THE VOLVO GROUP
ANNUAL REPORT 2011

VOLVO

A global group

Board of Directors' report

Financial information

Corporate Governance Report

TOGETHER WE MOVE THE WORLD

Without the products and services of the Volvo Group the societies where many of us live would not function. Like lifeblood, our trucks, buses, engines, construction equipment and aircraft components are involved in many of the functions that most of us rely on every day.

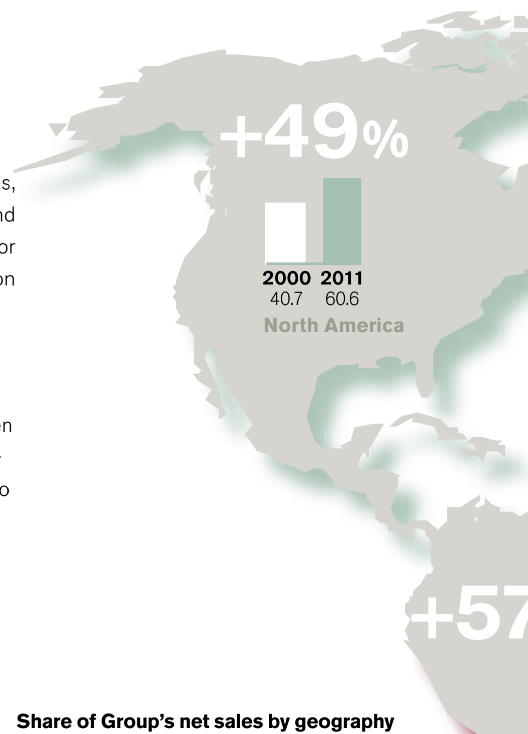
For instance, one in seven meals eaten in Europe reaches the consumers thanks to trucks from the Volvo Group rolling on the roads of the continent. Buses are the most common type of public transportation in the world, helping many people to reach work, school, vacations, friends and family. And if all the Volvo buses in the world were to start at the same time, they would transport more than 10 million people.

Every year, the population on earth produces billions of tons of garbage. In the US alone, the garbage removed by refuse trucks from the Volvo Group every week could form a line of full garbage cans that would reach the moon.

These are just a few examples. In this Annual Report, you can learn more about the Volvo Group – Together we move the world.

VOLVO GROUP

The Volvo Group is one of the world's leading manufacturers of trucks, buses, construction equipment, drive systems for marine and industrial applications and aerospace components. The Volvo Group also provides complete solutions for financing and service. The Group has about 100,000 employees, production facilities in 20 countries and sales in more than 190 markets.



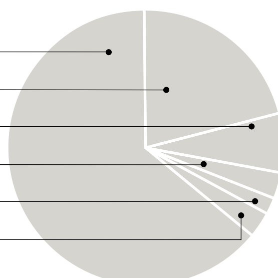
Global strength

Since the streamlining towards commercial vehicles was initiated more than ten years ago, the Volvo Group has grown into one of the world's largest manufacturers of heavy-duty trucks, buses and construction equipment and is today also a leading manufacturer of heavy-duty diesel engines, marine and industrial engines as well as engine components for the aerospace industry.

More information. » 10

Share of Group's net sales

Trucks	64%
Construction Equipment	21%
Buses	7%
Volvo Penta	3%
Volvo Aero	2%
Customer Finance	3%



Share of Group's net sales by geography

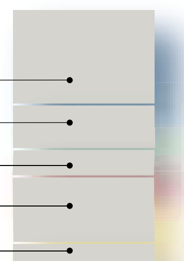
Europe, 39%

North America, 19%

South America, 11%

Asia, 24%

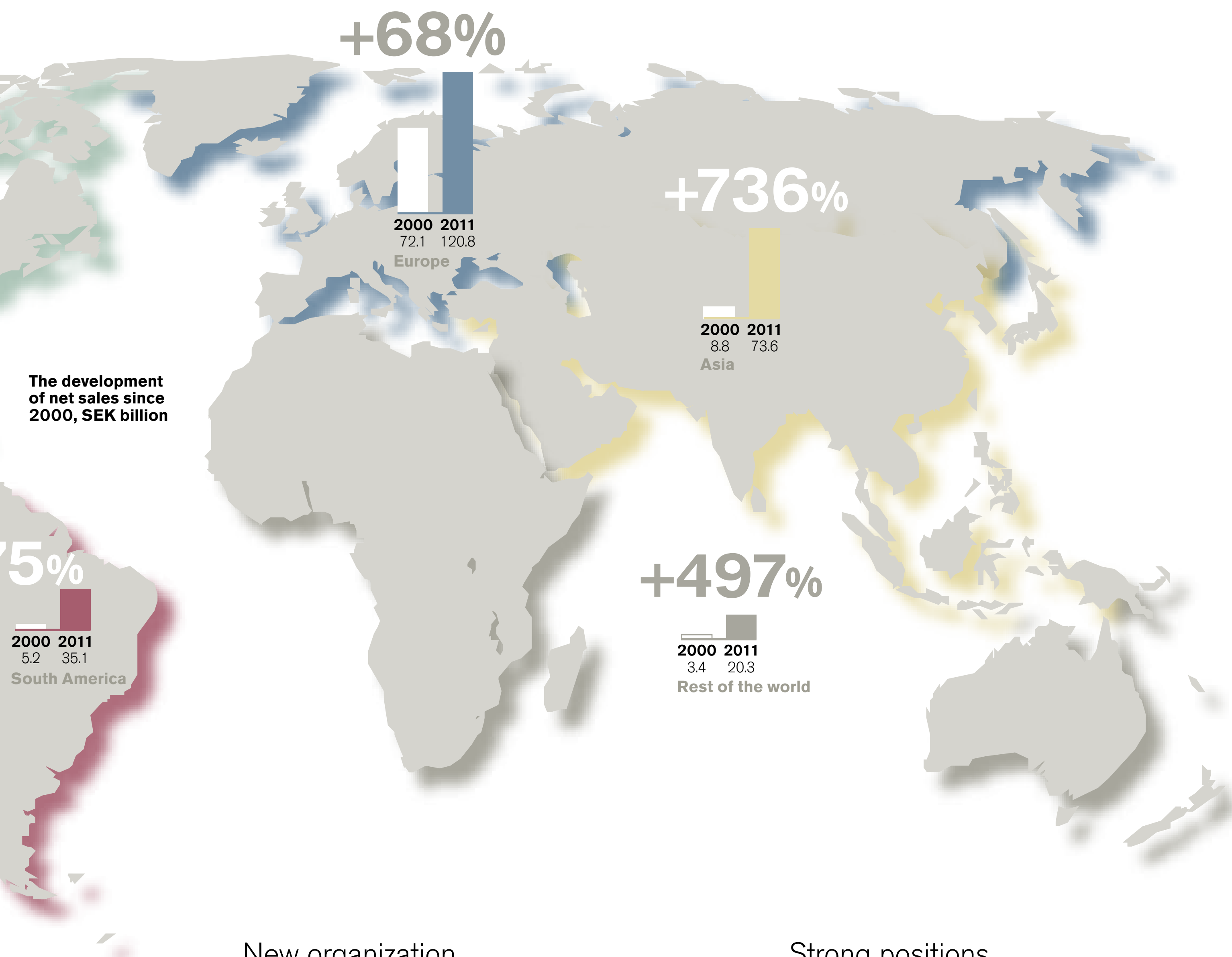
Rest of the world, 7%



Strong brands

By selling products under different brands, the Group can address many different customer and market segments in mature as well as growth markets.

More information. » 38



The development of net sales since 2000, SEK billion

New organization

As of 2012, the Volvo Group has implemented a new organization which better utilizes the global potential of the Groups's brands and products. For example, the sales and marketing of all of the truck companies will be organized in three regional organizational units, directly under the CEO.

More information. 8

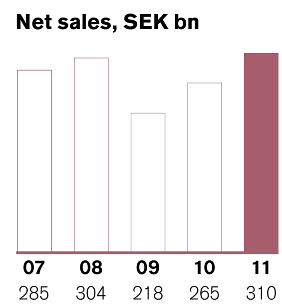
Strong positions

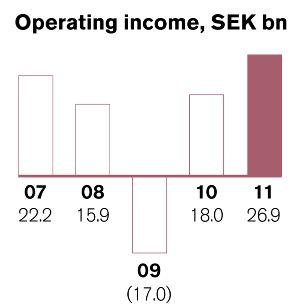
- One of the world's largest manufacturers of trucks.
- No. 3 in construction equipment.
- One of the world's largest manufacturers of heavy-duty diesel engines.
- Strong positions also in the other business areas.
- Good market presence globally.

THE VOLVO GROUP 2011

STRONG EARNINGS

- Highest net sales, operating income and operating margin thus far
- Net sales rose by 17% to **SEK 310.4 billion (264.7)**
- Operating income rose to **SEK 26.9 billion (18.0)**
- Operating margin improved to **8.7% (6.8)**
- Strong operating cash-flow in the Industrial Operations of **SEK 14.1 billion (19.0)**
- Net debt in the Industrial Operations reduced to **25.2%** of shareholders' equity
- Proposed dividend of **SEK 3.00** per share
- **Olof Persson** assumed the position of Group CEO





Key ratios	2011	2010
Net sales Volvo Group, SEK M	**310,367**	264,749
Operating income Volvo Group, SEK M	**26,899**	18,000
Operating income Industrial Operations, SEK M	**25,957**	17,834
Operating income Customer Finance, SEK M	**942**	167
Operating margin Volvo Group, %	**8.7**	6.8
Income after financial items, SEK M	**24,929**	15,514
Income for the period, SEK M	**18,115**	11,212
Diluted earnings per share, SEK	**8.75**	5.36
Dividend per share, SEK	**3.00**[1]	2.50
Return on shareholders' equity, %	**23.1**	16.0

1 According to the Board's proposal.

CEO COMMENT
BEST YEAR EVER

A record year. That is one way of summing up 2011. We put the best year ever under our belt and I can proudly state that all the hard work of the Volvo Group's employees to deliver the best products, services and after-sales service generated results.

For the full-year 2011, the Volvo Group generated the highest net sales, the best operating income and the highest operating margin to date. Net sales rose to SEK 310 billion (265), operating income improved to SEK 26.9 billion (18.0) and the operating margin was 8.7% (6.8). At the same time, return on operating capital in the Industrial Operations rose to 28.8% and return on shareholders' equity in the Group to 23.1%.

Success in many ways

Success can be measured in numerous ways; sales, orders received or market shares. In particular, I believe market shares provide a rapid and key indication of our customers' true opinions of our products and how we compare to the competition. Market shares comprise a clear acknowledgement that we are doing the right things.

Let me provide a couple of examples from the past year. It is worth noting that Renault Trucks maintained its market share in Europe despite weak demand in its historic strong markets in Southern Europe. The Volvo brand reaped great success and in the heavy-duty segment in Europe increased its market share to a record 16.0%. The European market weakened somewhat towards the end of the year but after that stabilized on the new, slightly lower level.

Market shares in North America also increased. In the U.S., Volvo and Mack had a combined 19.8% of the market for heavy-duty trucks. After a number of slow years, the situation is starting to appear very positive in North America where we have made breakthroughs with our own engines and transmissions, an unbeatable combination with a fuel-consumption that is praised by our customers.

In Brazil, our market share rose to 17.1% for heavy-duty trucks and, for the first time, Volvo is the leader at the top of the heavy-duty truck segment. In the short-term, the Brazilian market will be impacted by the transition to new emission standards that took place at the turn of the year, but we have a positive view on the long-term development in Brazil and the other markers in South America.

"We have now taken the first steps on a journey which will be full of challenges, but I am convinced that there is potential to increase sales and improve profitability over time."

Volvo Construction Equipment (Volvo CE) has also strengthened its positions in several growth markets worldwide. In China our brands Volvo and SDLG gained the position as market leader within wheel loaders and excavators. SDLG recently launched new models of excavators, so we have hopes that the success in this giant market will continue.

I would also like to mention our hybrid buses that are attracting an increasing amount of interest around the world.

Increased profitability

Good market conditions in the main and increasing market shares driven by competitive products translated into us delivering some 238,000 trucks during 2011 – an increase of 32% compared to the preceding year. Net sales in the truck operations surpassed SEK 200 billion and profitability improved to an operating margin of 9.1%.

Volvo CE increased its deliveries by almost 30% to the new record level of 84,000 machines. The year was intense with the launch of many new products and a continued expansion in growth markets. Despite a strong headwind from the weak dollar, Volvo CE delivered an operating income of SEK 6.7 billion and an operating margin of 10.2%.

