

Volvo Car Corporation

SUSTAINABILITY REPORT 2007



CONTACTING US

WE WELCOME YOUR FEEDBACK ON THIS REPORT AND ARE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE ABOUT VOLVO CAR CORPORATION'S WORK ON SUSTAINABILITY.

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WWW.VOLVOCARS.COM/SUSTAINABILITY

THIS REPORT IS BASED ON A TRANSLATION OF VOLVO CAR CORPORATION'S SUSTAINABILITY REPORT IN SWEDISH, WHICH MEANS THAT ITS CONTENT IS NOT NECESSARILY IDENTICAL TO THAT OF THE ORIGINAL IN EVERY RESPECT.

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Innovation and leadership



FREDRIK ARP

President and CEO
Volvo Car Corporation

OUR SALES VOLUME growth was at a record during 2007, when we sold over 458,000 cars. We saw increased market shares in Russia, China and Turkey and volume growth in Sweden. Despite this positive trend in our total volume, our financial situation reflects the challenges we have faced during 2007. – exchange rate fluctuations, higher commodity and raw material costs and increasing competition. In light of these challenges, we have implemented major efficiency programmes and achieved successful cost reductions during the year.

CLIMATE CHANGE continued to be one of the major challenges and priorities within the automotive industry in 2007. It is clear that customer awareness and expectations have increased. Countries and cities throughout the world are using new environmental incentives to encourage consumers to use greener alternatives so as to reduce emissions.

Our approach to this challenge is to continue to improve today's petrol and diesel-engined cars and to invest in innovative technologies for the future. One example of this is the Volvo Efficiency with CO₂ emissions as low as 120 g/km which was launched during the year. The second approach is to offer cars that can be driven on fuels which have a lower net impact on climate. We offer a broad range of Volvo Flexifuel models with this goal in mind.

Our role in the development of the sustainable alternative powertrains of the future was confirmed in 2007 when we unveiled the Volvo ReCharge Concept. This plug-in hybrid concept has a range of 100 kilometres from a single recharge, with a Flexifuel engine to recharge the battery on the road, if required.

SAFETY IS STILL Volvo's most important asset. Caring for people is the essence of our values and brand. Our goal is to protect all people in traffic situations including the driver, passengers and pedestrians. Our

goal is to make cars that will not crash. Our vision is that from 2020 no one will be killed or be injured in a Volvo. To succeed with these ambitions, we must focus on minimising the risk that our cars will get involved in a crash and to decrease the negative effect if a crash is unavoidable. During 2007 we have launched many different safety features, among them City Safety, which is a unique system to help the driver avoid collisions at low speeds.

TO US AT Volvo Cars it is important to continue to build our brand premiumness. This means that we must realise our Scandinavian values through innovative products that appeal to today's global customer. With this ambition in mind, our focus for 2007 has been on technological innovation to reduce environmental impact and to safeguard our top safety position. This innovative capacity is driven by the balancing act between good leadership and working together – what we call the power of we.

THIS YEAR the report is divided into three main sections – environment/climate change, safety and leadership. Our belief is that continuous improvements within these areas will bring sustainability both to us as a business and to society as a whole.

WE ARE CONVINCED that sustainability is a goal which we will achieve only if we continue to improve our ability to cooperate across borders both regarding disciplines, backgrounds and cultures and if we find the most cost-effective and creative solutions to the challenges we share. In this context, let me reiterate Volvo Cars' commitment to the ten principles of the Global Compact.

I hope you enjoy reading this report. I look forward to receiving your feedback on our progress within the area of sustainability.

2007 IN BRIEF

RESPONSIBILITY

Volvo Cars has three distinct roles: as a car-maker, a global company and a local player. In each of these roles, we take our responsibility and our sustainable development work very seriously.

6

FOCUS

We rely on internal and external dialogue in selecting subject matter for inclusion in this report. A stakeholder assessment showed that information on our approach to climate change, safety, and our management's knowledge and engagement is of high priority.

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ENVIRONMENT 13

CLIMATE CHANGE

Climate change is one of our biggest challenges. Reducing emissions of greenhouse gases from the vehicles we make is a very important goal for us. A multi-pronged approach is needed: improved fuel efficiency, hybrid technologies and increased use of alternative fuels.

14

EFFICIENCY

We have launched the Volvo C30 Efficiency concept, an efficient diesel model with carbon dioxide emissions lower than 120 g per kilometre.

16

SAFETY 21



KNOWLEDGE

Our aim is that by 2020 no one will be killed or injured in a Volvo. The starting point for our safety development work is care for both the car's occupants and other road users. Through research and development based on real traffic situations, we work to make our cars ever safer.

22

5.5%

HEALTH & SAFETY

Sickness absence fell to 5.5 per cent in 2007, the lowest level ever at Volvo Cars.

32

LEADERSHIP 29

DIVERSITY

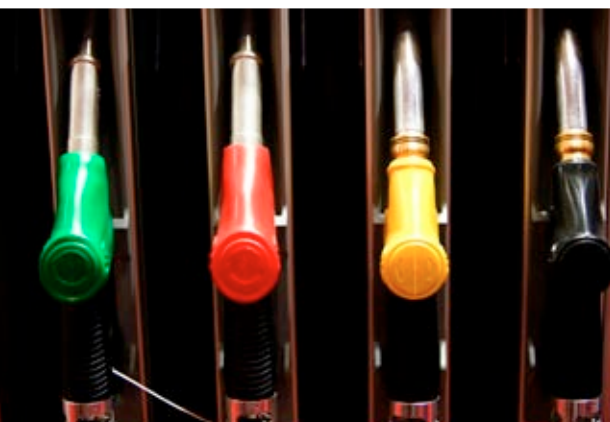
Volvo Cars has twelve Diversity Champions – managers or people in other key roles whose job it is to improve diversity in their departments.

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WEBSITE

This symbol shows that more information is available at our website:
www.volvocars.com/sustainability



ALTERNATIVE FUELS

Two more Volvo models are now available as Flexifuels: the Volvo V70 and the S80. In 2007 we sold 9,682 Volvo Flexifuels in eleven European markets.

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THE FUTURE

Launched in 2007 was the Volvo ReCharge Concept, a plug-in hybrid which can be run exclusively on electricity from the mains.



17

STARTING POINT: REALITY

The Volvo Cars Safety Centre is one of the most advanced crash laboratories in the world. Participation in national and international partnerships is another way of adding to our expertise. Helping customers to understand their role in the safety equation is also very important.

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PREVENTIVE SAFETY

Several new safety systems designed to alert the driver to potential dangers or imminent risks were launched during the year. Two examples are the City Safety system and Driver Alert Control.

26



SUPPLIERS

Our training programme on basic working conditions for suppliers has been rolled out, nation by nation, since 2004. In 2007 it was extended to five more countries, including Thailand and Malaysia.

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TRANSPARENCY

Volvo Cars supports a number of international initiatives for transparency and comparability in sustainability reporting, including the Global Reporting Initiative and the UN's Global Compact.

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VOLVO CAR CORPORATION has three distinct roles: car-maker, global company and local player. We endeavour to apply our company philosophy and our core values in each of these roles.

To guide us in our everyday work we have the Volvo Cars Brand Promise: "We design cars for a better life". Safety and Environment are important core values. Although Volvo Cars is a relatively small company in the international automotive context, our brand and our impact are both global. We take our responsibilities very seriously indeed: our business goals and our sustainability commitments must be compatible.

Ultimately, it is up to our stakeholders to decide how well we are performing in terms of meeting our responsibilities. The real challenge lies in fulfilling all the expectations of customers, staff, business partners, regulators and other stakeholders.

Finding out exactly what is important to them is what gives us the full picture of our true responsibilities in our triple role (car-maker, global company and local player).

We actively encourage dialogue with our stakeholders, and we are always looking for ways of improving our work with sustainability.

OUR RESPONSIBILITY

CAR-MAKER

In our role as a car-maker, we supply transport solutions which enhance individual freedom and wellbeing, while also contributing towards the development of society. The cars we make and sell also have negative effects, such as contributing to urban congestion, noise and air pollution.

Our ambition is to minimise these negative effects through strategies for sustainable business. We have a long tradition of developing systems and functions for our cars which have benefited society at large. The Lambda sensor (three-way catalytic converter) and the three-point seat belt are two examples of Volvo Cars inventions which are now standard equipment in cars built throughout the world.

Environmental considerations and safety enhancements form a key part of our research and development. The Volvo Accident Research Team and the Hybrid Centre are two examples of initiatives in these areas.

GLOBAL COMPANY

The reputation of the Volvo Cars brand is a very important asset to our company. It helps us to attract new expertise from far and wide, enhancing our power to innovate and to develop even better vehicles. As a manufacturer, our influence extends back through the chain, to our suppliers and their employees.

Through our international supplier and dealership networks, we are represented practically throughout the world, and our global responsibility extends to everything that we buy and sell. We work systematically to ensure that both we and our business partners will maintain equally high standards, no matter where the business is carried out. In our agreements with suppliers, we set high standards in terms of environmental management, work environment and human rights.

Volvo Cars was one of the first companies to join the United Nations Global Compact, an international initiative on corporate standards for human rights, labour conditions, environmental protection and anti-corruption measures.

LOCAL PLAYER

Our three main stakeholder groups at the local level are our employees, the communities in which we operate, and local authorities. It is our responsibility as an employer to provide a safe workplace and a sound working environment. We achieve this by being a forward-thinking and reliable employer, by sharing knowledge, and by carefully considering the social and environmental impact of our purchasing, manufacturing and distribution.

Local environmental impact is an issue which Volvo Cars takes very seriously. All of our production facilities are certified according to the ISO 14001 environmental management system. Ongoing work with energy efficiency and switching over to so-called green electricity are concrete examples of environmental work in our production plants.

Examples of ways in which we identify the issues which are most important in our role as a local employer are our employee attitude survey, dialogue with the local community, and cooperation with local authorities.

SCORECARD 2007

CREATING VALUE	2005	2006	2007	TREND	INFO*
Customer satisfaction, rankings* Proportion of independent surveys in which Volvo was ranked in the top three car brands for customer satisfaction (%). *Figures for 2005 and 2006 adjusted since previous report (new calculation method).	16	20	16		
Employee satisfaction Employee Satisfaction Index (%), in prioritised areas.	82	81	80		pages 30, 32
Vehicles sold Total retail deliveries (thousands).	444	428	458		page 36
SOCIAL RESPONSIBILITY	2005	2006	2007	TREND	INFO
Health Sickness absence as a percentage of total working hours.	6.3	5.9	5.5		page 32
Occupational injuries No. of injuries leading to at least one day's sick-leave, per 100 man-years.	2.3	1.9	1.5		page 32
Gender balance Percentage of women in management.	17	18	18		page 33
Diversity* Percentage of staff who consider the company is working actively to promote diversity. *The question in the staff Attitude Survey was altered in 2007. Comparable result in 2006 was 53%.	59	56	65		page 33
PROMOTING ENVIRONMENTAL SUSTAINABILITY	2005	2006	2007	TREND	INFO
Fuel efficiency Reduction achieved in average carbon dioxide emissions in all new Volvo Cars vehicles sold in year in question (%). (Monitored under the ACEA voluntary agreement to achieve a 25% reduction, industry wide, from 1995 level by 2008.)	14	14	16		page 14
Vehicle emissions* Percentage of new Volvo Cars vehicles sold which comply with the Euro 4/ULEV standards. *Corresponds to low emissions vehicles as a percentage of total production.	80	99	99		
Alternative fuels Number of Volvo Bi-Fuel and Volvo Flexifuel models sold (units).	2,483	10,846	10,899		page 16
Energy consumed in vehicle production (MWh per vehicle made)	1.65	1.63	1.42		page 20
Carbon dioxide emissions from vehicle production (kg per vehicle)	335	333	311		page 20
VOC emissions from vehicle production* (kg of Volatile Organic Compounds per vehicle) *This scorecard indicator was called "Solvent emissions from car production" in reports before 2006. VOCs correspond to solvent emissions.	2.07	2.11	1.66		
Environmental management systems, Volvo Cars Percentage of staff working at facilities with ISO 14001 certification.	98	90	90		page 20
Environmental management systems, suppliers Percentage of production material suppliers with ISO 14001 certification.	88	90	80		page 35



*References to pages in this report where the scorecard data is explained in greater depth. For further information, including scorecard indicators and trends between 2002 and 2007, please visit our website.

A sustainable company philosophy

OUR BRAND PYRAMID

Volvo Cars has recently revised and developed its company philosophy. Among the strengths of the new philosophy are its customer focus, its approach to business and its emphasis on the way employees at Volvo Cars actually go about their work. The new Brand Pyramid sets out the values most important to our brand, and relates them to our business objectives.

Set out along the base of the Brand Pyramid are the essentials for any car competing in the premium market segment: Premium Quality, Customer Experience and Driving Dynamics. On the second level up are two elements which set Volvo Cars apart from other car-makers: Modern Scandinavian Design and Environmental Care. Crowning the pyramid is, of course, Safety – the brand's leading edge. But all the levels of this pyramid are, in fact, equally important. They can be seen as a summary of the values and elements which drive Volvo Car Corporation.

