committee, who is responsible for the final decision.

This year we report on the following key areas:

- **Safe sustainable mobility** – represents a key issue for Volvo Cars as it incorporates two of our core values of safety and environment. Issues of climate change, congestion and road safety are important to our stakeholders.

- **Globalisation** – is an increasingly important issue for the car industry, for employees, for the global environment and supply chain management at Volvo Cars. We concentrate on four aspects of globalisation: environment, sourcing, jobs and competition. Our work aims to maximise positive impact as well as minimising risks.

- **Workplace health and safety** – is a vital concern for a human-centric company such as Volvo Cars. The impact of workplace health and safety on our employees and on the communities where we operate has a direct correlation to our continuing success and profitability.



Sustainability Scorecard, 2005 ⁺

| CREATING VALUE | 2003 | 2004 | 2005 | TREND | MORE INFO |
|---|-------|--------|--------------|-------|-----------|
| Customer satisfaction, rankings Percentage of independent surveys in which Volvo cars were ranked in the top three makes (%) | 12 | 17 | 17 | = | Page 20 |
| Employee satisfaction Index showing weighted percentage satisfaction within prioritised areas | 78 | 79 | 82 | + | Page 27 |
| Total sales Number of cars sold (thousand) | 415 | 456 | 444 | - | Page 33 |
| ASSUMING SOCIAL RESPONSIBILITY* | | | | | |
| Health Sickness absenteeism per hours worked (%) | 6.5 | 6.4 | 6.3 | + | Page 27 |
| Occupational injuries Number of accidents resulting in at least one day of sickness absenteeism per 100 man-years | 2.7 | 2.3 | 2.3 | = | Page 27 |
| Gender balance Percentage of women in leading positions (%) | 15 | 16 | 17 | + | Page 21 |
| Diversity Number of employees that believe the work group/company is working actively to promote diversity (%) | | 51 | 59 | + | - |
| PROMOTING ECOLOGICAL SUSTAINABILITY | | | | | |
| Fuel efficiency Reduction in average carbon dioxide emissions of Volvo cars sold relative to the base year of 1995 (as defined in ACEA agreement) (%) | 9 | 11 | 14 | + | Page 9 |
| Harmful emissions Percentage of Volvo cars sold complying with Euro 4/ULEV standards (%) | 52 | 63 | 80 | + | Page 9 |
| Alternative fuels Number of biomethane (Bi-Fuel), bioethanol (Flexi-Fuel) cars sold | 1,939 | 1,478 | 2,483 | + | Page 9 |
| Energy consumption in car production (MWh/car) | 2.23 | 1.7 | 1.65 | + | Page 19 |
| Carbon dioxide emissions from car production (kg/car) | 437 | 360 | 335 | + | Page 19 |
| Solvent emissions from car production (kg/car) | 2.22 | 2.19** | 2.07 | + | Page 19 |
| Environmental management, Volvo Cars Percentage of employees working in facilities with ISO 14001 certification (%) | 95 | 96.5 | 97.8 | + | Page 19 |
| Environmental management, suppliers Percentage of production material suppliers with ISO 14001 certification (%) | 83 | 86 | 88 | + | Page 22 |

* Changes in our analytical methodology as well as an update of the questions in our attitude survey (VAS) have resulted in a decision not to report on working/private life balance in 2005. Data for this year are no longer comparable to previous years. Initiatives on this area as well as projects focusing on sick-leave and general working environment will be reported on in upcoming years.

** Revised data.

GRI-index

– Signpost to corporate citizenship

GRI (Global Reporting Initiative) is an independent institution that develops global guidelines for reporting sustainability performance. The guidelines are voluntary and are developed continuously through dialogue with stakeholders. One major aim of the guidelines is to facilitate comparison between companies. Our report accords with the GRI guidelines and areas of coverage. The table provides an overview of where the information is reported in this publication and/or on our website at www.volvocars.com/citizenship.