From a historic perspective, Volvo Buses had a good year, both in terms of volumes and profitability. This was achieved by successful efforts to grow in emerging markets, which offset the continued weak markets in Europe and the U.S. Operating income increased to SEK 1 billion and operating margin improved to 4.6%, which is below the Group average but good when compared to competitors.

Volvo Penta was impacted by a continued weak market for marine engines and towards the end of the year also for industrial engines, but despite this, achieved an operating income of almost SEK 800 M with an operating margin of 8.8%.

For our Customer Finance Operations, the trend pointed in the right direction, with portfolio growth and lower credit losses.

Volvo Aero also had to struggle with a significant headwind from currency. Despite this, Volvo Aero's operating margin amounted to 5.2%.

During my predecessor Leif Johansson's 14 years as CEO, the Volvo Group established itself as one of the world's largest manufacturers of commercial vehicles with strong positions in mature markets and with an increasingly important presence in growth markets. As a step in further streamlining the Volvo Group towards commercial vehicles, during the year we initiated a process aimed at divesting Volvo Aero.

Financially strong Group

Driven by improved profitability and the good cash flow, the net financial debt in the industrial operation was down to 25% of shareholders' equity at year-end, which means that the Group is financially strong in an environment that in the beginning of 2012 is characterized by turmoil in the financial markets and uncertain macroeconomic trends.

The Board of Directors proposes a dividend of SEK 3.00 per share for 2011, up SEK 0.50 per share compared with the preceding year.

Reorganization to increase sales and profitability

We have a new vision – to become the world leader in sustainable transport solutions. We shall fulfill this by creating value for our customers and by pioneering the development in our industries. We have new financial targets, a new organization and a number of new management teams in place. On January 1, 2012, we introduced the new organization which was put in place to better capitalize on the global potential in our products and brands and to improve the Group's efficiency.

With the recent very positive trends in the Group's development, we are in a favorable position. However, this does not mean that everything will run on rails. A great deal of work remains. We have now taken the first steps on a journey which will be full of challenges, but I am convinced that there is potential to increase sales and improve profitability over time. This is a journey that I am very much looking forward to.

Olof Persson
President and CEO

VISION

VALUES →

WANTED POSITION

NEW

Our vision

The Volvo Group's vision is to become the world leader in sustainable transport solutions by:

- creating value for customers in selected segments
- pioneering products and services for the transport and infrastructure industries
- driving quality, safety and environmental care
- working with energy, passion and respect for the individual.

Our values

The Volvo Group views its corporate culture as a unique asset, since it is difficult for competitors to copy. By applying and strengthening the expertise and culture we have built up over the years, we can achieve our vision.

Quality, safety and environmental care are the values that form the Volvo Group's common base and are important components of our corporate culture. The values have a long tradition and permeate our organization, our products and our way of working. Our goal is to maintain a leading position in these areas.

Quality

Quality is an expression of our goal to offer reliable products and services. In all aspects of our operations, from product development and production to delivery and customer support, the focus shall be on customers' needs and expectations. Our goal is to meet or exceed their expectations. With a customer focus based on everyone's commitment and participation, our aim is to be number one in customer satisfaction. This is based on a culture in which all employees are responsive and aware of what must be accomplished to be the best business partner.

Safety

Safety pertains to how our products are used in society. We have had a leading position in issues regarding safety for a long time; our goal is to maintain this position. A focus on safety is an integral part of our product development work. Our employees are highly aware of safety issues, and the knowledge gained from our internal crash investigations is applied in product development. Our goal is to reduce the risk of accidents and mitigate the consequences of any accidents that may occur as well as to improve the personal safety and the work environment of the drivers of our vehicles and equipment. Our long-term vision is zero accidents.

Environmental care

We believe that it is self-evident that our products and our operations shall have the lowest possible adverse impact on the environment. We are working to further improve energy efficiency and to reduce emissions in all aspects of our business, with particular focus on the use of our products. Our goal is for the Volvo Group to be ranked as a leader in environmental care within our industry. To achieve this goal, we strive for a holistic view, continuous improvement, technical development and efficient resource utilization.

NEW

Volvo Group wanted position 2020

We are among the most profitable in our industry

We are our customers' closest business partners

We have captured profitable growth opportunities

We are proven innovators of energy-efficient transport solutions

We are a global team of high performing people

FINANCIAL TARGETS UNTIL 2011

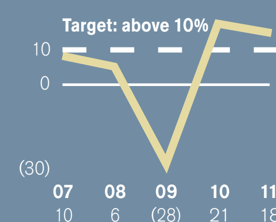
The Volvo Group's previous financial goals were established by the Board in September 2006. The Board focused on three goals comprising growth, operating margin and capital structure for the Group's Industrial Operations.

Financial goals for Industrial Operations

1

Growth
The growth target was that net sales should increase by a minimum of 10% annually. During 2007–2011, the average growth rate was 2.1% annually.

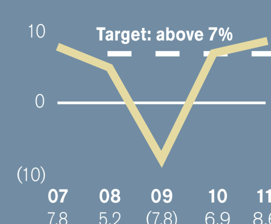
Net sales growth, %



2

Operating margin
The Volvo Group's profitability target was that operating margin for the Industrial operations was to exceed an average of 7% annually over a business cycle. The average annual operating margin for the Volvo Group's Industrial Operations was 4.1% from 2007 to 2011.

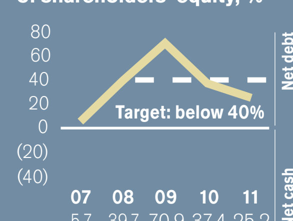
Operating margin, %



3

Capital structure
The capital structure target is set to a net debt including provisions for post-employment benefits for the Industrial operations of a maximum of 40% of shareholders' equity under normal conditions. As of December 31, 2011, the Volvo Group's Industrial operations had a net financial debt position corresponding to 25.2% of shareholders' equity.

Net financial debt as percentage of shareholders' equity, %

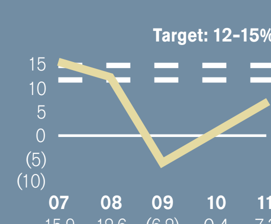


Financial goals for Customer Finance Operations

4

The target for Customer Finance is a return on shareholders' equity of 12–15% and an equity ratio above 8%. The average annual return on shareholders' equity for 2007–2011 amounted to 6%. At year end 2011 the equity ratio was 9.1%.

Return on shareholders' equity, %



NEW TARGETS FROM 2012

In September 2011 the Board of Directors of AB Volvo decided to implement new financial targets for the Volvo Group starting in 2012. The new targets have been set in order to enable the growth and profitability of the various operations to be measured and benchmarked annually against competitors.

The targets are followed up annually

- The annual organic sales growth for the truck, bus and construction equipment operations, as well as Volvo Penta, shall be equal to or exceed a weighted-average for comparable competitors.
- Each year, the operating margin for the truck, bus and construction equipment operations, as well as Volvo Penta, shall be ranked among the top two companies when benchmarked against relevant competitors.
- For Customer Finance Operations, the existing targets of 12–15% return of equity (ROE) and an equity ratio exceeding 8% stand firm.
- Volvo Aero has an ROE target of 15–25%. When calculating the ROE, Volvo Aero will be assigned the same equity ratio as that for the Group's Industrial Operations.
- The capital structure target is set to a net debt, including provisions for post-employment benefits, for the Industrial Operations of a maximum of 40% of shareholders' equity under normal conditions.

"Following the Group's successful geographic and volume expansion, we have the prerequisites in place to compete successfully in our various product segments and it is with this in mind that the Board has now decided to introduce new financial targets."

Transparent comparison with competitors

Volvo's financial targets have included a focus on growth since the end of the 1990s and the Board of Directors expects growth to remain important in the future, but is now adding a continuous benchmarking of the growth and profitability of the various operations against a number of selected competitors.

To facilitate comparisons, the truck operations will be measured jointly with the bus operations and the construction equipment operations will be measured jointly with Volvo Penta. In 2012, the comparisons will be made in accordance with the table below:

Trucks and buses	Volvo CE and Volvo Penta
Daimler	Brunswick
Iveco	CAT
MAN	CNH
Navistar	Cummins
Paccar	Deere
Scania	Hitachi
Sinotruk	Komatsu
	Terex

VOLVO GROUP
NEW ORGANIZATION

The Volvo Group has a new organization which better utilizes the global potential of the brands and products within the truck operations. For example, the sales and marketing of all of the truck companies is organized in three regional organizational units, directly under the CEO.

In the same manner, all product development and production of trucks and engines are placed in two new central organizational units under the CEO. The new organization was presented on October 4, 2011 and was set in place on January 1, 2012.

Background to the change

The Volvo Group has grown significantly since the end of the 1990s when the realignment toward commercial vehicles began, and today the Group is one of the world's largest actors in heavy trucks, construction equipment, buses and heavy diesel engines. The past ten years have been characterized by major acquisitions and efforts to integrate the acquired companies and create economies of scale. However, companies are never done and the reorganization now taking place is a natural next step for becoming even better at assimilating the full potential of our brands and the benefits of being a large global player; we will acquire a clearer focus on our customers and their needs. Going forward we need an organization that supports us in fulfilling our financial targets and our new vision: to become the world leader in sustainable transport solutions.

Aim of the new organization

The new Volvo Group organization aims to create an even more competitive company by:

- increased customer focus
- strengthening the brands
- clearer responsibilities and mandates
- a more agile organization
- speed in execution of strategies and decisions
- improved efficiency.

New organization FAQ

1. What will the new organization bring that is so much better?

Governance will become clearer and more efficient with a clearer focus on brands and customers. Branded companies in the truck business previously operated as both independent units and part of a wider Group structure. The branded companies' operations, product planning, product development and manufacturing are now coordinated centrally, directly under the CEO, with a clear division of responsibilities and minimum overlaps.

2. What happens to Volvo Trucks, Renault Trucks, Mack and UD Trucks?

Sales and marketing of all of the truck companies is organized in three regional organizational units. Group Trucks Sales and Marketing Americas (comprising all of North and South America) with global responsibility for the Mack brand, under the leadership of Dennis Slagle. Group Trucks Sales and Marketing EMEA (comprising Europe, the Middle East and Africa) with global responsibility for the Volvo and Renault brands, under the leadership of Peter Karlsten. Group Trucks Sales & Marketing APAC (comprising Asia and Pacific) with global responsibility for the UD Trucks brand, UD, under the leadership of Joachim Rosenberg. All product development and production of trucks and engines is organized in two new central units: Group Trucks Technology and Group Trucks Operations. There are no changes to the financial external reporting – truck companies report their earnings combined as previously.

3. What happens with Volvo CE?

The organization remains intact. The Head of Volvo CE, Pat Olney, continues to report directly to the CEO, Olof Persson. With respect to financial external reporting, there is no change – the business areas report their results as in the past.

4. What happens with Volvo Buses, Volvo Penta and Volvo Aero?

The companies are organized under Business Areas, headed by Håkan Karlsson. Per Carlsson has assumed the position as new Head of Volvo Buses. Göran Gummeson remains Head of Volvo Penta until April 1, 2012 when he is succeeded by Björn Ingemansson, but he no longer reports directly to the CEO. Staffan Zachrisson remains Head of Volvo Aero but does not any longer report directly to the CEO. With respect to financial external reporting, there is no change – the business areas report their results as in the past.

5. What happens with Volvo Financial Services?

The company is organized under Finance and Business Support headed by the new CFO Anders Osberg. Martin Weissburg continues to head Volvo Financial Services but does not any longer report directly to the CEO. With respect to financial external reporting, there is no change – the business areas report their results as in the past.

6. What happens with the different business units?

Production is organized under Group Trucks Operations headed by Mikael Bratt, while product development is under Group Trucks Technology headed by Torbjörn Holmström. Volvo Parts has been divided into various units based on their specific operations. The logistics portion of Parts, as well as Remanufacturing, falls under Group Trucks Operations. Purchasing is organized under Group Trucks Technology, where all other purchasing activities are collected.

Volvo Logistics falls under Group Operations, where all logistics are handled.

Volvo Business Services, Volvo IT and Volvo Group Real Estate are organized under Finance and Business Support.

Volvo Technology and Non-automotive Purchasing (NAP) are organized under Group Trucks Technology.

GLOBAL STRENGTH
IN A CHANGING WORLD

Since the streamlining towards commercial vehicles was initiated more than ten years ago, the Volvo Group has grown into one of the world's largest manufacturers of heavy-duty trucks, buses and construction equipment and is today also a leading manufacturer of heavy-duty diesel engines, marine and industrial engines as well as engine components for the aerospace industry.

During this time, a number of acquisitions have been made, which have brought economies of scale and increased geographical reach.