OUR WORK CULTURE

The company philosophy also reflects our work culture. Here the bottom line is Excellence in Execution – because everything we make or do at work must be nothing short of premium quality. Confidence, Development and Relationships – which set Volvo Cars' people apart from others in the car business – are an important part of our culture. "The Power of We" (i.e. arising from staff members feeling solidarity and being team players) makes our brand unique. This phrase was chosen because our success relies on all our

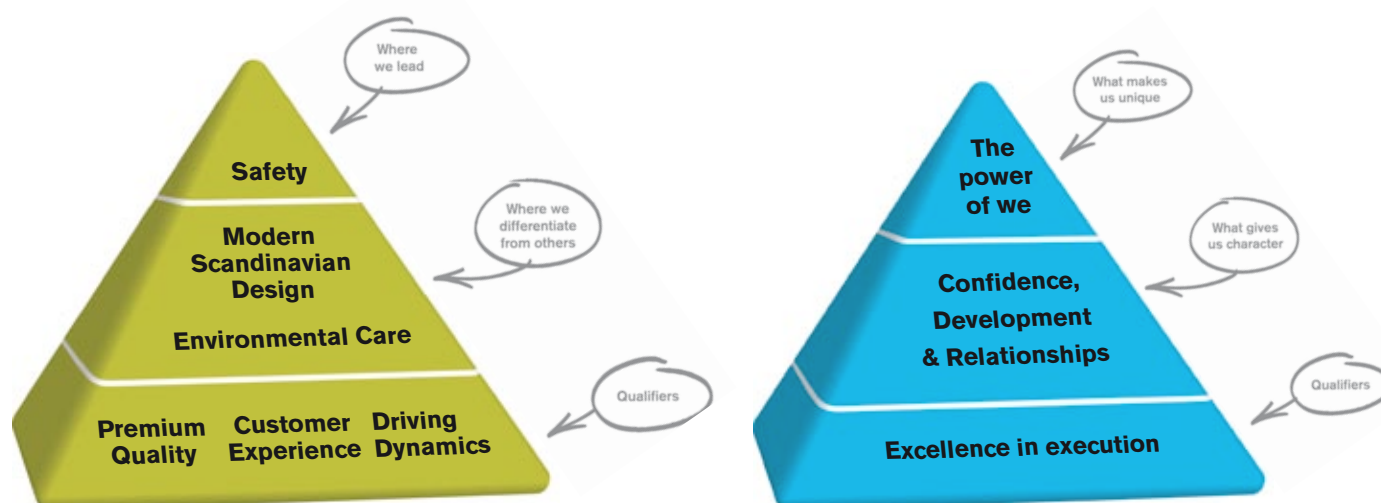
staff working together effectively, across national borders and departmental boundaries alike. Strong collaboration between people from different disciplines is part of our tradition.

These two diagrams reveal a lot about the way in which sustainability is woven into Volvo Cars' business and concept for success. Sustainability is also implicit in the new Volvo Cars Brand Promise: "We design cars for a better life".

OUR BUSINESS PLAN

Volvo Cars' work on sustainability must be a natural part of its operations, decision-making and follow-up work, which is why it forms an integral part of the company's business plan. As part of its business planning, the company's management team sets out to identify a number of key issues for special attention and follow-up each year. Focus areas are identified for each of these issues, some of which will have a direct bearing on sustainable development.

These, in turn, form the starting point for the operative planning in each of the business units, which helps ensure that work on improving sustainability will form an integral part of everyday decision-making in the company. The relevance of matters like climate change, diversity and working conditions in the daily work of every staff member is also underlined in an annual review and updating of the strategic plan.





All members of staff are expected to pay attention to sustainability issues in their day-to-day work.

Integrated approach

ORGANISATION

The Sustainability Steering Committee has overall responsibility for sustainability issues at Volvo Cars. This committee is responsible in the first instance for development and execution of strategy. It is made up of the CEO and five members of the company's Management Team, from Human Resources, Purchasing, Brand, Business & Product Strategy, Marketing, Sales & Customer Service, and Public Affairs.

Volvo Cars also has work groups of representatives from various parts of the company whose task it is to oversee a number of sustainability areas such as environment, safety, diversity, health and safety, and purchasing. These groups meet regularly and have an advisory role in the company's work on sustainability. They also have an important part to play in ensuring that sustainability-related targets are implemented and integrated into the company's everyday operations.

The company uses multiple methods and activities to share knowledge and information on

its sustainability work. One important channel is internal communication, through articles in our in-house magazine and on the company intranet.

Each manager and member of staff is obliged to take into consideration and integrate sustainability issues into his or her everyday work. Among the tools available to help staff in this are Volvo Cars' policy documents and guidelines on issues such as diversity, anti-corruption and environment.

OUR REPORTING

In recent years, reporting on Volvo Cars' sustainability work has become just as obvious as the need to report financial data. Openness about our sustainability work is central to mutual understanding and interaction between us and the rest of society.

Our annual sustainability report is both a result of and a valuable basis for dialogue with our stakeholders. The report also functions as an important platform for identifying both our challenges and our successes in a whole range of sustainability-

related areas. This makes it a source of inspiration for our ongoing improvement and development.

Our Sustainability Scorecard (see page 7) provides a snapshot of a number of key indicators, including the corresponding results from previous years to illustrate trends over time. It is described in greater detail on our website. Also available there is additional reporting based on the GRI (Global Reporting Initiative) guidelines. Given the importance of openness in our reporting, following a global standard like GRI is a valuable aid to external evaluation and comparisons with other companies and organisations.

We intend to continue reporting on our sustainability improvement work annually. The aim is to intensify our dialogue with stakeholders, and, in doing so, to go on developing our sustainability work in ways which our key stakeholders see as relevant.

Our dialogue and cooperation with a range of stakeholder groups is described in more detail on the next few pages.

OWNER

Volvo Cars reports progress to its owner, Ford Motor Company. We have ongoing dialogue about our ambitions, strategic directions and activities in the area of sustainability.

EMPLOYEES

Feedback from our own employees is important for us in continuing to be an attractive employer and to ensure we recruit the best personnel. This is why we place so much emphasis on a proactive culture, in which the wishes of our employees are heard and listened to, for instance through annual dialogue on target fulfilment and expectations. Regular surveys of employee satisfaction and personal development reviews are also important ways of encouraging an open, tolerant atmosphere.

Our stakeholders

IDENTIFYING stakeholders and their expectations is very important to any company. An active exchange of views with these groups is crucial to the long-term success and sustainability of a business.

Volvo Cars has a wide range of stakeholder groups, each with its own demands and expectations. We work in a structured way, using methods such as analysis of external factors and stakeholder analysis to take account of and



balance their views. We go to great lengths to ensure that every one of our stakeholder groups will know that

its opinions have been listened to and welcomed. Besides employees, customers, owners, investors and suppliers, Volvo Cars has well-developed relations with groups such as trade unions, universities and research institutions, the media, NGOs, government agencies and other public sector bodies.

NON-GOVERNMENTAL ORGANISATIONS

Ongoing dialogue with NGOs is an important way of identifying current issues in society. Volvo Cars' collaboration with these stakeholders is important in reaching consensus on the challenges facing society.

SUPPLIERS

Our suppliers are central to our business. They contribute to our ability to deliver to our customers and to fulfil our goals. Volvo Cars works actively with its suppliers, for instance through training and follow-up. As a responsible corporate citizen, we want to support our suppliers in reaching high standards in areas like environment and working conditions.

ACADEMIA

Volvo Cars' success relies on forefront engineering and concept development, not least in areas like safety and environment. Substantial resources are being put into research on climate change and other environmental and social challenges, and we wish to draw on this in order to direct our resources towards the solutions which will be best for society and the environment, and also best from an economic point of view. Active collaboration between research and industry is what will bring the most sustainable long-term solutions.

AUTHORITIES

Volvo Cars maintains constant dialogue with governments and regulators on issues with a bearing on our business, e.g. environmental issues and health and safety. One example of this in 2007 was a series of seminars on biofuels organised by Volvo Cars together with the Swedish government. The seminars were designed to share Swedish experience with other countries, through government representatives from France, Germany, Spain and the UK.

CUSTOMERS

Volvo Cars strives to understand and actively respond to customers' needs and wishes, and to meet their expectations. We are proactive in identifying the wishes of both existing and potential customers.

We have continual monitoring of customer satisfaction, attitudes and opinions, using tools such as in-depth interviews, questionnaires and customer follow-up.

REPORT EVALUATION

External dialogue is very important to Volvo Car Corporation's continuing success. Feedback from our stakeholders will help the company develop a business which is sustainable in the long term, and compatible with values and priorities outside the company. Dialogue with our stakeholders also forms a useful basis for a sustainability report which is able to provide the information stakeholders and other readers require.

For several years now, we have had our sustainability reports assessed by key external stakeholders. These are invited to evaluate factors such as how comprehensive and relevant the report is. Their perception of Volvo Cars' ability to respond to and report on the issues in question has also been an impor-

tant aspect of this analysis. Their opinions are then used to improve and revitalise our reporting. This has resulted in changes like clarification of our targets and more information on working conditions in our supplier chain.

We intend to continue with stakeholder dialogue of this type, to ensure ongoing improvement of our sustainability reporting. Our ambition in 2008 is to carry out a thorough evaluation of this year's report in consultation with some of the company's most important stakeholders. This dialogue is already under way.

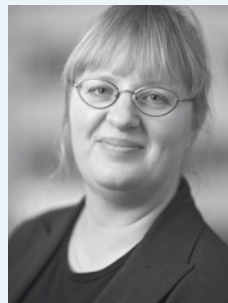
We welcome your comments and feedback on this sustainability report. Please send them via our website.



STAKEHOLDER DIALOGUE A BASIS FOR DECISION-MAKING

"It is important for companies to gain a good understanding of the expectations of their most important external stakeholders.

This will provide a basis for strategic business decisions, development of new products, packaging of customer offers and improved internal and external communication.



Anna Nilsson, head of Environmental and Ethical Analysis, Swedbank Robur

As the person in charge of environmental and ethical analysis, it is my job to ensure that the companies in our investment fund portfolios do, in fact, meet our criteria in areas like environment, human rights and ethical business practices. We also organise company dialogues, to help companies develop greater responsibility.

Good planning is needed for any stakeholder dialogue, and the aims must be carefully thought out in advance. It is also advisable to consider how to handle criticism and suggestions, and to give your participants feedback on the outcome.

One short-term risk entailed in dialogue of this kind is that stakeholders may have their expectations raised – that there will be substantial improvements in the areas that they happen to prioritise, whereas the company may come to a different decision. Over time, however, I think it becomes apparent that the views of a company and its key stakeholders are not so very different.

Companies in the transport industry face major challenges in the environmental area – not only in developing vehicles which are less damaging to the environment when in use, but also in terms of reducing environmental impact arising from their manufacture. In addition, there are the issues of good working conditions and employment terms for both the company's own employees and for the employees of suppliers in low-cost countries."

Focusing on what matters

THERE ARE VERY MANY sides to the sustainability improvement work carried out within the framework of Volvo Cars' operations. A cross-section of our stakeholders have assisted us in identifying areas to prioritise, and these have accordingly been examined in greater depth in this report.

Towards the end of 2007, we carried out a materiality analysis by consulting key external stakeholders. Those invited to comment were representatives from academia, NGOs, government agencies, interest group networks, trade unions, fleet customers and suppliers.

Our respondents are prominent individuals in

their own fields, people with great expertise in the areas of sustainability and the automotive industry.

Participants were asked to rank 45 aspects of sustainability in terms of how important they thought they were for Volvo Cars.

They were also asked to identify the sustainability issues they considered most important to the company.

Once processed, the opinions of these external respondents were set out alongside Volvo Cars' internal prioritisations.

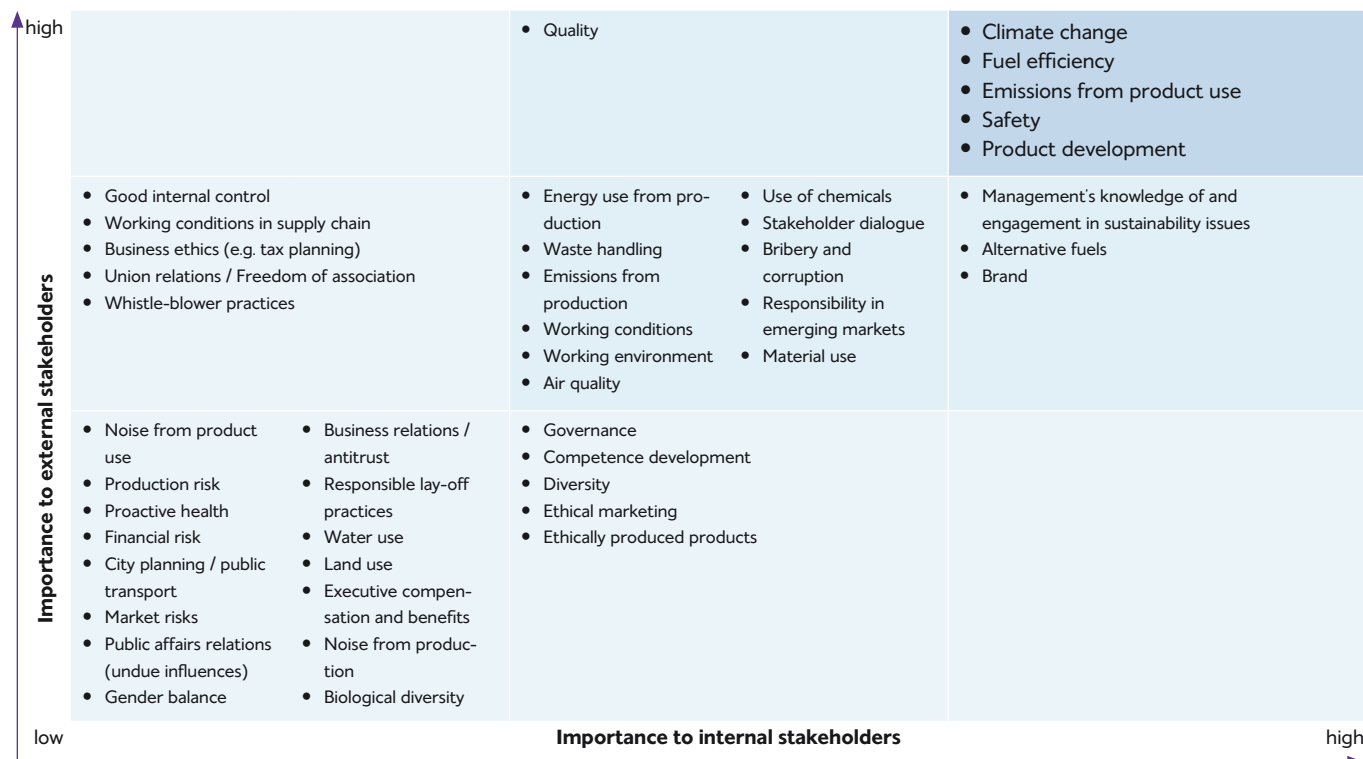
An overview of this materiality analysis is reproduced below. It has been used in identifying and

allocating space to content in this year's sustainability report.