| GRI indicator (additional indicator) | Area covered | Page(s) in this report | Website only |
|---|---|------------------------|------------------------|
| Vision & Strategy | | | |
| 1.1. | Vision & strategy for sustainable development | 2-7 | |
| 1.2. | CEO statement | 1 | |
| Profile | | | |
| 2.1-9 | Organisation | 2, 18-21, 32-35 | |
| 2.10-16 | Report scope | 37 | 2.11-2.16 |
| 2.17-22 | Report profile | 34-35, 37 | 2.18-2.20 |
| Governance, structure and management systems | | | |
| 3.1-8 | Structure and governance | 2-7, 33 | 3.1-3.5, 3.8 |
| 3.9-12 | Stakeholder engagement | 2-3, 12-13, 34-35 | 3.10 |
| 3.13-20 | Policies and management system | 2, 10-13, 18-23 | 3.13, 3.15, 3.18, 3.20 |
| GRI index Economic performance indicators | | | |
| EC 1-2 | Customers | 32-33 | |
| EC 3-4 (11) | Suppliers | 22 | EC 3, EC 4 |
| EC 5 | Employees | | EC 5 |
| EC 6-7 | Providers of capital | | EC 6-7 |
| EC 8-10 | Public sector | | EC 8-10 |
| Environmental performance indicators | | | |
| EN 1-2 | Materials | | EN 1-2 |
| EN 3-4 | Energy | 19 | EN 3-4 |
| EN 5 | Water | | EN 5 |
| EN 6-7 (23) | Biodiversity | | EN 6-7, 23 |
| EN 8-13 | Emissions, effluents and waste | 19 | EN 8-11, EN 13 |
| EN 14-15 | Products and services | 19 | EN 15 |
| EN 16 | Compliance | | EN 16 |
| (EN 33) | Suppliers | 22 | |
| (EN 34) | Transport | 19 | |
| (EN 35) | Overall | | EN 35 |
| Social performance indicators | | | |
| LA 1-11 | Labour practices and decent work | 2, 20, 24-31, 35 | LA 2-3, 6-9 |
| HR 1-7 | Human rights | 2-3, 22 | HR 5-7 |
| SO 1-3 (4) | Society | 2-3, 18-19, 37 | SO 2-3 |
| PR 1-3 (8) | Product responsibility | 2-7, 10-13, 20, 36 | PR 2-3 |

The report pages for each GRI indicator group listed above point out where in this report (additional/supplemental) information on these indicator issues can be found. Those indicators that are exclusively covered on the website are also noted. For our complete GRI reporting please check our website at www.volvocars.com/corporation/CorporateCitizenship/GlobalReportingInitiative ⁺

Prizes and distinctions

– related to corporate citizenship

AWARDED TO VOLVO CARS IN 2005

Italian environmental prize for Volvo Cars

Quattroruote, Italy's leading automotive magazine awarded Volvo Cars the Environment Prize for 2005. The prize was awarded as a result of our work in the areas of car design such as the 3CC and Volvo XC90 V8 low emission levels, as well as Volvo Cars general commitment and work with environmental issues. Quattroruote's 58,000 readers were invited to compare 39 car manufacturers in the Italian market. The final results ranked Volvo Cars as number one in both safety and environment.

Ghent voted best workplace

The Volvo Cars assembly plant in Ghent was voted amongst the top ten places to work in 2005. In the final tally Volvo Cars was ranked seventh out of 25 nominated workplaces. The competition has been held annually for the past three years by a Belgian newspaper Vacature. Approximately 250 random surveys of employees at the Ghent plant were sampled to achieve the final results.

Volvo V70 Bi-Fuel – cleanest in class

Volvo V70 Bi-Fuel is the cleanest upper mid-class vehicle, according to the German Motorist Association (ADAC). The environmental survey carried out by the German association surveyed 276 cars from seven classes. Volvo V70 Bi-fuel received the highest score in its class, and demonstrated exceptionally low CO₂ emissions. The fuel efficiency of the Volvo V70 Bi-Fuel took first place by a considerable margin ahead of the 25 other competitors in its class. In the overall ranking the Volvo received the next-highest number of points, second only to a hybrid engine vehicle.

Agenda – Best in-house magazine

For the second year in a row, the Swedish Publishing Award for best in-house magazine was received by Volvo Cars. The judging panel awarded the prize to Agenda based on the excellence in content, copy and visual content. Agenda, the Volvo Cars monthly employee publication was cited by the judging panel for its readability, rich-content with clean and uncluttered layout. The magazine has a total print-run of 36,000 copies in three languages – Swedish, English and Dutch.

AWARDED BY VOLVO CARS IN 2005

Volvo Environment Prize

The prize is intended to provide a link between the research world and industry by honouring those who have significantly increased our understanding of environmental and sustainability issues. In 2005, the prize was for the first time in its 16 year long history shared by two women: Dr. M K Arroyo and Professor A. Keto, two conservationists from the Southern hemisphere. ⁺
Read more on www.environment-prize.com.

Volvo Adventure Environmental Awards

In partnership with the United Nations Environment Programme (UNEP), Volvo Cars holds an international competition for school children with the aim of encouraging teachers and pupils to start their own environmental projects in their school neighborhood. In 2005, the first prize was awarded Ladysmith Enviro Club from South Africa. ⁺
Visit www.volvoadventure.org for more information.

Volvo For Life Award

This prize goes to "Everyday heroes" living in the United States who have made an exceptional impact in everyday life to the benefit of other people or the environment. The 2005 winner was Hope Bevilhymmer. ⁺
Visit www.volvoforlifeawards.com for more information.

Contact us

Further information on specific indicators, or on our sustainability activities in general, is available on our website at www.volvocars.com/citizenship.

Questions and views on the report and on sustainability issues may be addressed to Catarina Munck, by e-mail to citizen@volvocars.com or by telephone to +46-31-59 00 00.