Volvo Group has during this time also successfully established itself outside its historical markets of Europe and North America and gained a strong foothold in the growing markets of Eastern Europe, South America and Asia. During 2011, the markets outside of Western Europe and North America accounted for for 49% of the Industrial Operations' total sales, compared to 17% in 2000.

On the following pages there is more information about the development on important markets and on some of the Volvo Group's investments and successes on them.

Long-term growth

The recovery that started in the Group's mature markets in 2010 continued in Western Europe and North America during 2011, with some tendencies towards a weakening in Europe towards the end of the year. Overall, demand in the Group's growth markets continued its strong development, but also here demand weakened somewhat towards the end of the year.

In the long-term, demand for freight capacity, and thus many of the Group's products, is closely linked to the GDP trend. The extent of investment in infrastructure, which drives demand for building and construction equipment, is also closely linked to the GDP trend. In the somewhat shorter-term, demand is affected by a number of factors including fuel prices, the implementation of new emission regulations, interest rates, etc.

The Volvo Group's acquisitions and divestments

1998
Acquisition of the excavator operations of Samsung Heavy Industries.

1999
Sale of Volvo Cars to Ford.

2001
Acquisition of the truck manufacturers Mack and Renault VI.

2003
Acquisition of Bilia's European truck and construction equipment dealers.

2004
Sale of axle-manufacturing operations to ArvinMeritor.

2004
Acquisition of remaining 50% of the Canadian bus manufacturer Prévost.

Strong positions

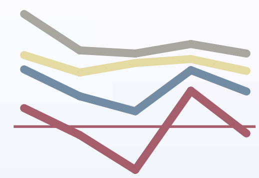
- One of the world's largest manufacturers of trucks.
- No. 3 in construction equipment.
- One of the world's largest manufacturers of heavy-duty diesel engines.
- Strong positions also in the other business areas.
- Good market presence globally.

Economic growth in the U.S., Europe and Brazil
Annual GDP-growth, %

Source: Consensus Economics

	07	08	09	10	11
Brazil	6.1	5.2	(0.3)	7.5	2.9
EU	3.1	0.6	(4.1)	1.9	1.6
USA	1.9	(0.3)	(3.5)	3.0	1.7

Economic growth in Asia, %
Annual GDP-growth, %



Source: Consensus Economics

	07	08	09	10	11
China	14.2	9.6	9.2	10.4	9.2
India	9.0	6.8	8.0	8.5	7.0
Asia/Pacific*	7.2	3.8	1.9	7.1	4.4
Japan	2.3	(1.1)	(5.5)	4.5	(0.9)

* China, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, Singapore, Thailand, Phillippines, Vietnam, Australia, New Zealand, India, Japan, Sri Lanka

According to Consensus Economics, global GDP grew by 2.9% during 2011 compared with 4.3% in 2010. GDP in the EU grew by 1.6% (1.9%), in the US by 1.7% (3.0%). Japan's GDP fell by 0.9% after having risen by 4.5% in 2010. Growth in countries such as Brazil, India and China was dampened compared to the high levels of 2010. For 2012, global GDP is expected to grow by 2.6%. The fast-growing economies primarily in Asia and Latin America continue to be the primary growth engines.

GROWTH

2005
Sale of the service company Celero Support.

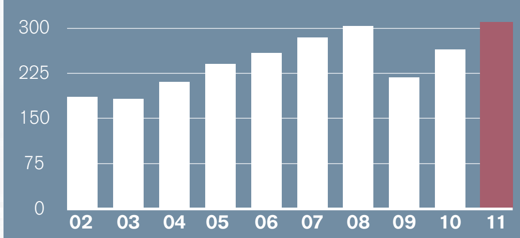
2006
Acquisition of Japanese Nissan Diesel (Now UD Trucks). Completed in 2007.

2007
Acquisition of Chinese wheel loader manufacturer Lingong.

2007
Acquisition of Ingersoll Rand's road development division.

2008
Joint venture with Eicher Motors of India within trucks and buses.

Volvo Group net sales, SEK bn



DEVELOPMENT BY CONTINENT

EUROPE – THE LARGEST MARKET

During 2011, the European market accounted for SEK 121 billion, corresponding to 39%, of Group net sales. Europe is the historical home market for both Volvo and Renault Trucks. In Europe, the Group has a considerable industrial structure with a relatively large share of its manufacturing and sizeable exports.

Growing markets

In 2011 the heavy-duty truck market in Europe 29 (EU's 27 member states, Norway and Switzerland) increased by 35% to 242,400 trucks compared to 179,200 in the preceding year. In 2012, the total market for heavy-duty trucks in Europe 29 is expected to experience a moderate decline to a level of about 220,000 trucks. The start of the year is expected to be slow with a gradual pick-up in demand as customers start to renew their fleets ahead of the new emission regulation in 2014.

The construction equipment market increased substantially in 2011 compared to the weak 2010. When measured in number of units, the total market increased by 31%. Despite the strong increase, the market is far from the record levels of 2007. The European market for construction equipment is expected to grow by 10–20% during 2012.

The European bus market was weak during the year with fierce competition. Demand for marine engines was characterized by a wait-and-see approach among boat buyers and the development was augmented by the global turmoil in financial markets. The financial concern also impacted the market for industrial engines, where demand declined from high levels.

Increased market shares in Europe

The Group's truck business gained market share in many markets during the year. In Europe 29 the Group's combined market share increased to 26.3% (24.4), primarily driven by the Volvo brand.

New city bus given global premiere

At the end of October, Volvo Buses' new city bus, the Volvo 7900, was given its world premiere, when it was presented at the large international bus fair, Busworld, in Kortrijk in Belgium. Busworld is a large and important fair for the bus industry and attracts visitors from all over the world. The Volvo 7900 is a lowfloor bus that has been designed to be lighter, more fuel efficient and to take more passengers.

At the fair Volvo Buses also presented its hybrid version of the Volvo 7900. The already very low fuel consumption in Volvo's hybrid bus will be even lower. Fuel consumption will be up to 37% lower than a diesel bus, compared with up to 35% in current hybrid buses.

However, the hybrid version is only one of the options with respect to the new Volvo 7900. The bus is offered with engines for diesel/biodiesel and natural gas/biogas. It is available as 12-meter bus or 18-meter articulated bus.

Environmentally-adapted products

In May, Volvo Trucks launched the new Volvo FM Methane-Diesel truck, a gas-powered truck for long-haul operations enhancing its focus on alternative fuels. This truck can be powered by up to 75% gas and if run on biogas, emissions of carbon dioxide from fossil fuel could be cut by up to 70% compared with a conventional diesel engine.

Bus that lowers fuel consumption by as much as

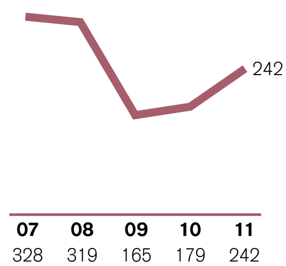
37%

The world's most powerful hybrid truck was launched by Volvo Trucks in the first quarter. The Volvo FE Hybrid, the first parallel hybrid from Volvo Trucks, uses techniques able to reduce fuel consumption and carbon dioxide emissions by up to 20%, and it makes the truck much more silent. This is a very competitive solution for heavy distribution and waste disposal in urban areas.

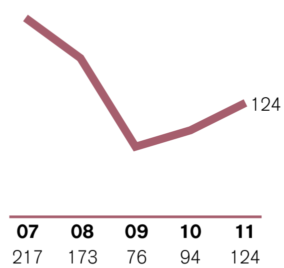
Renault Truck has delivered the first serial Renault Premium Distribution hybrid truck (Hybrys Tech). Renault Trucks also continued to extend its offering of fully-electric vehicles, and in October a fully-electric 16-ton Renault Midlum was delivered to the French retail chain Carrefour. The truck is to be used for deliveries to supermarkets in downtown Lyon, France. Renault Trucks also launched a system called Optiroll for the Renault Premium Route Optifuel truck. Optiroll reduces fuel consumption even further.

Volvo has taken the lead in introducing environmentally friendly Tier 4 Interim/Stage IIIB-compliant products in North America and Europe, with the successful launch of complete new generations of machines affected by the legislation. The company's new V-ACT engine systems have the hallmarks of lower emissions, better performance, improved operational economy and higher quality. As well as advanced engine monitoring and control, the new Volvo system uses an advanced exhaust after-treatment system that reduces particulate matter by 90% compared to the previous machine series.

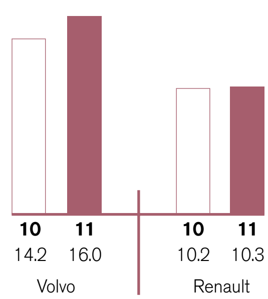
Market development, heavy-duty trucks, Europe
Thousands



Market development, construction equipment, Europe
Thousands



Market shares in Europe, heavy-duty trucks %



VOLVO FM METHANEDIESEL

Volvo Group in Europe

- **Net sales:** SEK 120,828 M (102,947)
- **Share of Group sales:** 39%
- **Number of employees:** 55,121
- **Share of Group employees:** 56%
- **Largest markets:** France, Sweden, Great Britain, Germany and Russia.

FOCUS
RUSSIA

After a considerable drop in connection with the financial crisis, the Russian market has recovered.

Russia back on the growth track

During 2011, the total market for trucks over 12 tons was approximately 106,200 vehicles in Russia, considerably more than the 61,500 that were sold during 2010 and a vast increase compared to the bottom in 2009 when the total market amounted to 37,100 trucks.

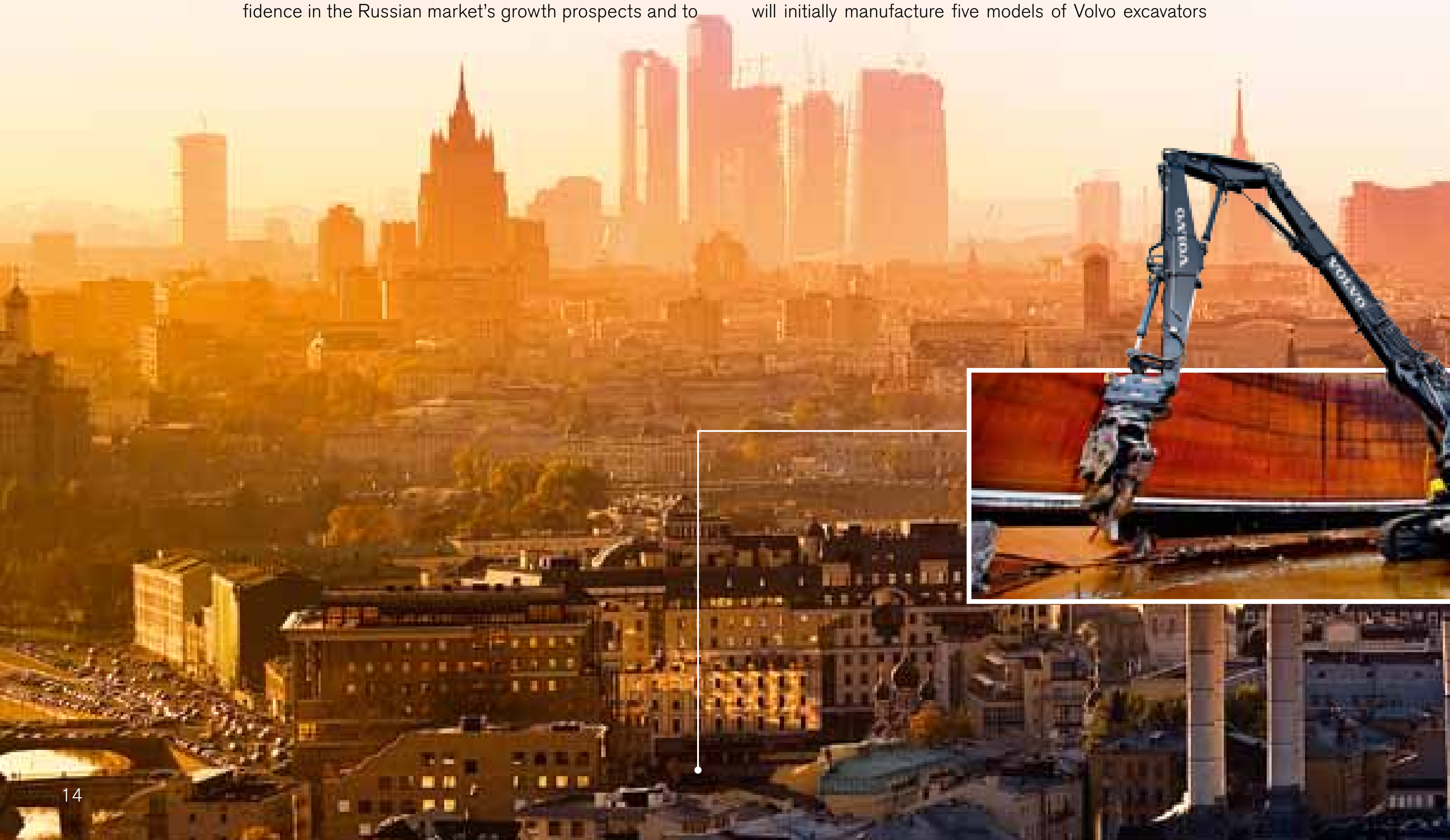
Volvo is the biggest imported brand in Russia with a total population of more than 55,000 heavy-duty trucks in the country. A population that has been built-up during a long period of time. The population of Renault trucks is approximately 20,000 heavy-duty trucks. During 2011, Volvo delivered 5,300 trucks (2,800) and Renault trucks delivered 1,300 trucks (800) in Russia.