Climate change, safety, fuel efficiency, exhaust emissions and product development were given the highest priority, internally and externally, and have therefore been given extra space in this report. Quality plus "management's knowledge of and engagement in sustainability issues", alternative fuels and brand also received very high rankings. This materiality analysis also reveals that our stakeholders do not regard any aspect of sustainability as unimportant. The overall conclusion is, therefore, that the entire issue of sustainability matters a great deal to Volvo Cars' stakeholders.



MATERIALITY ANALYSIS



ENVIRONMENT

"We believe mobility and
care for the planet can be combined"



Climate change – a great challenge

Mobility is essential to economic development, and it also enhances our quality of life. Motor vehicles and other forms of transport, however, have a significant impact on the environment, not least due to the role of carbon dioxide emissions in climate change.

Climate change is one of the biggest threats facing the planet. Climate change is already having an impact on society and the natural environment. It is clear that greenhouse gas emissions must be radically reduced, and that society must at the same time adapt to the impacts from these.

Currently some 14 per cent of global greenhouse gas emissions can be attributed to transportation in general. About half of these come from cars and light trucks, according to the Intergovernmental Panel on Climate Change (UNEP).

RENEWABLE FUELS

Given the fact that 98 per cent of all the motor vehicles sold throughout the world rely on fossil fuels, climate change is a major challenge for the automotive industry. In addition, the earth has only finite reserves of fossil energy such as crude oil.

To be environmentally sustainable, therefore, the

vehicles of the future will have to be very economical and capable of running on renewable fuels.

Sustainable mobility can be defined as the ability to meet the needs of society to move freely, gain access, communicate, trade and establish relationships without sacrificing other essential human or ecological values today or in the future. For Volvo Cars, it is fundamental that personal mobility should not come at the expense of damaging the environment or other social values. We include the safety factor in our definition of sustainable mobility, and our overriding objective is to develop cars which are both safe and environmentally sound.

Limiting carbon dioxide emissions and slowing climate change is a tough challenge, not least for the automotive industry and a company like Volvo Cars. We are, however, determined to take up this challenge, and expect other key players to contribute. Our environmental improvements and efforts to reduce climate change are focused mainly on our vehicle development, but they also encompass the environmental impact of our production facilities and logistics flows.

Limiting climate change and making best-possible use of the earth's resources is going to take

meticulous cooperation between all stakeholders – at the national, international and global levels.

ENERGY SOURCES OF THE FUTURE

Together with a number of researchers, Volvo Cars has, in recent years, made a study of the options of the future in terms of fuels and energy systems, as seen from a global perspective.

The aim was to examine the most effective ways in which society as a whole should use various fuel alternatives and energy systems, if it is to succeed in managing its energy supply problems while also limiting environmental impact.

Starting from this wider perspective, the study went on to investigate the best energy strategy for Volvo Cars.

A large number of scenarios were examined, based on a variety of assumptions about the availability and use of different forms of energy, fuel preferences, and overall fuel efficiency for the global vehicle fleet, among many other factors.

The conclusions, in brief, were that Volvo Cars should focus on high-efficiency hybrid electric vehicles, in combination with various carbon-neutral fuel types such as biofuels and solar power.

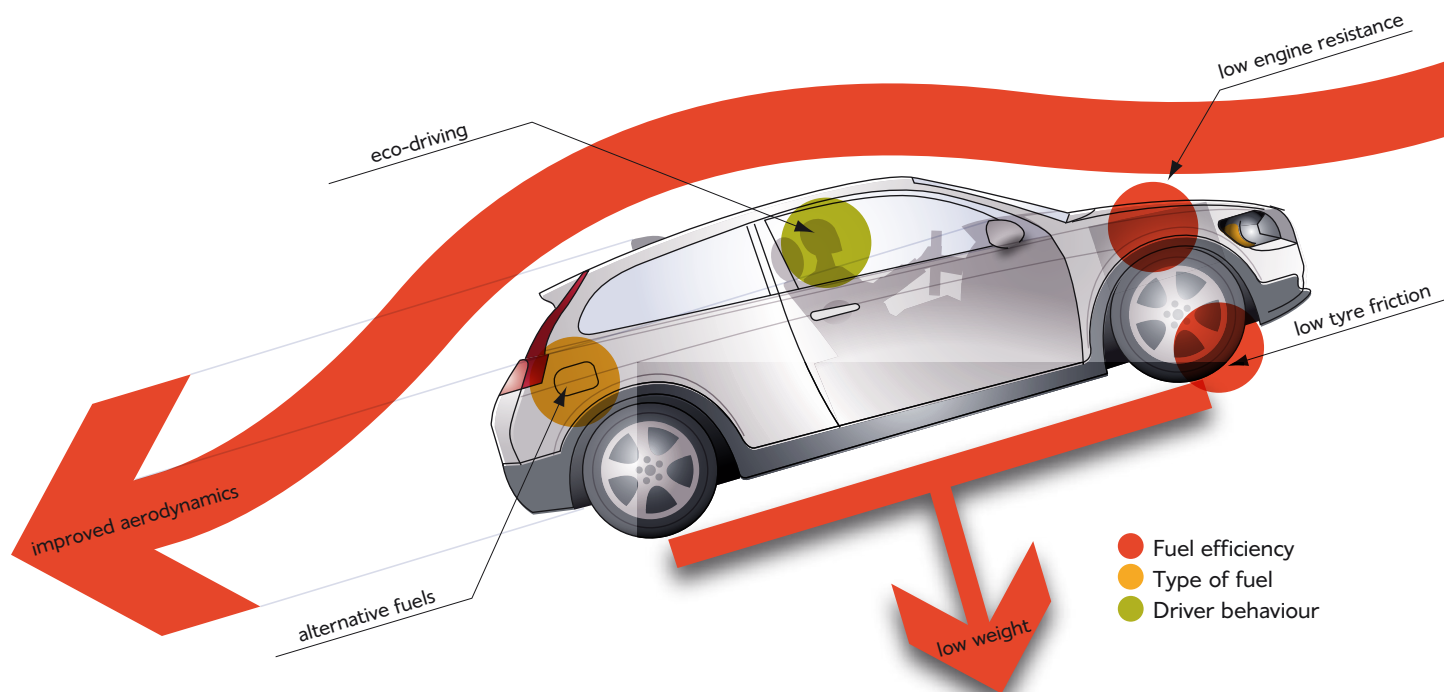
REGULATING CARBON DIOXIDE EMISSIONS

The current concentration of greenhouse gases in the earth's atmosphere is around 400 ppm (parts per million, CO₂ equivalent). The UNEP Intergovernmental Panel on Climate Change regards 450 ppm as an appropriate stabilisation level. It is thought that reaching this level would entail a temperature increase of about two degrees Celsius and a degree of climate change with which mankind should be able to cope. To avoid exceeding this level, however, it will take severe curbs on emissions by international agreement.

The 169 nations which signed the Kyoto Protocol have undertaken to reduce their greenhouse gas emissions by an average of five per cent be-

low 1990 levels between 2008 and 2012. But another agreement is needed now, to secure even more substantial reductions.

In 2007, the European Union completed its proposals for new legislation to reduce carbon dioxide emissions from cars. Under this draft legislation, the average CO₂ emissions from new cars sold after the beginning of 2012 must be no higher than 130 grams of CO₂ per kilometre. Voluntary additional measures by the car industry and political moves such as increasing the use of biofuels should ensure a further reduction in the average emissions of the new-car fleet, down to 120 g/km. In 2006, emissions from passenger cars in the EU averaged 163 g/km.



Efficiency and alternatives

Volvo Cars is investing in both broad-based solutions and innovative technologies for reducing environmental impact. On the one hand it means developing new technologies for future models, on the other it calls for the application of tried-and-tested existing technologies suitable for application to most of our models.

Cooperation with other stakeholders such as government agencies, universities and the media is very valuable in increasing customer accept-

ance and paving the way for new cars with lower impact on the environment. To give an example, introducing new fuels calls not only for an adequate refuelling infrastructure, but also for their pricing and taxation to be at a suitable level to encourage their use. And each individual driver has an important part to play too, since personal driving style makes a difference to both safety and fuel economy.

Volvo Cars is investing SEK 11 billion in the

period between 2006 and 2011 on the development of new environmental technologies, in two main areas. One of these is energy efficiency, in areas such as the ongoing improvement of the cars Volvo makes and the development of even more economical diesel engines. The other is the field of alternative fuels. Volvo Cars is working towards a multi-energy society, where several energy-efficient solutions such as Flexifuels, hydrogen cars and hybrids can be used side by side.



Alexey Kokorin, chief coordinator of the Climate Change and Energy Programme, World Wide Fund for Nature (WWF), Russia.

“FUEL EFFICIENCY IS THE KEY”

“One crucial prerequisite if we are to deal with climate change is that each and every one of us must open our eyes and really pay attention to the problem. In Russia today there is no sense of urgency about the situation. People see climate change as a problem of the future – not as a serious problem that we need to do something about right now.

A first step on the path to sustainable mobility is the hybrid vehicle – I see this as the best solution for 10 or 20 years from now. A number of future scenarios suggest that by around 2050 some 20 per cent of all new cars will be hybrids. As the climate change coordinator of an environmental organisation, I would like that figure in reality to be closer to between 80

and 100 per cent. To achieve this, we need to see a rapid increase in the development and introduction of hybrid technology. The next stage in development will be hydrogen cars, provided that the hydrogen can be produced using renewable energy. Fossil fuels could possibly also be used to some extent, through the development and use of carbon capture and storage technologies.

Improved fuel efficiency is a key factor in the short term – although the development of more economical vehicles alone is far from sufficient. We also need better thought-out, smart communication with the vehicle owners of the future, to make fuel-efficient vehicles the natural and obvious choice.”



Running a car on E85 bioethanol fuel can reduce its fossil carbon dioxide emissions by up to 80 per cent.

Fuel choices for the future

THE DEVELOPMENT and introduction of new fuel types demands a long-term approach and involves complex processes. Many factors have to come together for alternative fuel projects to succeed and make a real difference to the environment. Volvo Cars' decision matrix contains six key criteria, all of which need to be met for a fuel to be suitable for investment. Political support is also important:

1. Carbon dioxide emissions and climate impact from a life-cycle perspective
2. Performance in terms of regulated emissions (e.g. nitrogen oxides, carbon monoxide, hydrocarbons, particulates)
3. Supply of the fuel, potential for adequate volumes
4. Technical complexity, extent to which vehicles and engines will need adaptation
5. Distribution and refilling station infrastructure

6. Customer acceptance of the fuel type

This is why Volvo Cars is focusing on ethanol as a fuel and its Flexifuel models for the present, and hybrid technology for the near future. Renewable diesel is another possibility.

The company's production of biogas vehicles has been suspended, despite very good environmental performance and positive response from customers in the Swedish market in particular. The reason for this was the lack of an adequate infrastructure. The number of refilling stations was insufficient.

THE VOLVO FLEXIFUELS

Sustainable mobility demands the development of cars which can run on fuels from renewable sources. The bioethanol refuelling infrastructure is expanding in Europe, partly as a result of constructive cooperation between the car industry

and several EU countries.

Volvo Cars' Flexifuel models can be run on bioethanol (E85 blend), petrol, or a mixture of these two fuels.

Filling up with E85 instead of petrol can reduce a car's fossil carbon dioxide emissions by up to 80 per cent. Added to the Volvo range in 2007 were Flexifuel versions of the Volvo S80 and the new V70, in addition to the C30, S40 and V50 Flexifuels previously available.

SALES GROWING

In 2007 Volvo Cars sold a total of 10,899 cars capable of running on alternative fuels (Flexifuels and Bi-Fuels), in eleven European markets.

Flexifuel sales grew during this year, while Bi-Fuel sales were dwindling because Volvo Cars' CNG and biogas programme has been suspended for the time being.



THE VOLVO C30 EFFICIENCY

A new diesel version of the Volvo C30, the C30 Efficiency will be launched in 2008. With fuel consumption lower than 4.5 litres per 100 km and carbon dioxide emissions of less than 120 g/km, it will be classified as an "environmental car" in the Swedish market.

Compared with the corresponding conventional C30 model, its fuel consumption has been reduced by 12 per cent through a series of design and engineering changes.

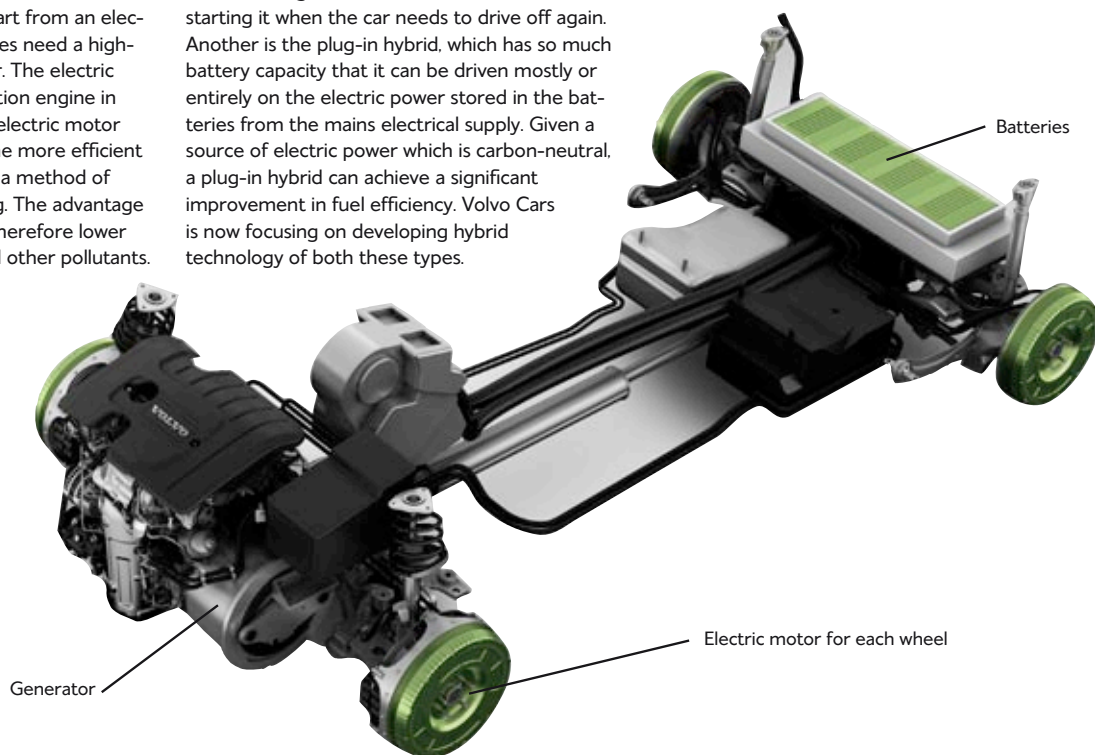
- Fuel-efficient diesel engine with lower horsepower

- Improved aerodynamics – lowered chassis, new rear spoiler and bumper, optimised engine cooling and aerodynamically optimised 16-inch wheels
- Lower rolling resistance thanks to a new generation of low-friction tyres
- Altered gear ratios – ratios revised for third, fourth and fifth gears
- Optimised powertrain – new low-friction transmission oil and optimised engine management

HYBRID TECHNOLOGY FACTS

The word hybrid, when applied to vehicles, is short for hybrid propulsion or hybrid technology. In other words, a combination of two different power sources, such as an electric motor and an internal combustion engine. Apart from an electric motor, hybrid electric vehicles need a high-voltage battery and a generator. The electric motor and the internal combustion engine in these are interdependent. The electric motor and the battery make the engine more efficient and allow regenerative braking, a method of storing the energy from braking. The advantage is lower fuel consumption and therefore lower emissions of carbon dioxide and other pollutants.

Vehicle hybridisation is often divided into different categories. One of these is the micro hybrid, which has a stop/start function for shutting down the engine when it is not needed and re-starting it when the car needs to drive off again. Another is the plug-in hybrid, which has so much battery capacity that it can be driven mostly or entirely on the electric power stored in the batteries from the mains electrical supply. Given a source of electric power which is carbon-neutral, a plug-in hybrid can achieve a significant improvement in fuel efficiency. Volvo Cars is now focusing on developing hybrid technology of both these types.



Hybrid development

PARALLEL WITH ongoing efficiency improvements in its petrol and diesel-engined vehicles, Volvo Cars is investing heavily in hybrid technology as an important part of the solution on the road to sustainable mobility. Much of the basic technology is already in existence, but its relative complexity makes it expensive.

This is why it is important to develop simpler hybrid technology, suitable for wider application. Greater use of hybrid cars will bring about a reduction in carbon dioxide emissions. One key challenge is that of developing more efficient batteries, to reduce the weight of hybrid vehicles.

GOTHENBURG HYBRID CENTRE

To develop the company's expertise in hybrid technology and to develop hybrid systems for Volvo's cars, in 2006 Volvo Cars and Ford Motor Company opened a new European technical

centre for hybrid electric vehicles in Gothenburg. The main focus is on improving fuel economy and reducing emissions. The aim is to introduce hybrid technology into the cars progressively.

THE RECHARGE CONCEPT

The Volvo ReCharge Concept is a plug-in hybrid with an electric motor for each wheel, and batteries which are recharged from the mains electrical supply. It was developed and presented as a concept in 2007.



A single battery charge is enough to give the car a range of about 100 km. When the battery is low, the engine (in this concept, a Flexifuel engine) starts up, to recharge the batteries so the car can continue.

If driven on batteries alone, this concept's operating costs are 80 per cent lower than for a petrol-engined car of the same size. Its carbon dioxide emissions are less than half those of the hybrid cars on the market today.

The Volvo ReCharge Concept has special tyres to accommodate the individual wheel motors. The batteries are beneath the boot floor. Recharging them from flat takes three hours.

One challenge is to develop batteries which are more efficient, less bulky and lighter. The batteries in this concept weigh 200 kg.

It is Volvo Cars' ambition to launch a plug-in hybrid for production after 2014.

“Highly motivated to meet tough demands”



Peter Ewerstrand coordinates Volvo Cars' environmental strategy on carbon dioxide emissions.

PETER EWERSTRAND manages and coordinates Volvo Cars' environmental product strategy with regard to climate change and carbon dioxide emissions. He sees the need to reduce carbon dioxide emissions as a very tough challenge, but he also thinks that there is strong motivation within the company to succeed.

NEW LEGISLATION ON THE WAY

From a global perspective, the European Union is at the forefront in terms of targets and mechanisms for reducing the environmental impact of transportation and motor vehicles. New legislation is expected to come into force in 2012 which will demand substantial reductions in carbon dioxide emissions from new cars.

“Cars are often seen as being the main contributor to climate change, and great pressure is being brought to bear on the automotive industry to develop vehicles with ever lower carbon dioxide emissions. We are taking up the challenge of continuing to reduce emissions from the cars that we make and sell. And there is strong motivation in the company to meet the challenge! Given the automotive industry's complex and relatively long development processes, however, the lead-time is very short.”

BEST IN SEGMENT

The cars in Volvo's model range are relatively large, which means that they have relatively high fuel consumption. The popular XC models are a concept which is to some extent at odds with calls for greater fuel efficiency.

“We cannot aim to have the cars with the lowest total impact on climate. But we must naturally aim to be the best and most environmentally-sound alternative in our segment.”

Peter Ewerstrand thinks 2007 was a turning point as far as the climate change issue and Volvo

Cars' environmental work are concerned. Not least on account of a definite increase in awareness worldwide.

“It was a breakthrough year in terms of climate awareness, in the western world at least. I'm sure there are far more people who are fully up to speed with the climate issue now than there were a year ago. For us it has meant accelerating our environmental work, and many of the results of that will be seen in new products over the next three years.”

INCREASED DEMAND

Essential to the continuing rapid development of cars with lower impact on the environment will be customers' environmental awareness and the extent to which they are motivated to choose cars of this type. A definite demand for a certain level of environmental performance is already apparent. An example of this is the CO₂ limit of 120 g/km for a car to be classed as an “environmental vehicle” in Sweden.

“A lot of companies are already applying CO₂ emissions limits, such as when choosing models for company cars. This places demands on us in terms of supplying cars which meet these limits.”

Understanding customer environmental awareness and being prepared to encourage it is important, in Peter Ewerstrand's view. One question is whether customers are prepared to do without certain convenient features for the good of the environment.

“We need to get better at informing customers on ways in which they themselves can contribute towards lowering emissions. Environmental performance should be a natural part of premium quality. One concrete example would be informing customers about how different car features affect fuel consumption. Customers who are interested in the environment should be in a position to make conscious choices.”

ENVIRONMENTAL OFFERS IN SWEDEN

The success of Volvo Cars' investment in more environmentally sound cars relies on persuading more buyers to actually choose one – and to adopt a more environmentally conscious style of motoring.

People buying a Volvo Flexifuel in Sweden are entitled to a complete package of green offers, with multiple benefits. The aim of this is to highlight all the advantages and to encourage more buyers to make a greener choice.

The Swedish package of Volvo environmental benefits includes:

→ ECOSAFE COURSES

Volvo Flexifuel buyers are invited to attend a one-day eco-driving course, free of charge. By learning to drive more efficiently, motorists can reduce their fuel consumption by up to 20 per cent. The EcoSafe courses are taught by the Volvo Cars Driving Academy at venues throughout Sweden.

→ CLIMATE COMPENSATION

Included in the price of a new Volvo Flexifuel is climate compensation for 45,000 kilometres of motoring. In a car run entirely on E85 fuel (a blend of 85% bioethanol and 15% petrol widely available in Sweden) the only fossil-fuel carbon emissions are caused by the petrol component of the fuel and the production and distribution of its bioethanol component.

Volvo Cars is offsetting these emissions by funding UN-certified climate-neutral projects – renewable energy production in China and India.

→ LOWER FUEL PRICES

By using their Volvo Card when refuelling, owners of new Flexifuels receive a discount on E85 fuel for the first three months.

→ GREEN LOAN CARS

Through an agreement with Hertz, Flexifuel owners with Volvo service contracts can have a Flexifuel loan car while their own vehicles are having work done at the dealership. And all Volvo Flexifuel owners are entitled to a discount from Hertz whenever they rent a car classed as an environmental vehicle in Sweden.



Many drivers reduce their fuel consumption by over ten per cent after taking an EcoSafe course.

ECOSAFE COURSE PAYS OFF

ANNA-KARIN LÖWHAGEN was one of the first Volvo owners to take the EcoSafe course. When asked why she chose a Volvo C30 Flexifuel, she comments that it was an obvious choice for her.

"I really fell for this model, and I want to do what I can for the environment."

But the value of an EcoSafe course was not quite so obvious to her. It took several reminders before she signed up. But she is very glad that she did. She feels she is now a safer driver, and she knows that she uses less fuel. Practically everyone who takes the course reports a ten per cent decrease in their fuel consumption.

ENVIRONMENTAL CAR SALES TAKING OFF

About 15 per cent of the Volvo cars sold in Sweden in 2007 were classed as "environmental vehicles". This proportion is expected to grow to almost 40 per cent in 2008.

The environmental package has been very well received. Demand for environmental cars is strongest in Sweden's biggest cities, however, and not all of the benefits in the green package are being utilised to the full.

The take-up rate for EcoSafe courses, for instance, could be much higher. The challenge lies in conveying the true benefit to the customer, which is where Volvo dealers have a key role to play.

In 2007, some 500 personnel from Sweden's Volvo dealerships (about 80 per cent of the national sales force) were given special training on environmental issues. This qualifies them as "environmentally certified dealers".

GREEN CAR DRIVE

Volvo Green Car Drive is the name of a car sharing scheme with a difference. Launched in autumn 2007 by national sales company Volvo Cars Sweden, this is a scheme which makes Volvo Flexifuel models available to students at reasonable prices.

The aim is to offer students greater freedom and mobility, driving safe and environmentally-sound cars. These cars are now available at a number of universities in Sweden. By the end of 2007, the scheme had passed its first milestone – over 100 members.

Energy-efficient production

THE GREATEST environmental impact in the life-cycle of a car stems from the emissions it causes when driven. The manufacturing of cars also has an impact on the environment, mainly in terms of energy use and materials/waste. This is why we are always working to improve the environmental performance of all our operations. Fundamental to this work is adherence to ISO 14001 environmental management systems.

All of Volvo Cars' production plants had gained certification to ISO 14001 by 2005.

In 2007, none of our plants exceeded any of their emissions limits, nor were there any instances of non-compliance with permits.

ENERGY-SAVING MEASURES

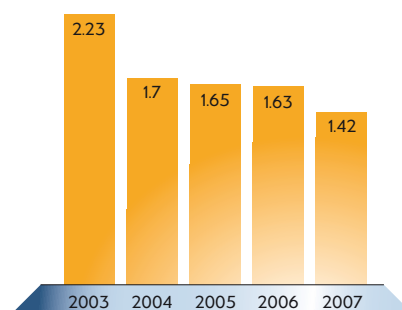
Volvo Cars works systematically to improve the energy efficiency of its manufacturing, thereby

limiting environmental impact and carbon dioxide emissions.

The company has had an internal energy steering group since 2002. This is made up of the energy managers from each production plant and representatives from Purchasing, Environmental Protection and building owners.

Part of the role of the steering group is to highlight good examples of energy savings and to discuss measures at local and company-wide levels. Each facility has its own local energy group, whose duty it is to carry out ongoing energy audits and to plan measures for reducing energy consumption.

Many of the energy-saving measures taken recently have achieved savings of up to 25–30 per cent. The greatest potential savings are generally to be found in ventilation, heating, cooling and lighting.



ENERGY CONSUMED IN PRODUCTION, PER CAR
MWh/car

Our aim is to reduce energy consumption for each car built by five per cent per year. In 2007 we built more cars than before and achieved a slight reduction in our total energy consumption. (Data is from our manufacturing and assembly plants in Sweden, Belgium, Thailand and Malaysia.)

TOWARDS CARBON-NEUTRAL MANUFACTURING

RENEWABLE ELECTRICITY

As part of its drive towards climate-neutral production, Volvo Cars has been buying all of the electricity for its production facilities in Sweden and Belgium from renewable hydroelectric sources since the beginning of 2008. The company's ambition is to switch progressively to renewable forms of energy, and at present, hydroelectric sources are the best alternative suppliers can offer. Possible options for the future include biogas, wind and solar power.