In January 2009, the Group opened a factory for the assembly of trucks in Kaluga, approximately 200 kilometers south of the capital Moscow. A long-term confidence in the Russian market's growth prospects and to come inside the duties and fees that apply to imported trucks were important reasons for the establishment. There are a number of other foreign truck and auto makers established in Kaluga. At maximum capacity, the plant in Kaluga can assemble 10,000 Volvo and 5,000 Renault trucks annually. In 2011, 3,800 Volvo and 1,400 Renault trucks were manufactured in the plant.

Volvo Construction Equipment invests in Russia

Volvo Construction Equipment will invest SEK 350 M to build a 20,660 m^2 excavator plant in Kaluga, Russia, highlighting the company's continued commitment to the Russian market.

The new factory is part of the on-going expansion in developing markets. The plant will be built on the 15 hectares of land that Volvo acquired in 2007. The Kaluga plant will initially manufacture five models of Volvo excavators

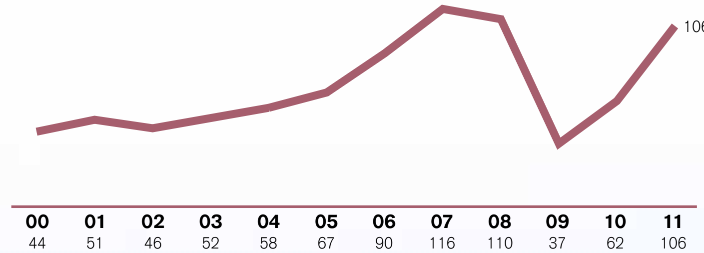


including the Volvo EC210, EC240, EC290, EC360 and EC460, with production planned to begin in the first quarter of 2013.

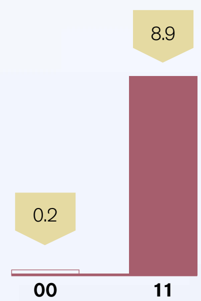
"The new investment in Russia is part of our strategy to build machines where they are sold and thanks to a strong partnership with our Russian dealer, Ferronordic, our customer base is growing significantly in the country," says Head of Volvo Construction Equipment, Pat Olney.

At the same time, the distributor Ferronordic Machines is implementing substantial investments in the distribution network in the vast country. Ferronordic Machines plans to invest in the region of EUR 100 M in the expansion of its regional distribution network and will open as many as 60 new branches in the country by the end of 2015. This will provide for a presence in all of Russia – from the Baltic Sea to the Pacific Ocean.

The market for trucks over 12 tons in Russia
No. of trucks, thousands



Volvo Group net sales in Russia, SEK bn



141.8 million inhabitants

Volvo Group in Russia

- **Number of employees:** 1,644
- **Production:** Truck factory in Kaluga. Excavator factory under construction in the same city
- **Net sales:** SEK 8,895 M, 3% of Group sales
- Volvo – the largest fleet of Western trucks consisting of more than 55,000 vehicles

Russia

- **Area:** 17,075,000 km² (the largest country in the world)
- **Population:** 141.8 million
- **Capital:** Moscow with 10.2 million inhabitants (2008)
- **Other big cities:** St Petersburg (4.6), Novosibirisk (1.4), Jekaterinburg (1.3), Nizjnij Novogorod (1.3)
- **GDP per capita:** USD 10,522 (2010)

DEVELOPMENT BY CONTINENT

SUCCESS IN NORTH AMERICA

North America is the Group's third largest market and its overall development was very positive in 2011.

Growing truck market

In 2011, the total market for heavy-duty trucks in North America increased by 52% to 216,100 trucks compared to 142,100 in the previous year. Demand was strong throughout the year, driven primarily by the need to replace the industry's aging highway tractor population. In 2012, the total market for heavy-duty trucks in North America is expected to grow to a level of about 250,000 trucks.

Following a number of years with weak market conditions, the market for construction equipment rose by 37% in 2011 compared to 2010. For 2012, the market is expected to grow by 15–25% compared to 2011.

The North American market for city buses declined due to the budget cuts still in effect in many cities. The coach market was also weak.

Increased market shares thanks to good products

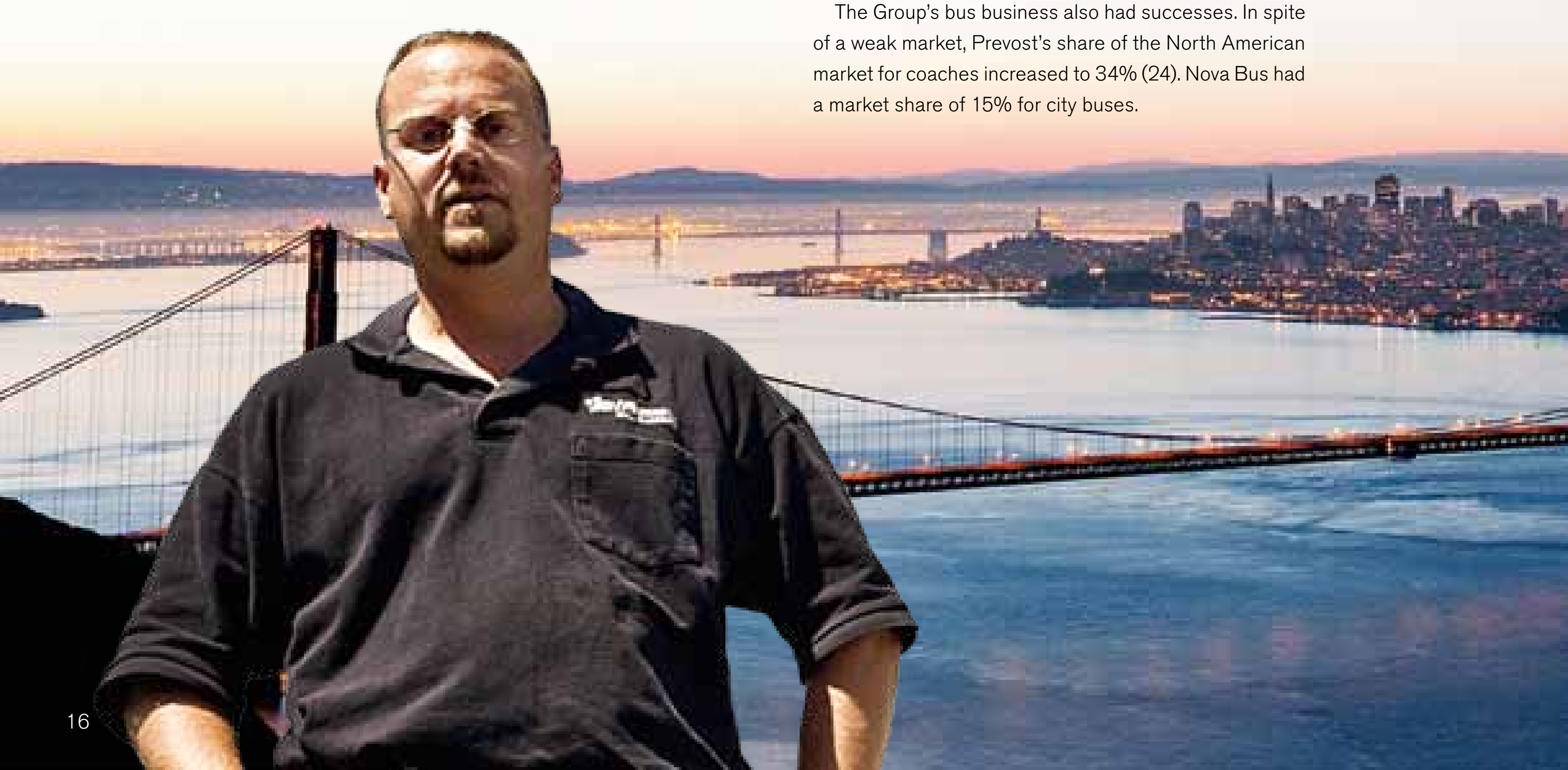
During 2011, Volvo Group captured market shares in North America. In the U.S. the Group's combined market share in the heavy-duty segment rose from 18.0% in 2010 to 19.8% in 2011. The increased market share is the result of a competitive customer offering of trucks equipped with engines that provide considerable fuel savings.

The new generations of engines that comply with the EPA 2010 emission standards combined with the Group's automated mechanical transmissions, the I-shift of Volvo Trucks and the Mack mDRIVE, provide for fuel savings of up to 5% compared to the previous generations of engines. The driveline package also has better driveability, less wear and improved safety.

At the annual Mid-America Trucking Show in Louisville, Kentucky, both Mack and Volvo Trucks furthermore introduced trucks with new aerodynamic and powertrain features which, when combined with the improvements already achieved through the use of SCR technology, deliver fuel efficiency gains of 8-12% over previous generations of trucks.

The new and improved drivelines has meant that an increasing number of customers opt for Volvo Group engines. During 2011, 79% of Volvo trucks built in North America were equipped with Volvo engines. Mack Trucks are solely equipped with the Group's Mack engines.

The Group's bus business also had successes. In spite of a weak market, Prevost's share of the North American market for coaches increased to 34% (24). Nova Bus had a market share of 15% for city buses.



Volvo Group's market share in the heavy-duty segment increased from 18.0% in 2010 to

19.8% in 2011

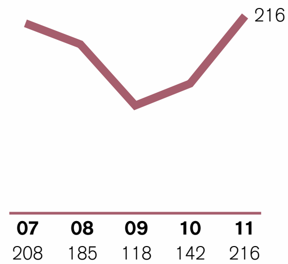
I-shift to be produced in the U.S.

As a result of the strong demand for the Group's automated mechanical transmissions, the company in June announced that production of the Volvo I-Shift and Mack mDRIVE gearboxes will start at its U.S. engine plant in the third quarter of 2012.

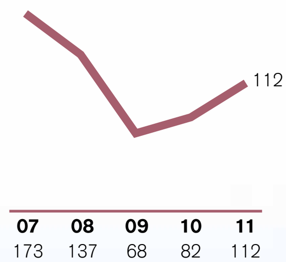
Volvo Trucks introduced its I-Shift transmission on the North American market in 2007. During 2011, 45% of trucks with Volvo engines in North America were equipped with I-Shift and customers continue to report significant fuel economy improvements with the auto-shift transmission. Since I-Shift is only available together with Volvo engines, this also helps promote sales of the company's own engines. I-Shift incorporates a host of fuel-saving and productivity-enhancing features into a reliable, durable, and lightweight design.

The transmission is currently assembled in Köping, Sweden, and then sent to the US production plant in Hagerstown, Maryland for adaptation to North American market requirements. The company is now investing USD 7 M in Hagerstown to build a new assembly line, install new equipment and tooling, and train its employees. The new assembly line is primarily intended to supply the North American market.

Market development, heavy-duty trucks, North America
Thousands



Market development, construction equipment, North America
Thousands

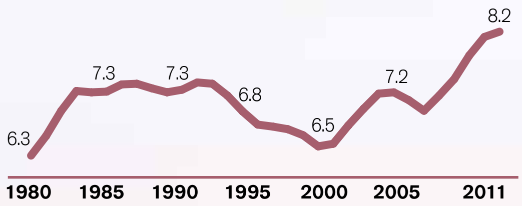


I-SHIFT

Volvo Group in North America

- **Net sales:** SEK 60,560 M (47,922)
- **Share of Group sales:** 19%
- **Number of employees:** 15,427
- **Share of Group employees:** 16%
- **Largest markets:** USA, Canada and Mexico.

Average truck age, years



Old trucks create replacement demand

One of the effects of the relatively weak North American market for heavy-duty trucks during 2007 to 2010 is that the truck fleet has become increasingly old. Generally, older trucks bring with them an increased need for service and repairs and thus increased costs for truckers. In spite of the investment a new truck entails, in many cases it is more profitable to buy a new truck to lower the total cost of ownership. Against the background of a truck fleet that is at its oldest in many years, there is a need to replace old trucks with new ones at many haulers.