New agreements were signed with Vattenfall of Sweden and Electrabel of Belgium in autumn 2007, covering all of the electricity bought via Volvo Cars' Purchasing department – a total of 1,000 gigawatt hours. Switching to hydroelectric power reduces Volvo Cars' carbon dioxide emissions by 85,000 tonnes.

DISTRICT HEATING FROM BIOMASS

Sweden's relatively cold climate makes it very important to look for efficient ways of heating the company's production plants here. Ninety per cent of the heat needed at the Torslanda plant is piped in, derived from the waste heat at a nearby oil refinery. The plant in Floby and parts of the Skövde plant are connected to district heating systems which derive their energy from biomass.

Volvo Cars is working to achieve totally carbon-neutral production. This means ongoing efforts to achieve greater energy efficiency, and progressively switching over to renewable sources of energy.

SMART LOGISTICS

BETTER FOR THE ENVIRONMENT

It is Volvo Cars' aim to become one of Europe's most cost-effective manufacturers and suppliers of cars in the premium segment. The company's improvement programme called "Best in Class" has 135 different efficiency projects under way. These include areas such as logistics, and the handling of materials and packaging. Optimising transport logistics also brings about a reduction in total emissions of carbon dioxide and other pollutants.

One project, involving the delivery of vehicles to customers in Russia, has achieved a 15 per cent reduction in carbon dioxide and other emissions through improved logistics. Cars bound for the Russian market are now taken by sea from Gothenburg to Kotka in Finland. From there they are transported by road, direct to either St Petersburg or Moscow. Cars bound for St Petersburg no longer have to be transported to Moscow first.



SAFETY

"Our aim is that by 2020 no one
will be killed or injured in a Volvo"

Working to make cars which will not crash

PROTECTIVE AND PREVENTIVE SAFETY

Road accidents are a serious problem for society. Throughout the world, over a million people die in road accidents every year, and many times more than that are injured. Developing safer vehicles and safer traffic environments has to be a high priority. Safety is one of the most important parameters when customers are choosing which car to buy.

In the past, safety enhancements in motor vehicles have focused mainly on protective systems

and engineering, designed to prevent or lessen injuries in the event of an accident. Today, however, more and more attention is being devoted to preventive safety, i.e. systems which can prevent accidents from happening in the first place. The more these gain acceptance in the marketplace, the more accidents can be prevented.

One important aspect of automotive safety work – present and future – is cooperation between car-makers, regulators and the world of research. System compatibility is going to be an increasingly important factor if cars are to be able

to communicate with one another and with their surroundings, for instance to avoid collisions at intersections or in tailbacks. Achieving this will take joint research projects and cooperation between many partners.

JOINT PROJECTS RAISE KNOWLEDGE

Volvo Cars is actively involved in a number of joint research projects for integrated preventive and protective safety systems.

One of these is called SAFER – the Vehicle and Traffic Safety Centre at Chalmers University of Technology in Gothenburg. Working with a number of partners from business and industry, universities and the public sector, Volvo Cars is investing 30 million kronor per annum in SAFER over a ten-year period. The SAFER projects include research and development in areas such as injuries arising from road accidents and infrastructure-based communication systems for the future.

Another valuable collaboration is IVSS – Intelligent Vehicle Safety Systems. IVSS is a joint venture between Swedish authorities and the motor vehicle industry, aimed at improving traffic safety and enhancing the Swedish automotive industry. Volvo Cars has been a prime mover in devising various IVSS projects, including system reliability, man-machine interfaces, collision avoidance and driver fatigue.

In the United States, Volvo Cars is working with the National Highway Traffic Safety Administration on a two-year study called ACAT (Advanced Crash Avoidance Technologies). The purpose of this study is to develop methodology for measuring and evaluating preventive safety system functions. The three Volvo systems included in this study are Driver Alert Control, Lane Departure Warning and Emergency Lane Assist.





Hans Nyth, Director,
Volvo Cars Safety Centre

“Knowledge saves lives”

HANS NYTH is the new director of the Volvo Cars Safety Centre. His commitment is rooted in the conviction that knowledge saves lives.

“The starting point of our work on safety is the desire to take good care of the car’s occupants – both driver and passengers. My ambition is for Volvo Cars to consolidate its position as the industry leader on safety. To do so, we have to go on developing our knowledge and our cars, using new methods and new technologies.”

“Our vision is that cars should not crash at all; that no one should die or be injured in a Volvo. In the future, car accidents will be seen as unacceptable, in much the same way as aircraft crashes are viewed as unacceptable today.”

EXCHANGE OF EXPERTISE

Beyond its own resources and expertise, Volvo Cars’ safety development work today often relies on partnership with other players and the use of forefront expertise from other areas.

“There is increasing collaboration and exchange of expertise between disciplines. For instance, the car industry is drawing on knowledge from the aero industry – technologies like radar and cameras, and their approach to the human factor. We can learn from pilots – what is expected of them and the conditions they work under – and relate that to car drivers,” says Hans Nyth.

Jan Ivarsson, the senior manager in charge of Safety Strategy and Requirements at Volvo Cars, stresses the fact that new safety technologies do not remove responsibility from the driver. A number of new safety functions are designed in the first instance to warn the driver of something, and only to ‘take control’ as a last resort.

As an example of this he cites Driver Alert Control, the system launched in 2007 to sound a warning if the driver appears to be over-tired or losing concentration.

“It’s a breakthrough in development which in-

creases safety in the borderland between normal driving and a dangerous traffic situation.”

Another breakthrough is the technology behind City Safety – where the car is able to brake automatically if the driver is about to run into the car ahead.

“We are the first in the world to introduce a collision-avoidance function like City Safety as standard.”

LEARNING FROM REALITY

The fact that Volvo Cars’ research and development is based on a knowledge of real traffic situations and accidents is, in Jan Ivarsson’s view, the key factor in being the safety leader.

“Knowledge based on reality is what saves lives! We deliver cars with very high safety performance as standard. Over and above that, we have a range of new technologies available as options.”

In the future, safety development will rely on learning more about the chain of events which can lead to an accident, and also predicting the ways in which man and machine will interact. Another challenge will be developing the technologies for interaction between vehicles and infrastructure.

THREE PIECES OF ADVICE

Hans Nyth has three pieces of advice for authorities working with road safety improvement:

- Widen the focus on the accident types to be prioritised. Non-fatal accidents are not receiving enough attention.
- Prioritise infrastructure planning. To give an example, greater use of dual carriageway road layouts with central barriers has led to a radical reduction in the number of head-on collisions, and less serious consequences in the accidents that do still occur.
- Mould attitudes towards driving, by raising awareness when people are being taught to drive. Drivers always need to think for themselves!

Starting point: reality

VOLVO CARS' safety work is based on real traffic situations and real accidents. Our Traffic Accident Research Team carries out thorough investigation and analysis of accidents and accident sites.

Since 1970, we have built a valuable statistical database, now containing data from over 36,000 Swedish accidents involving over 60,000 people travelling in Volvos. This is a unique resource, a source of information which helps us to improve and develop our cars to save lives.

The work of this Accident Research Team plays an important part in our systematic safety improvement of each new generation of cars from Volvo.

The Volvo Cars Safety Centre, one of the world's most advanced crash laboratories, was opened in Gothenburg in 2000. Many different types of collision can be staged here, under conditions close to reality. Two-vehicle offset, lateral and rear-end collisions, rollover accidents,

off-road accidents and impact with rock faces, and accidents involving animals on the road can all be emulated, at any speed up to 120 km/h, and using sophisticated crash-test dummies in the vehicles.

Every crash-test is able to be fully documented, for detailed analysis. Around 400 full-scale crash-tests are carried out per year at the centre, plus large numbers of virtual crash-tests and computer simulations.

Our own comprehensive safety research forms an important basis for the development and testing of new components, safety systems and standards for ever-higher car safety.

Through research collaborations in other countries, Volvo Cars is able to learn more about local road safety parameters in other parts of the world, and also to share its own findings and expertise. In the course of 2007, the Volvo Traffic Accident Research Team set up a new Traffic Accident Re-

search Centre (TARC) in China, in association with the Volvo Group and the China Automotive Technology and Research Centre (CATARC). This will be a three-year project.

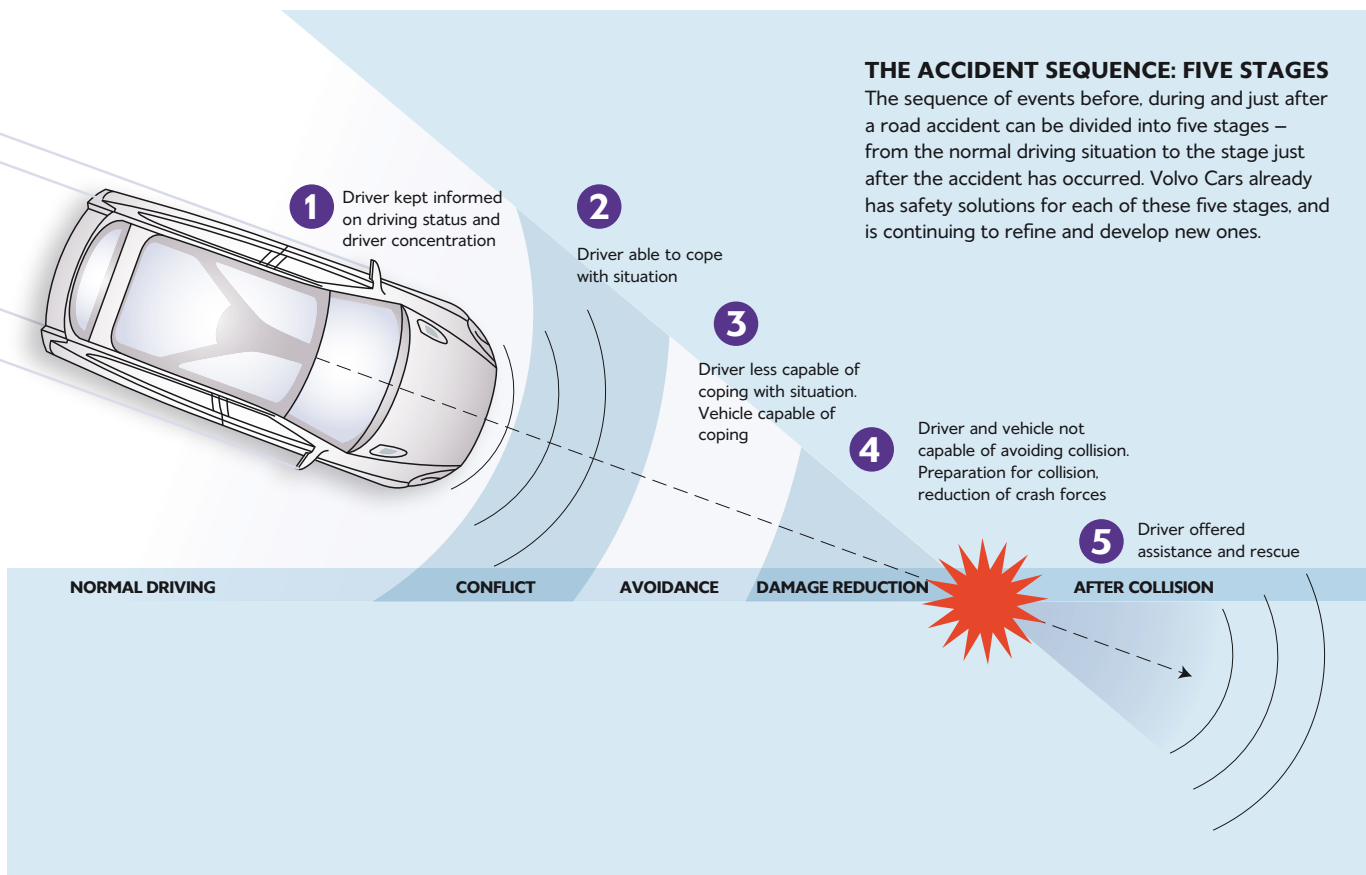
Centres like this are valuable because they study accidents arising in local conditions, and the resulting statistical analysis can be shared with the local authorities to assist in prioritising their road safety improvements. A similar research centre was set up in Thailand in 2003.

Volvo Cars is also part of a project called Test Site Sweden (TSS). The company has recently contributed to developing methodology for field data gathering in traffic. Systems which gather, store and allow analysis of normal driving and traffic incidents have been developed.

This methodology will be used in field studies on a larger scale over the next few years, to learn more about what causes traffic accidents and how new safety functions can help.

Volvo Cars' Traffic Accident Research Team has studied over 36,000 real accidents since 1970.





Holistic approach to safety

SAFETY – OUR GUIDING STAR

Safety is the most important of our core values. Protecting people is the very essence of Volvo Cars' values and brand. Our goal is to protect all road users – drivers, passengers and pedestrians.

Early in the company's development, founders Assar Gabrielsson and Gustaf Larsson expressed it like this: "Cars are driven by people. The guiding principle behind everything we make at Volvo, therefore, is – and must remain – safety."

Volvo Cars has been developing and introducing new safety solutions ever since. The three-point seat belt from 1959, for instance, which is still the invention saving most lives on roads to-

day. Our cars have grown safer year by year as a result of systematic work on the development of new engineering, technologies and equipment designed to lessen the effects of the safety problems which are most critical or result in the most severe injuries.

The safety of a Volvo is the result of an integrated holistic approach. What determines the level of safety in a car is the interaction of different forms of safety engineering and functions, rather than just single components. This is why the holistic view is a key starting point in our safety work.

Around 90 per cent of all road accidents are caused partly by lack of driver attention and driver ability to respond appropriately in difficult traffic

situations. Our safety work is focusing strongly on technical solutions which help alert the driver to critical situations, so he or she can avoid collisions and incidents.

THE GOAL:

CARS WHICH WILL NOT CRASH

Volvo Cars' goal is to create cars which will not crash. Our vision is that by the year 2020, no one will die or be injured in a Volvo. To succeed with this challenge, we have to minimise the risk of our cars being involved in an accident in the first place, and also to mitigate the effects of any accidents which do occur despite this.

New safety technologies in 2007

VOLVO CARS' SAFETY development work in 2007 focused especially on the early stages of the accident sequence, i.e. preventive measures and functions which reduce the risk of an incident or accident happening in the first place.

Several new technologies were launched in the course of the year, some of which are described below. Common to most of these is the objective of making driver behaviour safer.



City Safety can prevent collisions at speeds of up to 15 kilometres an hour.

CITY SAFETY

Statistics show that 75 per cent of all reported collisions occur at speeds below 30 km/h. But despite these low speeds, the consequences are often significant. People in the car ahead run the risk of whiplash injuries, and low-speed collisions often cause panel damage and high insurance costs.

City Safety, a world-first for Volvo Cars, was developed to help drivers avoid low-speed collisions, for instance in city traffic and tailbacks. If the driver of a car equipped with City Safety is about

to collide with the car in front and fails to react in time, the car will brake automatically. An optical sensor inside the windscreen monitors progress relative to other traffic ahead. The system calculates the braking power needed to avoid a collision, in the first instance preparing the braking system so the driver will have maximum braking power available, and secondly slowing the car automatically by throttling back.

At speeds of up to 15 km an hour, City Safety is

able to prevent a collision altogether. At speeds of 15 to 30 km/h, it is capable of reducing the severity of the crash. For the occupants of the vehicle in front, the outcome will be a less severe crash and hopefully no whiplash injuries. For the occupants of the car with City Safety on board, the risk of injury is reduced too, as is all the inconvenience of a collision. Reducing the speed of impact also means less damage to the cars if a crash does occur.



DRIVER ALERT CONTROL

Several studies have shown that distracted drivers are the cause of up to 90 per cent of all accidents. Driver Alert Control is designed to warn drivers when they may be tired or losing concentration, e.g. when driving on a straight, monotonous stretch of road. The system monitors the vehicle's

progress relative to the road markings, and warns the driver if his or her driving style indicates loss of concentration or control. An audible signal will sound and a message will show on the car's information display. A coffee cup symbol on the display indicates the need for the driver to take a break.



ALCOGUARD

One of the greatest challenges to a safer traffic environment is people driving under the influence of alcohol. One in three deaths on European roads is alcohol-related. Volvo Cars' Alcotest system relies on the same fuel-cell technology as

used by many police forces. Before the car will start, the driver has to blow into a wireless unit. The unit determines the level of ethanol in the breath sample and sends the result by radio to the car's electronic control system. If the level is higher than the limit set, the car will not start. Alcotest is now available as an option for most Volvo models.



NEW CHILD SEAT

Volvo Cars launched two more world-firsts in the area of child safety in 2007. One was a two-stage integrated child booster seat with load-limiting seat belts, able to adapt according to the child's weight. The other was an extended Inflatable Curtain airbag, which offers extra protection for children in the event of side impact.



COLLISION WARNING WITH AUTO BRAKE

Rear-end collisions amount to a third of all accidents reported – and in over half of these cases, the driver will not have braked at all before the crash. The Collision Warning with Auto Brake system was launched in 2007 in the Volvo S80, V70 and XC70.

It brakes the car automatically if it predicts an imminent collision with the car ahead. Before that, it will warn the driver with a message on the windscreen and an audible signal.

The auto brake function reduces the speed on impact and therefore the risk of injury for the occupants of both vehicles.



FACTS ON TRAFFIC ACCIDENTS

DRIVER FATIGUE

- Driver fatigue is a contributing factor in 12 per cent of all collisions (the 100-Car Study, Virginia Tech).
- 45 per cent of all accidents in which the driver falls asleep at the wheel happen in daylight (NASS/CDS).
- The risk of an accident is four to six times higher if the driver is tired. The National Highway Traffic Safety Administration (NHTSA) estimates that 100,000 accidents in the US each year are caused by driver fatigue.

REAR-END COLLISIONS

- Rear-end collisions are the most common accident type of all, making up 29 per cent of all accidents reported to the police. In over half of these, the driver did not brake at all before the collision (NHTSA).
- The accident statistics from Sweden, Germany and the US show that five per cent of all serious traffic accident injuries happened in rear-end collisions.

RUN-OFF-THE-ROAD CRASHES

- Almost 30 per cent of all the accidents in Volvo Cars' accident database were of the type where the vehicle leaves the road. Out of all the accidents resulting in serious injury to car occupants, about 40 per cent were of this type.




Three major challenges

VOLVO CARS' SAFETY development work has three main starting points: the vehicle, the traffic situation and human behaviour. Volvo has a long tradition of safety, but even if a car is engineered to a high safety level and the traffic situation is well controlled, safety ultimately comes down to the human driver behind the wheel.

Loss of concentration by the driver and/or failure to make the right decisions

are contributing factors in 90 per cent of all road accidents and incidents.

The three major safety challenges worldwide today are excessive speed, drink-driving and the failure of many drivers and passengers to use their seat belts. What is needed to overcome these particular challenges is a holistic approach: one which does not focus on safety systems alone, but one which also looks hard at the contribution of both society and the individual.

EXCESSIVE SPEED	DRINK-DRIVING	SEAT BELTS
 <p>Volvo Car Corporation</p> <ul style="list-style-type: none"> Speed-limiting systems are one way of tackling this problem. Volvo Cars is also evaluating various speed adaptation systems which make use of external information, such as speed limit zones. 	<ul style="list-style-type: none"> Volvo Cars has developed alcohol interlock devices which are able to breath-test the driver and react if the reading is too high. A new device of this kind, Alcolguard, was launched in 2007. 	<ul style="list-style-type: none"> In 1959 Volvo Cars became the world's first car-maker to introduce the three-point seat belt. It has been standard equipment in Volvos ever since. Seat belt reminders are now standard (even in the back seat) in Volvos too. In the half century since they were introduced, seat belts have saved more lives than any other form of safety function.
 <p>Society</p> <ul style="list-style-type: none"> Society can introduce speed restrictions on the roads and implement various forms of sanction to increase respect for speed limits. Future developments could include speed limits which alter to match the weather and road surface conditions. 	<ul style="list-style-type: none"> For society, combating drink-driving involves legislation and encouraging zero tolerance to drink-driving. This can be done through education and information to raise awareness of the consequences of driving under the influence of alcohol. 	<ul style="list-style-type: none"> Society's role is to pass laws requiring seat belts to be worn, to enforce those laws, and to educate people about the importance of using seat belts.
 <p>The driver</p> <ul style="list-style-type: none"> Observing speed limits is the driver's responsibility. Drivers need to change their attitudes towards speed limits and see them as a way of raising the general safety level, instead of focusing on the need to avoid fines and other penalties. Drivers also have a responsibility to adjust their speed according to their own capabilities. 	<ul style="list-style-type: none"> Drivers should not drink and drive. The best thing is not to drink alcohol at all if you are going to be driving. Drivers should also make sure that any medicines they are taking will not affect their ability to drive safely, and to avoid driving when fatigued. 	<ul style="list-style-type: none"> Using seat belts is absolutely crucial if the effects of any accidents are to be limited. Drivers have a definite responsibility to wear their belts at all times, and an important role in seeing to it that all their passengers do too. Children should always use restraint systems appropriate for their height and weight.



Adrian K. Lund, Ph.D.
President, Insurance
Institute for Highway Safety
Highway Loss Data Institute

"FOCUS ON CRASH AVOIDANCE"

"At IIHS we work to find out which safety programmes are effective in reducing both crash risk and the consequences of crashes that occur.

Despite advancements in vehicle designs that improve occupant protection in crashes, and legislation around the world that addresses, for example, alcohol-impaired driving and speeding, many crashes still occur. Many people are still being injured and killed.

New technologies have the potential to prevent or mitigate crashes. It is difficult to predict their benefits, and sometimes expectations are too high. One thing we must realise is that no new feature can prevent more crashes than would have occurred if it had never been invented.

Another factor is that many new safety technologies simply give drivers information, and we will not know how drivers will respond to and use the information until it is tested in on-the-road traffic. For example, there is a risk that we as drivers will become less alert, drive faster, or do other risky things because we trust the safety features too much.

Two active safety systems with good potential, once they are in many cars, are lane departure control and collision warning. It is important that car makers such as Volvo, with a proud history and high ambitions in safety, continue to develop and evaluate safety features like these that focus on crash avoidance."



LEADERSHIP

"We believe work
is better done together"

OPEN MIND, OPEN HEART, OPEN MIND

“The Power of We”

COMPANIES ARE BUILT BY PEOPLE

International companies face many challenges in the modern world, particularly when confronted by fierce competition on a global scale. On the one hand they are confronted by ever-higher demands in terms of efficiency and economy, on the other customer and stakeholder expectations are changing faster than ever.

Any company determined to adapt to rapid change and to be a sustainable business needs highly-motivated leadership at all levels of its organisation. The ability to communicate, to implement change and, not least, to put the skills of all employees to good use are becoming increasingly valuable personal qualities at all levels of management.

Sustainable leadership also demands a proactive approach to workplace issues like health and safety, diversity and employee commitment.

THE CONCEPT OF MEDARBETARSKAP

Volvo Cars is a relatively small company in the global automotive context, with just over 24,000

employees worldwide.

Volvo Cars' people are crucial to the company's success, and they naturally have a central role to play in realising our Brand Promise – “We design cars for a better life”.

Our philosophy as an employer is based on the Swedish concept of *medarbetarskap* and the strength that comes from cooperating. *Medarbetarskap* means teamwork and leadership among employees, and that every employee takes responsibility in an active and constructive way. In practice, this is all about striving for a workplace in which every employee wants to and is able to improve the business. We aim to achieve this by:

- attracting and retaining the right employees through a culture which respects and includes everyone
- together with our employees, creating a spirit which fosters good performance
- giving our employees opportunities to develop their professional skills and further their careers
- having simple, effective processes in place to engage and support our colleagues

Volvo Cars is among the largest employers in many of the local communities where it operates. The way in which we handle personnel matters can, therefore, have an impact on these localities.

These include things like encouraging health initiatives for employees, ensuring that we adhere to the highest possible standards in our safety work, and making sure that we have the right skills to achieve our long-term goals.

We also achieve this by constantly improving our recruitment methods, so that our processes can be adjusted as conditions change, and so that diversity is valued.

Efficiency measures and change are a necessity in profitable companies active in highly competitive markets. In 2007, our workforce was reduced by over 1,000 employees. This personnel reduction programme ensured that the company achieved its target for a financially-viable personnel and business structure. It is important that we carry out changes like this in a responsible way and with respect for the individual.



Bengt Arnetz, stress researcher. Professor of Occupational and Environmental Health at Wayne State University in the US, and Professor of Social Medicine at Uppsala University, Sweden.

LESS STRESS MEANS INCREASED PRODUCTIVITY

“Modern organisations, such as the automotive industry including Volvo Cars, face a number of challenges.

A major driver of stress is the increase in global competition and the need to cut costs and improve quality.

The younger generations want a job that not only pays well, but is intellectually interesting and challenging – and offers flexibility and work-life balance.

Society is open around the clock, and people are spending less time in recovery and sleeping.

Many employees are increasingly fatigued and less stress-resistant. In a typical organisation, 30 to 50 per cent of the employees report they are so stressed-out that their performance is adversely affected.

Stress should be viewed as an organisational and strategic issue. The key message to management is that less stress – not more – results in increased and sustained pro-

ductivity. There are three major factors management can influence:

1. Make sure all employees have clear goals. By improving goal clarity at the individual level, productivity increases by up to 20 per cent and stress decreases.
2. Offer a clear vision about the future. Management should create a feeling that the company faces critical issues, but they should be viewed not as threats but as challenges that are possible to conquer.
3. Encourage the flow of vital information to all employees, not just to management levels. Employees benefit from knowing the facts, rather than just rumours.

Strategic and proactive stress management contributes to organisational and employee sustainability, through sustained employee wellbeing, job commitment, and increased effectiveness and profits.”

“Real commitment is the key to building trust”

VOLVO CARS’ production plant in Torslanda, Sweden, has an output of around 200,000 vehicles per annum. It employs some 4,500 people and operates around the clock.

Lars Danielson is the manager of the Torslanda plant. His management style is underpinned by his humanistic perspective.

“It almost goes without saying that Volvo Cars must provide a sound workplace, where health and safety are high priorities.”

LEARNING FROM CLOSE CALLS

Accident prevention is very important in this work environment. The past 24 hours’ production are reviewed on a daily basis at this plant. The purpose of this is to identify all close calls – incidents and situations which could have led to an accident, to prevent anything similar from happening again.

“Our target is to identify at least four near-misses a day. For continual improvement, we really need to draw attention to things that could have gone wrong. This is very much a question of raising awareness of the risks there are in the workplace. Staff behaviour and adherence to the rules are very significant in minimising the number of accidents.”

The number of accidents resulting in at least one day’s sick-leave was halved between 2006 and 2007. The aim is to halve the total again in 2008. Lars Danielson analyses the reasons for each accident personally, as well as the lessons that can be learnt from it.

SICKNESS ABSENCE HALVED

Sickness absence at the Torslanda plant reached its lowest level ever in 2007 – 2.2 per cent (short-term absence, 1–14 days).