Volvo CE invests in North America

Over the next couple of years, Volvo Construction Equipment (Volvo CE) plans to spend USD 100 M in its Shippensburg, Pennsylvania, USA manufacturing facility and start production of Volvo wheel loaders, excavators and articulated haulers in North America. Also, the Volvo CE North American sales headquarters and Volvo Rents will relocate from Asheville, North Carolina to Shippensburg, by September 2012.

It makes sense, when possible, to manufacture products close to where the customers are. Producing Volvo wheel loaders, articulated haulers and excavators in Shippensburg will result in shorter lead times for customers. Volvo CE will work closely with local suppliers to increase the North American content of the products, which will reduce the exposure to exchange rate fluctuations.

A new Customer and Demonstration Center will be built in Shippensburg. In addition, Volvo CE will put up a new office building on the campus to house its Regional Sales Headquarters and its Training Center.

Since the acquisition of the Shippensburg facility in 2007, Volvo Construction Equipment has continuously invested in the existing plant. In June 2010, a 18,580 m^2, USD 30 M expansion of the facility was finalized, to improve manufacturing flow and increase production space to incorporate the production of Volvo motor graders.

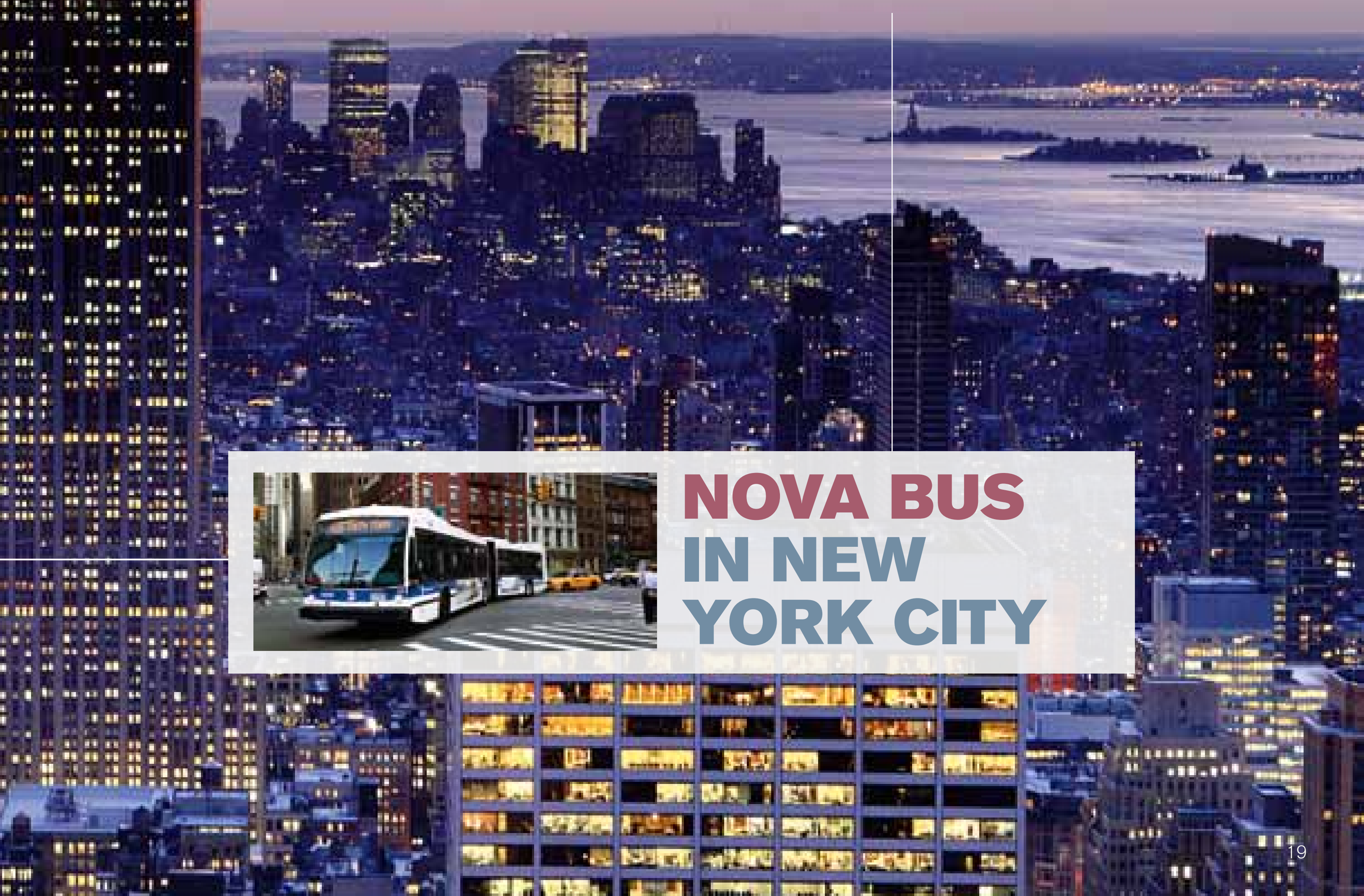
Manufacturing Volvo wheel loaders, articulated haulers and excavators in Shippensburg, PA will have no significant impact on the current production in other Volvo locations. It will, however, further improve the competitiveness and profitability of the total business.

Multi-million dollar contract for Volvo Buses in New York City

In June 2011, Volvo Buses secured an order for 328 articulated buses for New York City through its subsidiary Nova Bus. The order is valued at SEK 1.5 billion.

The order applies to 328 Nova LFS articulated buses. The client, MTA New York City Transit, has a fleet of more than 6,000 buses, the largest bus fleet among all local transport companies in North America and one of the largest in the world. In the past year, MTA tested 90 of Nova's articulated buses, including on Line M15 in Manhattan. They are the first buses in New York City with three doors and low floors throughout the bus, which contribute to more rapid and comfortable boarding and alighting.

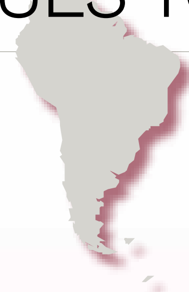
The buses functioned very well during the test and contributed to the new major order. The 328 new buses will be delivered from August 2011 to April 2013. One prerequisite for selling city buses in the US is that a large portion of the manufacturing must also occur in the country. The buses for New York City are manufactured in the Nova Bus plant in Plattsburgh, in the northern part of New York State.



NOVA BUS IN NEW YORK CITY

DEVELOPMENT BY CONTINENT

SOUTH AMERICA CONTINUES TO RISE



The South American market has had high growth rates in recent years with Brazil as the engine. The fundamentals are in place for this development to continue.

Strong market

The South American market for heavy-duty trucks rose by 7% to 148,000 trucks in 2011 compared to 138,800 the year before.

Brazil is the largest market by far in South America. With 111,500 heavy-duty trucks in 2011 (109,800) Brazil accounted for approximately 75% of the total market in the region. The Brazilian market was primarily driven by the positive economic development in the country. Against the background that Brazil moved directly from the Euro III emission standard to Euro V on January 1, 2012 order intake is expected to be relatively weak in the beginning of the year. The total market for heavy-duty trucks in Brazil is expected to record a slight decline and reach a level of about 105,000 trucks for the full year 2012.

The construction equipment market rose by 18% in 2011 compared to the strong 2010. The South American market for construction equipment is expected to grow by 0–10% during 2012.

The South American bus market was strong during the year and is estimated to have grown by more than 30%. The total bus market in Brazil increased by 25% to 4,900 buses, driven by prebuys ahead of the changeover to Euro V and by many procurements of BRT-systems (Bus Rapid Transit) in the cities. Volvo Buses increased its market share to 23%.

The South American bus market increased by more than

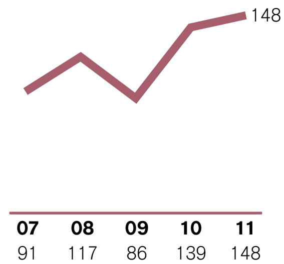
30%

Increased market shares in heavy-duty trucks

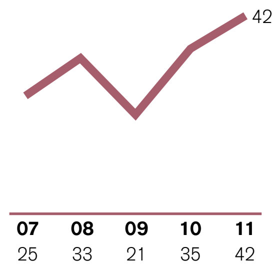
Volvo Trucks reaped success in the Brazilian market in 2011. Competitive products and a strong dealer network provided for big strides forward in the market. The market share within heavy-duty trucks increased to 17.1% (14.8).

5,200 employees

Market development, heavy-duty trucks, South America
Thousands



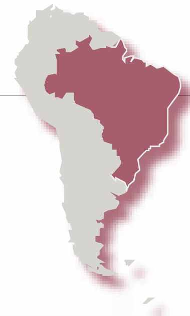
Market development, construction equipment, South America
Thousands



Volvo Group in South America

- **Net sales:** SEK 35,142 M (29,013)
- **Share of Group sales:** 11%
- **Number of employees:** 5,234
- **Share of Group employees:** 5%
- **Largest markets:** Brazil, Chile and Peru.

FOCUS
BRAZIL



The Brazilian economy has had a very good growth since the beginning of the 21st century thanks to increased private consumption and measures to reduce poverty.

Even though the global financial crisis a few years ago led to a recession also in Brazil, the economy there rebounded faster than in many other parts of the world. During 2008 GDP grew by 5.2%, followed by a fall of 0.3% in 2009 but it turned around strongly and rose by 7.5% during 2010 and by 2.9% in 2011, according to Consensus Economics.

New products

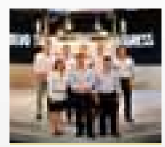
During the year, Volvo Trucks was the first manufacturer to launch trucks that comply with the new emission regulation according to Euro V that took effect on January 1, 2012.

The year also saw the launch of the all-new medium-duty truck Volvo VM, which is produced specifically for the South American market. The truck is adapted to applications such as regional and city distribution.

In order to meet the increasing demand for buses in the front engine segment, which in South America amounts to as many as 16,000 buses annually, Volvo Buses launched a new front engine bus that was well-received when it was introduced.

Success at Fenatran

Volvo do Brasil brought together 250 journalists from Brazil and other Latin American countries for a press conference with head of Volvo do Brasil, Roger Alm, at



the opening of the 18th International Transportation Fair – Fenatran 2011. Fenatran is the largest trade fair of the transport segment in Latin America and took place in São Paulo from October 24 to 28, 2011. The outcome of the fair was very positive for Volvo do Brasil with large interest from customers and more than 10,000 visitors to the Volvo stand. Also, during the fair a large number of orders were signed, of which more than half were for the new Euro V trucks.

Increased production

During the year, Volvo do Brasil started the production of the automated mechanical gearbox I-Shift. Volvo also started local production of 11-liter engines. Previously, components for the I-Shift were imported from Europe and assembled locally. The gearboxes will equip the Volvo FH and Volvo FM.

"The I-Shift gearbox has been getting outstanding acceptance in Brazil and in all the other countries of South America. It already equips about 80% of the Volvo FH and Volvo FM trucks and over 90% of the highway buses which leave our assembly line in Curitiba", says head of Volvo do Brasil, Roger Alm.

The success of the electronic gearbox is mainly due to the noticeable consumption reduction that it allows –

I-SHIFT

up to 5% compared to vehicles with manual equipment. Besides, it provides more durability to the clutch, less tire wear, and increases the comfort and safety levels for the driver.

With the 11-liter engine nationalization, the Curitiba Volvo factory increases its portfolio of locally manufactured products. The engines line is flexible and now both 13-liter and 11-liter engines are manufactured in the country.

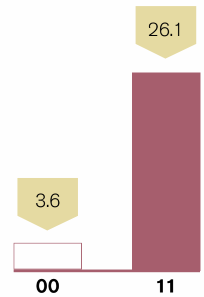
Best employer in Brazil

For the second time, Volvo do Brasil was chosen as the best employer in Brazil. The survey is conducted by the Você S/A and Exame magazines and comprises 504 companies in different sectors. It ranks the best 150 employers in Brazil. Volvo do Brasil has 3,900 employees and headquarters in Curitiba and it has always been ranked in the top ten. In the 2011 survey, Volvo do Brasil obtained excellent results in all categories.

Volvo CE moves ahead

Volvo Construction Equipment (Volvo CE) moves ahead in Brazil. In accordance with the strategy to support the development in growth economies, the factory in Pederneiras has started to manufacture three excavator models.

Volvo CE has also introduced its Chinese brand SDLG with great success in Brazil. The machines are imported from China and reach new customer segments where Volvo CE has had a hard time competing in the past. Surverys show that as many as 90% of SDLG customers have previously not been in contact with the Volvo Group regarding construction equipment.



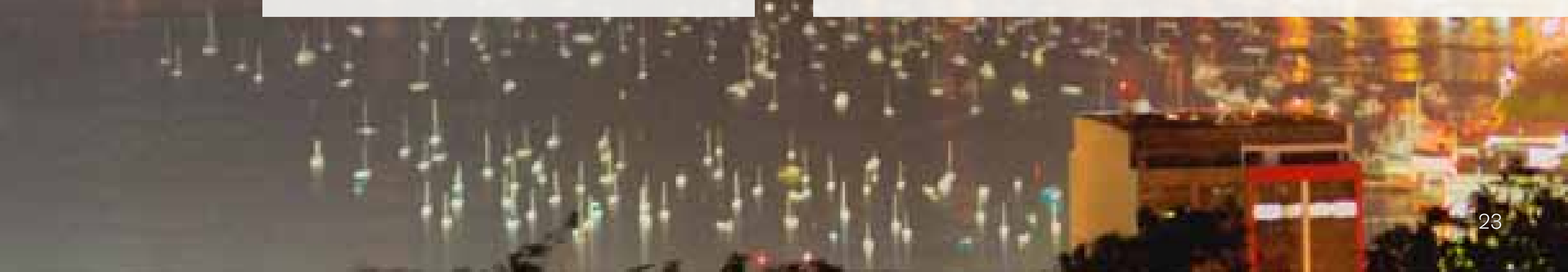
Volvo Group net sales in Brazil
SEK bn

Largest contract for hybrid buses

In July 2011, Volvo Buses received its largest hybrid bus order thus far. The city of Curitiba in Brazil ordered 60 buses that generate up to 35% less fuel consumption.

"Several of the largest cities in Brazil and the rest of South America tested a Volvo 7700 Hybrid in 2010 and at the beginning of this year," says Luis Carlos Pimenta, head of Volvo Buses in Latin America. "The tests were very successful and contributed to this first order, which we believe will be followed by additional orders from other cities."

Consequently, Volvo Buses has decided to commence manufacturing hybrid buses in Curitiba. It will involve the same hybrid technology used in Volvo's hybrid buses and trucks in Europe and which is currently the world's most efficient for heavy vehicles.



Volvo Group in Brazil

- **Number of employees:** 4,546
- **Production:** Curitiba (trucks and buses) and Pederneiras (construction equipment)
- **Net sales:** SEK 26,056 M, 8% of Group sales
- Best employer 2011

Brazil

- **Area:** 8,547,404 km^2
- **Population:** 195 million (2010 estimate)
- **Capital:** Brasilia with 2.5 million inhabitants (2010 estimate)
- **Other big cities (2010 estimates):** São Paulo (10.4), Rio de Janeiro (6.3), Salvador de Bahia (3.0) and Fortaleza (2.6)
- **GDP per capita:** USD 10,471 (2010)

DEVELOPMENT BY CONTINENT

ASIA GROWING IN IMPORTANCE

Through both acquisitions and organic growth, the Volvo Group has created a good position from which to develop further in the dynamic and fast-growing markets in Asia. With increased wealth and the associated needs for transport and with substantial investments in infrastructure, the region is of large and growing importance to the Group.

Growing markets

Sales in Asia accounted for 24% of Group net sales during 2011. In 2000 the corresponding figure was 7%. The sharp increase has primarily been achieved by the acquisitions of UD Trucks of Japan (which was named Nissan Diesel at the time of the acquisition), the majority in Lingong of China and through the joint venture VECV in India, but also through substantial organic growth in many markets.

Through the brands UD Trucks, Volvo, Renault Trucks and Eicher, the Volvo Group has strong positions in Japan, India, Korea and all of Southeast Asia.

In Japan the heavy-duty truck market grew by 1% to 24,800 vehicles during 2011. The first half of the year was weak, primarily as an effect of the earthquake and ensuing tsunami that hit the country on March 11. Towards the end of the year, there were signs of a recovery in the market, among other things against the backdrop of the work to rebuild devastated regions beginning to get underway. For 2012, the Japanese market for heavy-duty trucks is expected to grow to approximately 30,000 vehicles.

In China the largest part of net sales stem from construction equipment. The Chinese market slowed somewhat during the latter part of 2011 after a number of years of strong growth. In total, the market grew by 7% during the year. The Volvo Group strengthened its position as leader in the segment for wheel loaders and excavators. In Asia outside of China, the market for construction equipment grew by 28%. In 2012 the Chinese market is expected to be on the same level as in 2011. Asia excluding China is expected to grow by 10–20%.

Volvo CE number 1 in China

With a volume totaling 405,000 machines, the Chinese market for construction equipment is the world's largest. When measured in number of units, it is in fact almost as large as the rest of the world put together. And the Volvo Group is number 1 in wheel loaders and excavators in China. During 2011 Volvo Construction Equipment's both brands Volvo and SDLG had a combined market share of 12% within wheel loaders and excavators. That made them market leaders in China, ahead of all domestic manufacturers and with a good margin to the other global manufacturers. Contributing to the success was the fact that SDLG started selling a range of four excavators, a product they previously lacked. In January 2012, SDLG's new excavator plant in Linyi, China was inaugurated and at the same time four updated versions of the excavators were launched, In addition, the product range was extended with one excavator.

Volvo CE and SDLG had a combined market share of

12% in China

Growth plans for DND

Through UD Trucks, the Volvo Group has a joint venture for trucks together with Dongfeng of China. A fact unknown to many. The joint venture, DND, manufactures heavy-duty UD trucks in a factory in Hangzhou in Southern China. DND was included in the acquistion of UD Trucks in 2007 and gave the Group access to domestic production in China.

A number of European manufacturers are trying to get into China, and some have shares in domestic companies producing Chinese brands, but the Volvo Group is the only Western manufacturer making trucks under its own brand, UD, in the country.

China is the world's largest truck market with registrations of 899,000 heavy-duty trucks in 2011. DND had a volume of 900 trucks in 2011, and the Volvo Group is together with its joint venture partner examining different possibilities to expand the cooperation in order to grow the sales volumes within the DND framework. In addition to the UD trucks being manufactured by DND, the Group also sells some 1,000 Volvo trucks annually. These trucks are built in Europe and shipped to China. With those volumes, Volvo has a strong position in the European segment of the market.

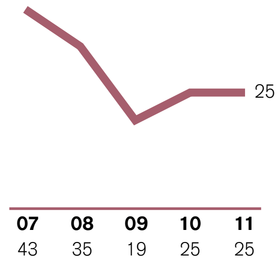
New Condor

During the year, UD Trucks launched its new medium-duty truck Condor, which had undergone a full model change. The new trucks have a new cab design that conveys the impression of a unified family identity with the Quon heavy-duty truck series. They also feature various advanced technologies accumulated on the company's heavy-duty trucks to deliver outstanding fuel economy, improved environmental and aerodynamic performance and safety.

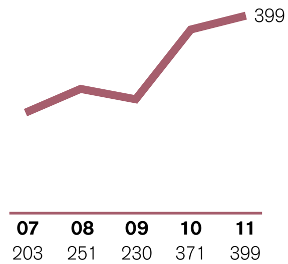
Technology Center in Jinan

A part of the increased focus on growth markets is the development of products aimed particularly at those markets. Volvo CE's new technology center in Jinan, China is part of these efforts and covers both the Volvo and the SDLG brand. Jinan is the capital of Shandong province where Lingong has its manufacturing. The center entails an investment of SEK 300 M, and when fully complete in 2013 it will have 200 employees and cover an area of 50,000 square meters.

Market development, heavy-duty trucks, Japan
Thousands



Market development, construction equipment, China
Thousands



Volvo Group in Asia

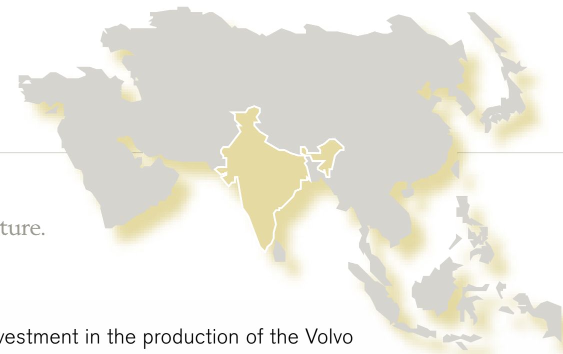
- **Net sales:** SEK 73,586 M (65,487)
- **Share of Group sales:** 24%
- **Number of employees:** 19,924
- **Share of Group employees:** 20%
- **Largest markets:** China, Japan, India and South Korea.

New company for electric and hybrid drivelines in China

In April 2011, Volvo Bus and SAIC Motors of China agreed to form a new joint venture company in China for driveline systems for electric and hybrid buses. The new company is 60% owned by SAIC and 40% owned by Volvo.

Volvo invests CNY 40 million and SAIC CNY 60 million in the new company, Shanghai Green Bus Drive System Co, based in Shanghai. The new company will industrialize SAIC Motors and Volvo Buses research and development projects within electric and hybrid drivelines for buses. Since the beginning of the 21st century, Volvo and SAIC together operate Sunwin Bus, which is one of the largest city bus manufacturers in China.

FOCUS
INDIA



The Indian market is in an exciting growth phase with growing prosperity and increasing investments in infrastructure.

Exciting development in VECV

The Volvo Group's joint venture company VE Commercial Vehicles (VECV) comprises the entire Eicher Motors truck and bus operations and the Volvo Group's Indian sales operations in the truck segment as well as the service operations for trucks and buses. The joint venture was formed in 2008.

The Indian market for heavy-duty trucks grew by 12% to 237,000 trucks in 2011 compared to 212,000 vehicles in 2010. The market for light and medium-duty trucks grew by 19% to 103,000 vehicles (87,000).

With 11% of the total Indian market for commercial vehicles, i.e. heavy-duty, medium-duty and light-duty trucks as well as buses, Eicher is India's third largest manufacturer of commercial vehicles. The position is especially strong in the light and medium-duty segment in which Eicher during 2011 had a market share of 30.5% (30.5). In heavy-duty trucks the market share is developing in the right direction, although from low levels, since Eicher during 2011 launched its, new heavy-duty truck program based on the cooperation in VECV. During 2011, Eicher had 3.1% of the market in the heavy-duty segment compared to 2.0% the year before. The ambition is to grow within heavy-duty trucks in the coming years.

India to become center for new medium-duty engine

VECV's facility in Pithampur is home to a rapid expansion. Part of the new construction taking place is the SEK 480 M investment in the production of the Volvo Group's new global medium-duty engine. The investment gives the Volvo Group a complete facility in India for processing and assembling the new medium-duty engine, which will be introduced in the Group's trucks and buses worldwide in the next few years.

Through this investment, it will be possible for the Volvo Group to locate most of its production of medium-duty engines to VECV's plant in Pithampur. VECV has an established supplier base in India and efficient purchasing channels and already today, VECV produces about 40,000 engines per year in the existing plant. The Group will now have an engine platform that combines the latest in Japanese technology with India's highly competitive production cost. The investment in Pithampur will result in an annual production capacity of an additional 85,000 new medium duty base engines.

At the same time, the Volvo Group will invest an additional SEK 460 M in the Group's production plants for engines in Ageo, Japan and Venissieux, France. Through this investment, the Group will, among other things, have an annual final assembly capacity for 30,000 medium-duty base engines for the European market.

Development of the new medium-duty engine has been led by Volvo Powertrain in Ageo and the engine has been designed to meet current and future exhaust requirements in Europe, the US and Japan.

In addition to production of the base engine itself, the

11%

of the total Indian market

facility in Pithampur will also conduct final assembly of engines for India and all of Volvo Group's global markets with Euro III and Euro IV emission requirements. Production and final assembly of the engines for the Japanese market will be in Ageo, while final assembly of the engines for the European market will take place in Venissieux.

By gathering base engine production in India, it will be possible for us to meet the Group's need for cost-efficient medium-duty engines in Asia, while also contributing to an increase in our competitiveness in the medium-duty segment in other markets.

Production of the Group's new medium-duty engine program started in Ageo in 2010 for the Japanese and U.S. markets. The production of medium-duty engines in Pithampur starts in 2012.

Excavator production in India

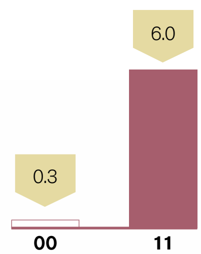
In November, the first excavator rolled out of Volvo CE's new excavator plant in Bangalore, India. The production of excavators will increase substantially during 2012. The plant will continue to manufacture road machinery. The new excavator line is part of a SEK 144 M investment to upgrade the plant. The local production of excavators will mean greater machine availability for Indian customers, as well as shorten delivery lead times and respond to customer requirements more quickly.