Lars Danielson sees this as the result of a clear focus on health and safety.

“Prioritisation of health and safety at all levels plus effective procedures for measuring and fol-

low-up are a good basis for improvement. As I see it, the amount of sick-leave taken is a measure of our workers’ physical state of health, their wellbeing and their motivation. One thing we did in 2007 was to sit down and talk to individual staff members with patchy attendance records. This has had a very positive effect in terms of reducing sickness absence. I think a lot of it boils down to managers helping staff to realise that they really are needed at the workplace.”

TARGETS FOR TEAMS

Production at Torslanda is based on teamwork, with between six and fifteen people per team. Here, targets for aspects like health and quality are now defined at team level.

Currently being developed is a new ‘stepped’ model for target-oriented teamwork. This is to have seven levels for parameters such as standardised procedures, skills, delivery and continual improvement. For 2008, the target is for all teams to reach level three in this improvement process.

EFFICIENCY A WAY OF LIFE

Constant efficiency improvements are a way of life in the car industry. In terms of man-hours per car built, the Torslanda plant has improved its efficiency by 30 per cent over the past three years. Improvement by another ten per cent is the target for 2008.

“To motivate employees, you have to achieve acceptance of the fact that continual efficiency improvements are the norm – what operational management systems are based on. As long as I really believe that there is potential for improvement and as long as I can convey credible methods of achieving it, this will inspire confidence and improve the chances of positive development. Tough demands can be motivating and rewarding too, and I know that our production today is better and more efficient than ever!”



Lars Danielson, manager of Volvo Cars’ Torslanda plant.

MOTIVATIONAL LEADERSHIP

Motivation and communication are two key words in Lars Danielson’s management style.

“As the manager, I have to gain the confidence of my employees. It takes real commitment and dialogue. The two things that drive me are continual improvement and motivating people to do their very best. Technical investments are very important in our sector, but people are what make the real difference.”



Volvo Cars extended its employee fitness allowance scheme in 2007.

Health and safety in focus

INVESTING IN A HEALTHIER WORKFORCE

Health and safety are high priorities at Volvo Cars. One important part of our investment in the health and wellbeing of our employees consists of activities for proactive and preventive healthcare. This work also includes rehabilitation of employees who have been on sick-leave and need support in getting back to work. Investing in this is entirely logical, because healthy employees generally enjoy a better quality of life all round.

In 2005, Volvo Cars set itself the target of reducing its employee sickness absence from 6.3 per cent of total working hours to five per cent by 2007. A number of measures were introduced to encourage preventive and proactive healthcare, with the aim of reducing injuries, illness and ultimately sickness absence levels. One of the changes in 2007 was the introduction of an allowance which employees can use for regular fitness sessions. Another improvement was that employees who are off sick now receive a personal phone call from a nurse, to give advice to speed their recovery. An improved process for reporting and following up sickness absence has also helped bring us closer to our target – sickness absence fell to 5.5 per cent in 2007, Volvo Cars' lowest level ever.

SAFETY LEADERSHIP INITIATIVE

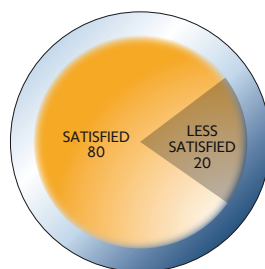
Systematic work throughout the company to reduce risks in the workplace has brought about a steady reduction in the number of work-related injuries and illnesses in production departments

over the past decade. The development and implementation of processes for reporting incidents and following them up reduces the risk of similar events recurring. In 2006 we introduced a safety leadership initiative, based on zero tolerance of behaviour and conditions which could be safety risks. There is a strong focus on everyday work to prevent accidents and injuries. Two central aspects are the involvement of management and the fact

that responsibility is taken at all levels. The new approach includes a reporting system which has been developed to provide clear information on the current safety situation and the progress of improvement work.

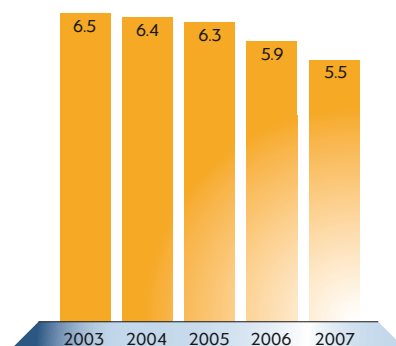
The number of work-related injuries resulting in at least one day's sick-leave per 100 man-years has continued to fall over the past year, from 1.9 in 2006 to 1.5 in 2007. This meant that Volvo Cars reached its goal for 2007.

There were four serious work-related injuries at Volvo Cars in 2007. Some involved bone fractures, for instance. All of the employees concerned have recovered and are now back at work.



EMPLOYEE SATISFACTION

The Employee Satisfaction Index (%) in 2007



HEALTH

Sickness absence as a proportion of total working hours (%)

THE VOLVO ATTITUDE SURVEY

Creating an attractive work environment is an important factor in recruiting and retaining employees, and in achieving good business results. Each year we conduct a comprehensive employee attitude survey, to find out about the current state of opinion and expectations. Doing so helps us to identify the strengths and weaknesses of all work-groups, and to gauge the effects of competence development, internal communication, corporate culture, work environment and other factors on employee satisfaction.

Derived from eleven key questions in the Volvo Attitude Survey, the Employee Satisfaction Index has been stable over the last few years. In 2007 it fell by one percentage point to 80 per cent. We continue to focus on our goal of achieving 100 per cent employee satisfaction.



Diversity is good for business

DIVERSITY IS EVERYTHING that makes us different as individuals – things like age, education, gender, sexual orientation, physical abilities and ethnic background.

Different perspectives and forms of experience increase creativity and the ability to innovate; a particular advantage in areas such as R&D, organisational development and sales and marketing. Other reasons for companies to work for better diversity include the importance of employee satisfaction, legal requirements and increased expectations from outside.

Volvo Cars strives for diversity among its employees, for greater competitive power and growth. Diversity is part of our company philosophy. We apply zero tolerance to discrimination and are working actively for an open culture in which differences are included and respected.

Successful diversity work calls for conscious leadership. Only when managers understand the challenges and opportunities of diversity can the issue be prioritised in the company and real value derived from employee diversity. As a result, much of the emphasis in our diversity work is on competence development and gaining the full support of managers at all levels.

FROM WORDS TO ACTION

In February 2007, the company management adopted a diversity action plan for 2007–2009. The chief focus in 2007 was on integrating the diversity perspective into existing processes, by means of activities and projects in fields like recruitment, product innovation and sales.

For better integration of diversity work in the company's operations, a Diversity Champion has been appointed for each business area in the company – twelve of them in all. These are em-

ployees who were already in key roles and management positions. They have had extra training to help them set the pace of diversity work in their particular fields.

A number of diversity pilot projects were completed in 2007. Key personnel in prioritised target groups and processes were given training on diversity issues.

Among these were our 20 personnel recruiters, who now have action plans and individual targets to help them improve diversity in recruitment. These individual targets are being followed up in 2008.

WOMEN TO LEADERSHIP

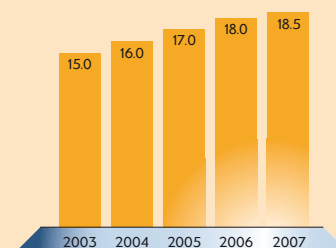
A number of activities have been initiated to increase the percentage of women in management. In Sweden, for instance, Volvo Cars is taking part in a mentoring programme called UKK (Unga Kvinnor Katalys), to encourage young women to apply for executive positions. In 2007, five women from various parts of the company were taking part in this programme.

SCHEME FOR SECONDARY SCHOOLS

In autumn 2007, Volvo Cars took part in a work-life mentorship programme for senior secondary school students organised by Intize at Chalmers University of Technology. A number of new managers acted as mentors to the students, as part of their management training. The primary aim of this mentorship is to broaden secondary students' horizons in terms of future courses and career options, but it is also a valuable and inspiring exercise for the mentors themselves. Volvo Cars' participation in the programme will be repeated in 2008.

ZERO TOLERANCE ON DISCRIMINATION

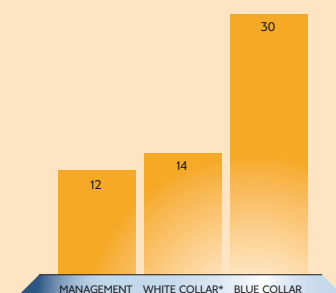
Volvo Cars' goal is to achieve zero discrimination by 2012. This corresponds to 100 per cent of employees reporting that they have perceived no discrimination in their workgroup. The figures from the 2007 Attitude Survey were 85 per cent for white-collar workers and 66 per cent for blue-collar employees.



WOMEN IN MANAGEMENT, VOLVO CARS
per cent

GENDER EQUALITY

The percentage of women in management positions has grown from 15 per cent in 2003 to just over 18 per cent in 2007. This makes the company goal of 25 per cent by the end of 2008 unlikely to be reached. Women make up around 23 per cent of the total workforce at Volvo Car Corporation.



EMPLOYEES OF FOREIGN ETHNIC ORIGIN, VCC SWEDEN
per cent *) excluding management

ETHNIC DIVERSITY

Volvo Cars strives for ethnic diversity in its workforce corresponding to that of the wider community. The company has achieved this with its workforce in Sweden, where the overall percentage of employees of foreign ethnic origin is higher than in the population at large. There is, however, still considerable variation from one employment category to the next.

Working with suppliers

OUR SUPPLIERS are very important to our business. Our ability to deliver to our customers and to meet our targets relies partly on their performance. Approximately 80 per cent (by value) of each car is procured from external sources. We have 440 suppliers producing components for our cars, and a further 4,000 delivering other products and services to us. For efficiency and consistency, Volvo Cars coordinates its purchasing with Ford Motor Company.

As part of being a responsible corporate citizen, we assist our suppliers in achieving the same standards of conscious leadership that we adhere to ourselves. This means achieving and maintaining high standards in areas such as working conditions, human rights, environment and anti-corruption measures. Volvo Cars has worked consistently on these standards for over five years, in the first instance with our direct suppliers.

GOOD WORKING CONDITIONS

A major proportion of our manufacturing components are sourced from low-cost nations, mainly in Eastern Europe, South East Asia and from China.

Volvo Cars' vision is that there shall be good working conditions and that human rights shall be respected. Bribery and corruption are totally unacceptable to Volvo Cars, regardless of whether such practices may be tolerated or condoned locally. Our business shall be conducted responsibly and sustainably.

Ensuring a safe workplace in which employees are treated with respect results in fewer work-related injuries and less sickness absence, higher quality and productivity, lower staff turnover and a better atmosphere in the workplace. When assessing existing or potential suppliers, we consider good working conditions to be an indicator of good corporate governance.

Volvo Cars works constantly to encourage good working conditions and ethical behaviour in all areas we are able to influence. Several steps taken in recent years illustrate how we share these responsibilities with our employees and suppliers.

CLEAR EXPECTATIONS

In 2003 a Code of Basic Working Conditions based

on the fundamental elements of internationally recognised labour standards was adopted.

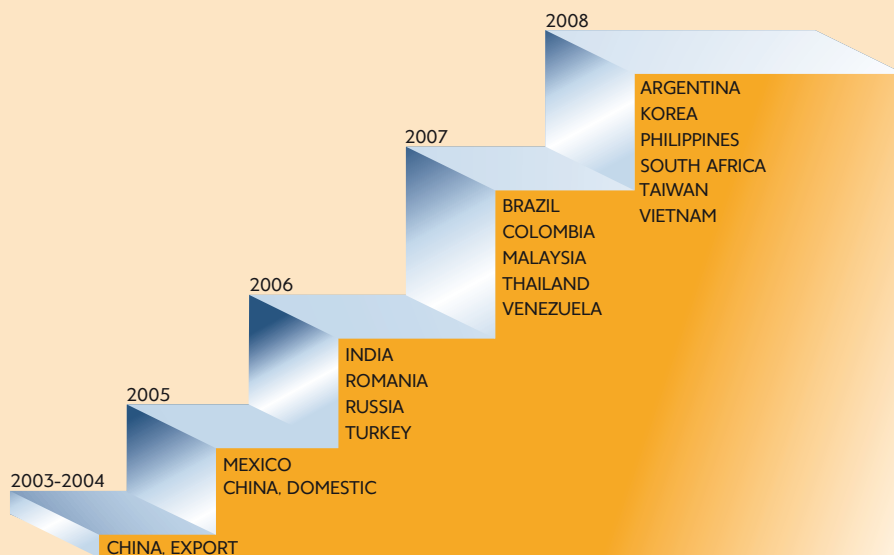
We communicate this code to our suppliers as part of Ford Motor Company's Global Terms and Conditions, and, as appropriate under local practice, we seek the support and assistance of unions and employee representatives in this effort.

To reinforce the Code of Basic Working Conditions, requirements were added to the Global Terms and Conditions which included explicit prohibitions on forced labour in any form, child labour, and engaging in physically abusive disciplinary practices.

These terms, added in 2004 for production suppliers and in 2005 for all others, provide a standard for our suppliers equal to that applied in our own production facilities.

We encourage business partners throughout our value chain to adopt and enforce similar policies. Within Ford Motor Company and Volvo Car Corporation there is an established protocol for whistle-blowers to file a report without fear of retaliation.





SUPPLIER TRAINING PROGRAMME

Through Ford Motor Company in 2004, we launched a comprehensive training programme on basic working conditions at our suppliers. Fundamental to this programme is the need to communicate how seriously we take sound supplier working conditions, combined with the need to clarify our expectations. Training is given in the relevant local languages, with input by experts in local laws and regulations. This is to ensure that the suppliers are made aware of the applicable laws and that instructions are provided correctly. The training programme is being rolled out, nation by nation, to first-tier suppliers. To date, some 90 per cent of Ford Motor Company suppliers in selected markets and over 1,500 managers have completed this training.