Full speed ahead for Volvo Buses

On the eve of its 10th year in India, Volvo Buses announced SEK 500 M investment plans for the next five years. In the first phase the company will expand its current industrial establishment and introduce a range of new products.

Over the last decade the company has emerged as a leader in its class with a dominant market presence and

Volvo Group sales in India, SEK bn



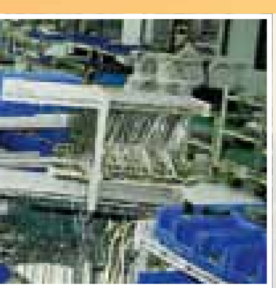
in the process re-defined how people see buses. The Indian market has witnessed a paradigm shift in the bus business. While earlier, coaches built on truck chassis were the norm of the day, the entry of Volvo Buses introduced the concept of a true-bus chassis with rear engines. Volvo Buses also brought in the idea of BRT, efficient, bus-based public transport systems.

Mr Akash Passey, head of Volvo Buses in India, said, "The need for buses as sustainable transport solutions is high in India and we aim to grow multifold in the years to come. From 1,000 buses to 5,000. From 1,000 people to 5,000 people and be a billion dollar company."

The ambition is to be there by 2015. By this time Volvo aims to export 20–25% of its volumes not only in South Asia but to markets beyond.

Volvo Buses today has over 70% market share in the luxury inter-city coach segment and over 50% market share in the low floor air-conditioned city bus segment respectively.

Towards the end of the year, Volvo Buses launched three new city buses and coaches in India and thus increased the product range to encompass ten buses.

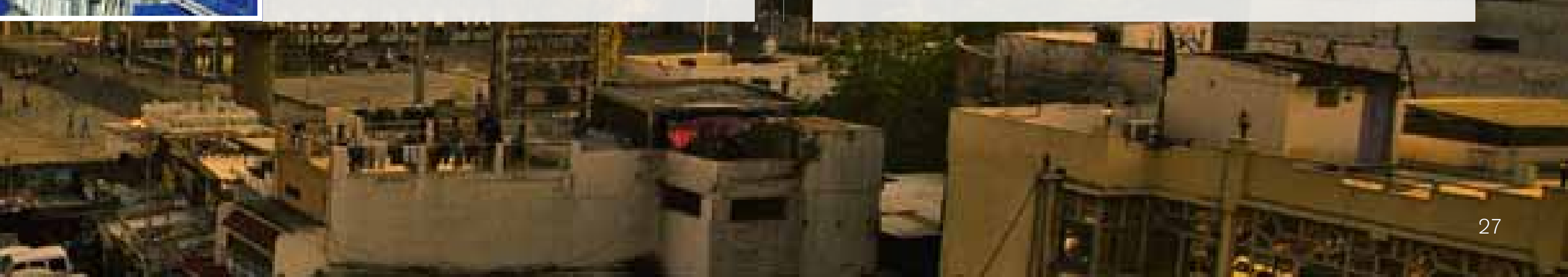


Volvo Group in India

- **Number of employees:** 3,919
- **Production:** Pithampur (Eicher – engines, gearboxes, axles, trucks, bus chassis) and Bangalore (Volvo – assembly of trucks, buses and construction equipment)
- **Net sales:** SEK 6,007 M, 2% of Group sales
- Third largest commercial vehicle manufacturer in India through the VECV joint venture together with Eicher Motor Limited

India

- **Area:** 3,288,000 km^2
- **Population:** 1,171 million (2010)
- **Capital:** New Delhi with 242,000 inhabitants (Estimate 2010. New Delhi is a part of the Delhi metropolitan area)
- **Other big cities:** Mumbai (Bombay 13.8 million), Delhi (12.6), Bangalore (5.4), Kolkata (Calcutta 5.1)
- **GDP per capita:** USD 1,176 (2010)



OVERALL CHALLENGES
FUTURE TRANSPORT NEEDS

In 2012, the Volvo Group celebrates 85 years. In 1927, the first series-produced Volvo car rolled off the production line at the Gothenburg plant. For 85 years, Volvo has developed pioneering products and services.

Challenges
1. Population growth, urbanization and megacities
2. Climate change, oil resources and alternative fuels
3. Shortage of natural resources and raw material
4. Safety and security
5. Competent labor

TO **PRE**

AND SHAPE **THE**

Much has happened since 1927. Volvo has developed from a small local industry to one of the world's largest manufacturers of trucks, buses and construction equipment with more than 100,000 employees, production facilities in 20 countries and sales in more than 190 countries.

It is crucial to keep pace in a rapidly changing world. Today, it is more important than ever to understand the operating environment, how it impacts the Volvo Group and, first and foremost, to act on these changes to meet future transport needs. The next pages define some of the more significant challenges and the actions being undertaken by the Volvo Group to meet these challenges.

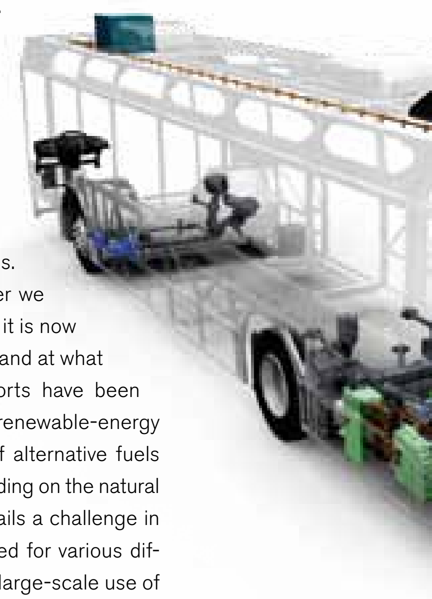
1 Population growth, urbanization and megacities

The population of the earth is ever increasing. In 2050, the population is expected to exceed nine billion. Since 2008, more than half the world's population live in cities and in fifty years that figure is expected to have risen to two-thirds. The most intensive pace of urbanization is ongoing in Africa and Asia. In addition, the number of megacities and megaregions with populations exceeding ten million is growing rapidly. Approximately 20% of the world's population is expected to live in cities with populations in excess of two million inhabitants by 2015.

This trend is leading to an increased need for transportation. Large quantities of goods, products and people are transported daily within as well as to and from cities. Cities, particularly major cities, have particular requirements for town and traffic planning. Furthermore, traffic jams as well as pollution and noise need to be addressed through specially adapted vehicles for urban environments.

2 Climate change, oil resources and alternative fuels

Climate change comprises one of the most complex and difficult questions of our time. Fossil fuel is the single largest source of greenhouse-gas emissions, which are deemed responsible for climate changes.



For a long time, oil was considered a reliable source of energy but today oil use is a highly contested issue. This is primarily attributable to the environmental problems associated with oil but also since future access to oil is uncertain due to dwindling oil reserves and instability in the oil producing regions.

It is no longer a question of whether we have to convert to a fossil-free society; it is now a question of how this will be achieved and at what pace it will be performed. Major efforts have been made to develop the use of alternative, renewable-energy sources. However, the development of alternative fuels differs widely in different regions depending on the natural resources available, which, in turn, entails a challenge in the form of developing vehicles adapted for various differing types of fuel. The move towards large-scale use of renewable fuel is also dependent on political decisions to create the necessary infrastructure.

3 Shortage of natural resources and raw material

Population growth, a rapidly growing middle class and increased purchasing power leads to increasing numbers of people consuming in line with western consumption patterns. Mankind is utilizing an increasing amount of land and resources. More efficient use of resources is required and the recovery of a greater proportion of material is becoming increasingly important to secure access to material.

4 Safety and security

Traffic safety becomes increasingly important as transportation increases. The subject is a high priority for governments and institutions the world over. In the future, focus on safety in a broader sense will continue to increase because of military conflicts, crime, terrorism and natural disasters, which will impact the safety of drivers, vehicles and goods.

5 Competent labor

For many years, interest has waned for education and careers in the fields of mathematics, natural sciences and engineering in industrialized countries. However, the need for competent employees with these types of specialist skills will increase as the products and services are becoming increasingly sophisticated.

DICT FUTURE

Future transport solutions

Together, these challenges result in an increased need for sustainable and efficient solutions for the transportation and infrastructure sector. In parallel, they set raised requirements for the Volvo Group and its ability to supply the right products and services. The Volvo Group's vision is to be world leader in sustainable transportation solutions. The Group works continuously on a wide front to improve the transportation of goods and people. Three concrete examples of how the Volvo Group is already designing transport systems of the future are Bus Rapid Transit (BRT), Green Corridors and Intelligent Transport Systems (ITS).

Bus Rapid Transit

Public transport plays a decisive role in solving congestion and air pollution in major cities. Bus Rapid Transit (BRT) is an extremely effective public transport solution that meets growing transportation needs in cities around the world. A combination of high-capacity buses, exclusive bus lanes with priority at junctions, efficient ticket systems, traffic management and passenger information makes BRT an effective solution for transporting many people quickly, simply and comfortably. **Read more about BRT on page 30.**

Green Corridors

The aim of Green Corridors is to increase efficiency and safety while reducing environmental impact through concentrating freight traffic between major centers via efficient motorways, sea routes and railways that complement each other. **Read more about Green Corridors on page 35.**

Intelligent Transport Systems

Intelligent Transport Systems (ITS) is an area experiencing rapid growth. The combination of new technology with advanced IT and communication technology offers major opportunities to reduce congestion, environmental impact and increase safety. Smart vehicles that communicate with each other and their operating environment enable traffic to be efficiently controlled and for fuel efficiency to be improved through the provision of real-time assistance to drivers by various sensors that assist the driver in monitoring other vehicles and traffic. **Read more about ITS on page 35.**

BUS RAPI

SOLVES TOMORROW'S

CHALLENGE

All over the world, there is a growing need for safer, more efficient and greener public transport. In particular, cities are increasingly impacted by congestion, pollution and noise. Congestion costs society billions annually and impairs life quality for every individual that, each day, spends hours in traffic to get to work, school or visit family and friends.

D TRANSIT

PUBLIC TRANSPORT PROBLEMS

TODAY

With easy boarding and debarking, together with efficient ticket systems, the travel time can be shortened significantly.

VOLVO'S SOLUTION – BRT

Bus Rapid Transit (BRT) is a public transport concept specially developed for cities to meet growing transportation needs, to increase the efficiency of public transport and, in parallel, reduce fuel consumption and exhaust emissions.

BRT comprises dedicated lanes for buses with a high service frequency and passenger capacity. BRT can be compared to public transport by rail regarding travelling time, service frequency, punctuality and capacity. The investment cost is as low as 5% of the amount required for an equivalent subway system. In addition, the process of developing and implementing a functional BRT system is significantly shorter. In addition, BRT is complemented with a system for real-time traffic monitoring and passenger information. The system also supplies traffic management with critical data about the vehicle including fuel consumption, distance and speed.

RESULT

The BRT system reduces bus and car traffic and thus contributes to safer traffic with less negative environmental impact. Dedicated bus lanes reduce the risk of accidents while lowering fuel consumption and thereby emissions, since the buses do not need to stop and accelerate as frequently. Environmental impact is further reduced through the use of larger but fewer modern buses that transport more passengers more rapidly. A BRT bus can carry as many as 270 passengers.

Using public transport can be perceived as awkward, boring and in some places it is also associated with risk. However, the speed, comfort, safety and reliability of BRT provides an attractive alternative. The dedicated bus lanes, high service frequency, simplicity of boarding and alighting in combination with an efficient ticket system make for significant reductions in journey times compared with traditional bus systems. Passengers are provided with access to information on departure and journey times at bus stops, onboard and via mobile applications.

The concept was developed in the Brazilian city of Curitiba in the 1970s and a number of cities worldwide view BRT as a promising solution. Cities in Canada, France, the Netherlands, China, Australia and the US have already implemented the concept. In Mexico City, 450,000 passengers a day are transported by the BRT system, which has reduced the city's carbon emissions by 80,000 tons per year. In Bogota, 1.5 million journeys are made every day with the BRT system resulting in a reduction in carbon emissions of 300,000 tons each year.

Reduced emissions of carbon dioxide

How much public transport does USD 1 billion buy?