TRAINING AND ASSESSMENT

Once the Code of Basic Working Conditions was in place, over a hundred third-party assessments of existing and potential suppliers were carried out, to check compliance levels. The pilot assessments focused first on prospective export suppliers in China, then on existing suppliers in Mexico. Since then, the process has been developed and extended to other parts of the supplier chain. Over 800 assessments have so far been completed in selected markets.

We believe that the combination of training and third-party assessment is more effective than assessment alone in developing a shared vision of continual improvement. This is why – parallel to the training – the suppliers in each selected market are subject to random third-party audits of working conditions. These audits include interviews with management and workers, document reviews (payroll, medical, health and safety), and plant walk-throughs.

Any corrective action plans drawn up are followed up by the relevant regional purchasing offices.

The gap-analysis results have been especially positive with regard to child labour, forced labour,

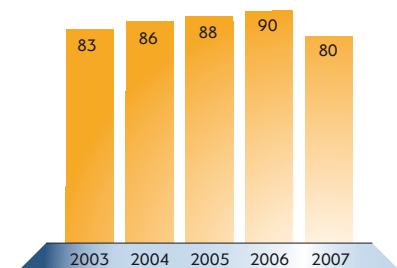
discrimination and freedom of association, while health and safety, wages and benefits and hours violations are receiving more attention in the corrective action plans.

To raise awareness of sustainable sourcing in our own purchasing department staff, in 2006 we developed our own internal web-based training programme. This is available to all staff and compulsory for those in certain key positions.

ENVIRONMENTAL MANAGEMENT SYSTEMS

Volvo Car Corporation imposes high standards on its suppliers in terms of quality, product development, cost-effectiveness, capacity and environmental criteria. All production-related suppliers must have independently-verified ISO 14001 environmental management certification.

Currently over 80 per cent of our production suppliers have introduced certified environmental management systems. Our earlier goal was for all of these suppliers to have gained certification by 2004. Suppliers which have not yet begun the certification process are subject to restrictions in terms of contract renewal and placement of new orders.



ENVIRONMENTAL MANAGEMENT, SUPPLIERS
Suppliers of production material with certification to ISO 14001 (%).

The percentage of production suppliers with ISO 14001 certification fell from 90 per cent in 2006 to 80 per cent in 2007. This change is due to a decrease in the total number of suppliers, altering the balance between suppliers with certification and without.

THE WORLD OF VOLVO CARS

VOLVO CAR CORPORATION

Volvo has grown to be one of the best-known premium car brands in the world. The core of our operation is based in Sweden, and we sell cars in over 100 countries. Working from our Brand Promise – “We design cars for a better life” – we aim to be the most attractive brand, with safety and environment as important core values. Our challenge is to improve our customer satisfaction even further – responsibly, and in keeping with our core values.

FORD MOTOR COMPANY

Volvo Car Corporation has been a wholly-owned subsidiary of Ford Motor Company since 1999. The Volvo brand name is the property of Volvo Trademark Holding AB, which is jointly owned by Volvo Car Corporation and AB Volvo (the Volvo Group). In 2007, Ford Motor Company announced that Volvo Cars was to be given a higher degree of autonomy. Ford Motor Company did not publish trading results for its individual brands in 2007. Information on Ford's Premier Automotive Group is available in the Annual Report at www.ford.com.



MANUFACTURING

A total of 461,108 Volvo cars were made in 2007, at the production plants in Gothenburg and Uddevalla (Sweden), Ghent (Belgium) and Chongqing (China), and in our CKD assembly plants in Malaysia and Thailand. Volvo Cars also has component manufacturing in Sweden – in Skövde (engines), Olofström (body components), and Flöby (connecting rods and brake discs).

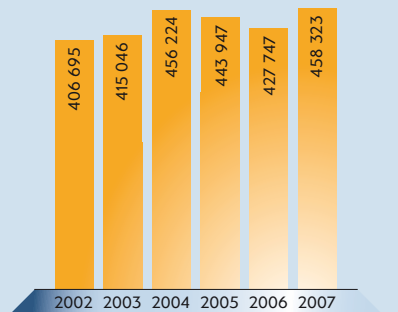


GROWTH MARKETS

The Volvo Cars markets* with the highest percentage growth in 2007 were Russia (95.1 % growth), China (73.2 %) and Turkey (48.9 %). In terms of actual units sold, Russia and Sweden revealed the highest increases, with growth by 10,274 units in Russia and 6,774 units in Sweden. *) markets with annual retail deliveries above 2,500 cars

MARKET SHARE

Approximately 0.7 per cent of the 69.3 million cars and light trucks*) sold worldwide in 2007 were Volvos. Volvo Cars is a relatively small car-maker in the global context, with a market share of one to two per cent in most of our key markets. One notable exception is Sweden, where Volvo has been the most popular brand of car for the last 50 years. About one car in every five sold in Sweden is a Volvo. *) 20.2 million of this total were classed as light trucks, which included SUVs.



RETAIL DELIVERIES, VOLVO CAR CORPORATION
total units

RETAIL DELIVERIES

Total retail deliveries for Volvo Cars in 2007 came to 458,323 vehicles. This was 6.7 per cent up on the previous year and a sales record – never before have so many Volvos been sold in a single year.

The Volvo Cars range comprises saloon models (S), estates (V), cross country and crossover models (XC), and coupés and convertibles (C).

NEW-MODEL LAUNCHES

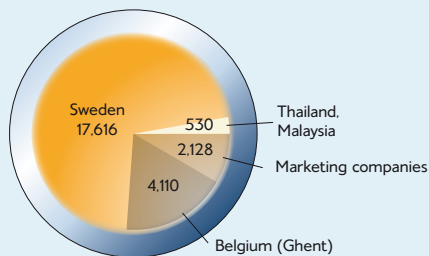
2007 brought the launch of the all-new Volvo V70 and Volvo XC70 at the Geneva Motor Show. Flexifuel versions of the Volvo S80 and the new V70 were also added to the range. First presented this year was the Volvo ReCharge Concept, a plug-in electric hybrid based on the Volvo C30.



SERVICE

Our customers have high expectations in terms of service levels and trouble-free motoring, which makes the service market one of our most important business areas.

There are 1,200 staff at Volvo Cars who work to ensure that our dealerships and service workshops have everything they need to keep our customers happy.



EMPLOYEE TOTALS, 2007

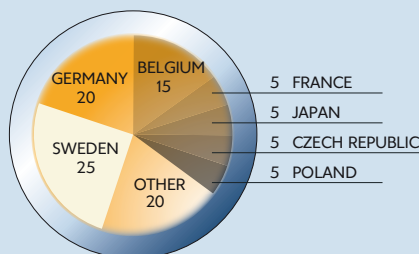
Volvo Car Corporation had a total of 24,384 employees as of 31 December 2007

Volvo was founded by Gustaf Larson and Assar Gabriellsson, an engineer and an accountant. The first production Volvo was built in Gothenburg in 1927. It was an open tourer called the Volvo ÖV4. The company has made over 14 million cars since then.



SUPPLIERS

About 20 per cent (by value) of the materials needed for each car are manufactured in our own facilities. The remaining 80 per cent are purchased from some 440 suppliers in 20 or so countries. Sweden, Germany and Belgium are the main source nations, together accounting for 60 per cent of our purchasing for production. Much of our purchasing is coordinated within Ford Motor Company, to minimise the number of different suppliers and to strengthen supplier relationships.



SUPPLIERS BY NATION

percentages sourced for production

NETWORK

Our company headquarters, product development, marketing and administrative functions are all located in Gothenburg, Sweden. Our sales are handled by some 2,400 retail partners in over 100 countries. Almost all of the dealerships are independent companies. Some 23,000 people are employed in Volvo Cars' global network of dealerships and service facilities.



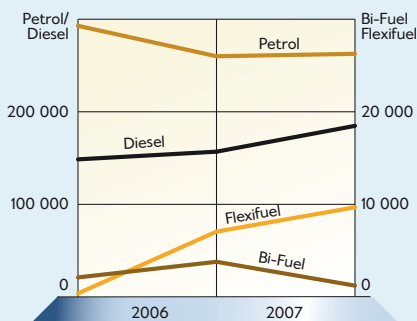
BESTSELLERS

Our top-selling model in 2007 was the Volvo XC90. Total retail deliveries of the XC90 came to 79,140 vehicles, most of which went to the USA (31,301 units). Second to top was the Volvo S40 at 63,062 units, followed by the Volvo V50 which sold 62,348 units.



VOLUME MARKETS

The USA was our biggest market in 2007, accounting for 23.2 per cent of total retail deliveries. Sweden was second (13.6 per cent), followed by Germany (7.1 per cent), the United Kingdom (6.5 per cent) and Russia (4.6 per cent).



RETAIL DELIVERIES BY FUEL TYPE
number of cars

THE VOLVO CARS MANAGEMENT TEAM

Fredrik Arp President & CEO
Steven Armstrong Chief Operating Officer
Olle Axelsson Senior Vice President, Public Affairs
Albie van Buel Senior Vice President, Purchasing (until March 2008)
Bernt Ejbyfeldt Senior Vice President, Purchasing (from March 2008)
Magnus Hellsten Senior Vice President, Manufacturing
Magnus Jonsson Senior Vice President, Research & Development
Gerry Keaney Senior Vice President, Marketing, Sales & Customer Service

Lex Kerssemakers Senior Vice President, Brand, Business & Product Strategy
Steve Mattin Senior Vice President, Design
Lena Olving Senior Vice President, Process & Operational Excellence
Stuart Rowley Senior Vice President, Finance
Björn Sällström Senior Vice President, Human Resources
Paul Welander Senior Vice President, Quality & Customer Satisfaction
Elisabet Wenzlaff Senior Vice President, General Counsel



Transparency and comparability

Volvo Car Corporation welcomes increased transparency and comparability in its corporate work on sustainable development. We give our explicit support to several important international initiatives, all of which are aimed at increasing the clarity of corporate sustainability work and sustainability reporting. Summarised below are three initiatives which provide frameworks and guidelines for appropriate and effective sustainability improvement work.

THE GLOBAL REPORTING INITIATIVE

The Global Reporting Initiative (GRI) is an independent institution which develops global guidelines for sustainability reporting. The guidelines are voluntary, and constantly being developed in

dialogue with stakeholders. By applying and living up to GRI's international standard for sustainability reporting, Volvo Car Corporation is able to ensure transparent reporting based on content which is important to our stakeholders. Following the GRI guidelines helps us to improve our transparency, clarity and comparability.

Launched in 2007 were the third-generation GRI guidelines (G3). Volvo Cars welcomes these more developed guidelines and has adapted its reporting to these. For 2007 we have elected to

report to GRI's B level, in order to be able to report to A level over the next two years.

For a GRI index and our complete GRI report, please visit our website:

www.volvocars.com/sustainability/GRI

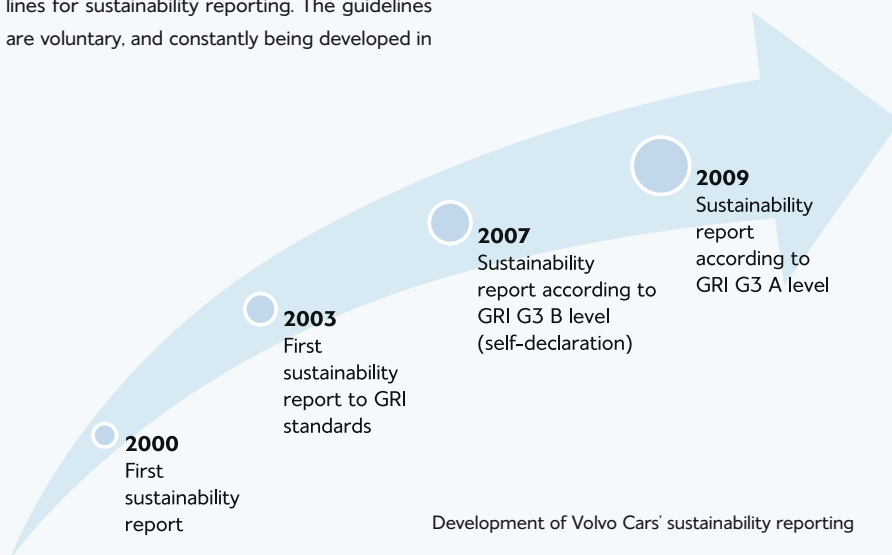


THE GLOBAL COMPACT

The Global Compact also sets standards for greater transparency in the form of its Communication on Progress (COP) reporting. Volvo Car Corporation was one of the first companies to sign the Global Compact, a UN initiative to provide support for companies in their work with issues like human rights, labour conditions, the environment and anti-corruption measures. Volvo Cars is also a member of the Global Compact Nordic Network, which meets regularly to share experiences and discuss the ten principles of the Global Compact. At the 2007 Nordic Network meeting, for instance, there were seminars on ways of developing work on climate change issues, initiated by Volvo Cars.

ISO 26000

Volvo Cars is taking part in the development of the ISO 26000 standard, as a representative of the industrial sector. The aim is to develop standardised guidelines for corporate social responsibility. ISO 26000 will be published in 2010.



Development of Volvo Cars' sustainability reporting



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SUSTAINABILITY REPORT 2007

This is the seventh report of its kind published by Volvo Car Corporation. Our aim is to cover issues which are important to our stakeholders, and also to us as a company. We welcome feedback and any questions you may have about this report. You can send them to citizen@volvocars.com.

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