10 kilometers of subway

50 kilometers of tramway

250 kilometers of Bus Rapid Transit

INTELLIGENT

TRANSP

SO

ORT
LUTIONS

CHALLENGES

Population growth, urbanization and a rapidly growing middle class are leading to an increasing need for transportation. According to the European Commission's estimates, freight volumes in Europe will rise by 50% between 2000 and 2020. However, infrastructure will not be expanded at the same rate. If transportation is to continue to provide a driving force for socio-economic development, the transport system must be improved and made more efficient. When traffic increases there is a correlated risk that accidents will increase. Another challenge is presented by the protection of drivers and cargos. Threats and robbery are a few of the risks faced by the Group's customers and society.

The issues are complex and require collaboration between several parties. Therefore, the Volvo Group collaborates with the public sector, private sector, academic institutions and our customers to develop services and solutions that make the transport system smarter, safer and more efficient.

Read more about how the Volvo Group is working to solve tomorrow's transportation challenges. »

Advanced IT and communication technology improves the efficiency and safety of the transport system.

VOLVO'S SOLUTIONS AND EXPECTED RESULTS

Green Corridors
– safer and more efficient transportation

To meet increased needs for transportation, the various modes of transport need to interact to a greater degree. The aim of the Green Corridor is to make freight traffic efficient through concentrating transport routes specially adapted for heavy transports between major centers on efficient motorways, sea routes and railways that complement each other. The trucks are equipped with IT systems that aid drivers to drive in a fuel-efficient manner and to communicate with each other and the road system.

» **Expected result –** The aim is to develop a more efficient process for handling goods through increased collaboration between different modes of transport. The primary advantages expected to be achieved with Green Corridors are increased safety and reduced congestion while making transportation as environmentally adapted as possible.

Smart vehicles that reduce and prevent accidents

Every day, trucks and cars get stuck in traffic for hours when trying to deliver goods or get to work. Many accidents occur in these types of situations. 90% of all traffic accidents arise from the human factor. A reduction in the number of accidents requires increasing the "intelligence" of vehicles and enabling them to communicate with each other and the surrounding infrastructure. Active safety systems enable the driver to be liberated from the monotonous task of maneuvering in traffic jams. When the system is activated, the driver can monitor the vehicle and instead focus attention where it is really needed.

» **Expected result –** to reduce the number of accidents and even avoid potentially dangerous situations through providing assistance to the driver in handling difficult traffic situations.

Smart and safe vehicles

In Europe goods worth EUR 8 billion are stolen every year. One of six truck drivers have been threatened or assaulted during their work. With modern technology, the driver, truck and the load is protected in an effective manner. With advanced technology for detection, electronic surveillance of transportation and electronic document management, drivers, vehicles and cargo is protected. Through electronic surveillance, it is for example easier to detect diversions and avoid high risk situations.

» **Expected result –** reduce theft and improve safety for drivers by preventive systems while at the same time making transports more efficient.

The goal with Green corridors is to reduce the impact on the environment while simultaneously increasing efficiency and safety on highways through specially adapted transport stretches for heavy traffic.

BRANDS
IMPORTANT ASSETS FOR THE GROUP

By selling products with different brands, the Volvo Group can penetrate many different customer and market segments in mature markets as well as growth markets.

Volvo Group does business under several leading and respected brands. Each brand in the portfolio is focused on different industry and market segments. Several brands are available globally, while some are focused on specific regions of the world.

Volvo

The Volvo brand, which has been built up over decades, enjoys a solid position worldwide. It is one of the world's best known and respected brands within trucks, buses and construction equipment. It is associated with the Group's core values – quality, safety and environmental care.

Renault Trucks

Renault Trucks is one of the largest European manufacturers of commercial vehicles, with its origins in the Renault automobile company that was founded in 1898, and in Berliet, founded in 1895. To worldwide customers Renault Trucks are renowned for its innovative and caring approach to efficiency and economy.

UD Trucks

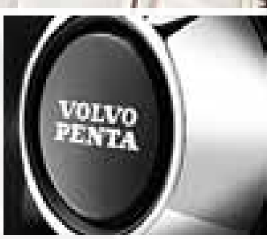
UD Trucks was established in 1935 and is one of the world's leading manufacturers of trucks and buses. UD Trucks markets light, medium and heavy-duty trucks, buses and bus chassis, engines and vehicle components.

Mack

For more than a century Mack has been one of the largest manufacturers of heavy-duty trucks in North America, and focused on commercial vehicles from the start. Today, Mack is one of the strongest heavy-duty truck brands in the North American market.

Eicher

Eicher is one of the largest players in the Indian commercial vehicle market and the obvious choice in the value and mass market segments for customers with high demands on profitability, flexibility and driver effectiveness.



Volvo Penta

Volvo Penta is one of the strongest and most global brand names in the engine industry. In addition to quality, safety and environment, Volvo Penta is associated with innovative and performance-oriented products. Penta has been a registered brand name for more than 100 years.

Volvo Aero

Volvo Aero is a world-leading brand and develops, manufactures and services components for aircraft engines and gas turbines. Volvo Aero has been committed to long-term relationships since 1930.

SDLG

SDLG is a leading brand in the Chinese construction machinery industry, especially for wheel loaders. The SDLG brand is sold primarily in China and other emerging markets.

Prevost

With more than 10,000 vehicles on North American roads, Prevost is a leading North American manufacturer of premium touring coaches and bus shells for high-end motorhomes and speciality conversions.

Nova Bus

Nova Bus is a leading North American provider of sustainable transit solutions, including environmentally-friendly buses, high-capacity vehicles and integrated intelligent transportation systems.

THE VOLVO GROUP'S PRODUCT OFFERING

Trucks

All brands in the Volvo Group's truck operations have a unique and distinct brand-specific character that attracts customers in their market segments.

The trucks are sold and marketed under the brands Volvo, Renault Trucks, UD, Mack and Eicher, which all offer customers a broad range of products and services for efficient and economic transports.

Long-haul | Regional distribution | City distribution | Construction

Volvo Trucks | Renault Trucks | UD Trucks | Mack Trucks | Eicher

Buses

Volvo Buses' product range includes complete buses and bus chassis for city, intercity and coach traffic. The company has a total offering that, in addition to buses, includes a global service network, efficient spare parts handling, service and repair contracts, financial services and traffic information systems.

City buses

Intercity buses

Coaches

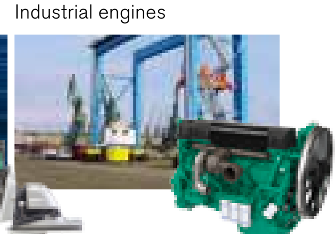
Chassis

Marine and industrial applications

Volvo Penta manufactures engines and drive systems for marine applications, for both leisure and commercial craft, with an engine range of 10 to 900 hp and has a global service network of approximately 4,000 dealers. Volvo Penta also supplies industrial engines ranging from 75 kW to 640 kW for irrigation pumps, generator units and other industrial applications.

Marine engines

Industrial engines



Construction equipment

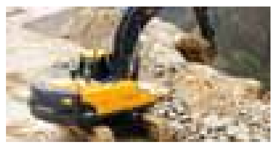
Volvo Construction Equipment develops, manufactures and markets equipment for construction and related industries under the brands Volvo and SDLG. Its products are leaders in many world markets, and include a comprehensive range of wheel loaders, hydraulic wheeled and crawler excavators, articulated haulers, road machinery and a wide range of compact equipment.

Compact construction equipment

Heavy construction equipment

Road machinery

Wheel loaders



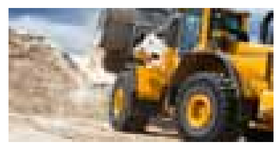
Crawler excavators

Articulated haulers

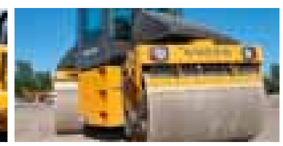
Motor graders

Backhoe loaders

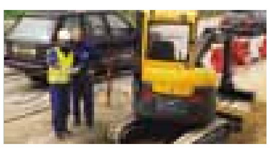
Wheeled excavators



Wheel loaders



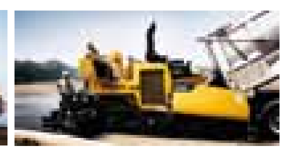
Compaction equipment



Crawler excavators

Crawler excavators from Lingong

Lingong wheel loaders



Pavers

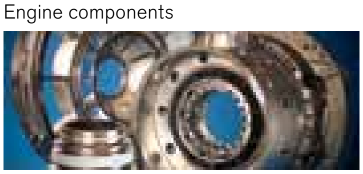
Skidsteer loaders

Asphalt milling machines

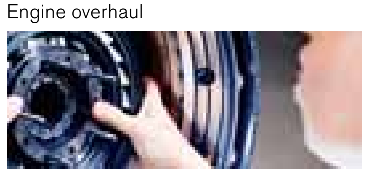
Aerospace industry

Volvo Aero develops and manufactures advanced components for aircraft engines and space rockets with light weight in focus. More than 90% of all new large commercial aircraft are equipped with engine components from Volvo Aero. The company is also responsible for the engines of the Swedish Air Force's Gripen fighters. Volvo Aero also has an aftermarket business that comprises repair and maintenance of select aircraft engines as well as stationary gas turbines.

Engine components



Engine overhaul



Space

Financial services

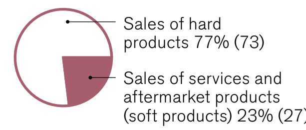
Financial services such as customer and dealer financing, and other services such as insurance, contribute to the Volvo Group total solution offering by creating customer value such as convenience, speed and peace of mind. Providing attractive financial solutions and other support services is essential to meet today's high customer demands, and to attract and retain Volvo Group customers.

Customer and dealer financing

WORLD-CLASS SERVICES STRENGTHENS CUSTOMER RELATIONSHIPS

Many customers want long-term cooperation around total solutions to execute their work as efficiently as possible with maximum profitability and reliability.

Soft product share of Industrial Operations' net sales 2011



When customers choose supplier of vehicles or machinery, the offering of supplementary services combined with excellent products is a crucial factor. Accordingly, the Volvo Group offers such services as financing and insurance, various forms of service agreements, accessories and spare parts. The Volvo Group's increasingly broad range of these services and aftermarket products, so called soft products, is of ever-increasing importance to the Group's competitiveness.

The services and aftermarket products business (so called soft products)

Aftermarket Product Areas				Service Offering			
Spare parts	**Software**	**Accessories**	**Service Products**	**Uptime Services**	**Fleet/Transport Services**	**Support Services**	**Financial Services**
New parts	Vehicle software	Accessories	Service literature	Service planning	Transport management	Competence development	Dealer financing
Used and remanufactured parts		Non-Volvo accessories	Service / dealer tools	Maintenance and repair	Driver time management	Fleet management	Customer financing
Extended parts		Merchandise products	Parts Services	Updates and upgrades	Vehicle management	Call center services	Rental
				Service contracts	Security, safety & environment	Consultancy Services	Insurance
					Driver info & support	Information services	Card and payment solutions

Growing aftermarket business

In addition to vehicles and machines, the Volvo Group's offering includes various types of financing solutions, insurance, rental services, spare parts, preventive maintenance, service agreements, assistance services and IT services. The range and flexibility of the offering means that the solutions can be customized for each customer.

Since a large part of the offering within the aftermarket business is requested as long as products are being used, they contribute to balancing the fluctuations in the business cycle for the Group. By strengthening the aftermarket offering, profitability and revenue sustainability can improve for the Group throughout the business cycle.

The strategy to increase sales of services and aftermarket products is an important element in the Volvo Group's effort to achieve targets for profitability and growth, both in mature markets and in the Group's new markets. During 2011, the services and aftermarket products business (soft products) represented approximately 23% of net sales in the Industrial Operations compared to 27% in 2010. The extended product offering such as used vehicles and machines, trailers and superstructures and special vehicles were previously defined as soft products. Starting January 1, 2012 these are instead defined as hard products. The numbers above and in the pie chart on page 42 reflect the new definition and the comparison numbers have been restated.

Develop and increase interface with customers

The majority of Volvo Group's customers are companies within the transportation or construction industries. The reliability and productivity of the products are important and in many cases crucial to the customers' success and profitability.

The goal is that Volvo Group companies shall be regarded as number one in customer satisfaction, in terms of both products and services. The Volvo Group shall also be number one when the dealers' customers assess customer satisfaction. A competent and professional dealer and service network is of vital importance to the Volvo Group and contributes to strengthening the Group's various brands.

INDUSTRIAL STRUCTURE

GLOBAL INDUSTRIAL STRUCTURE AND STRONG MARKET CHANNELS

Backed by competitive product programs, strong dealers and increasingly more complete offerings including total solutions with spare parts, workshops, service packages, financing and leasing, the Volvo Group's companies have established leading positions on a global market.

The Volvo Group has an established and strong position in Europe, North America, and South America. Through the acquisitions of UD Trucks and Lingong and the cooperation within trucks and buses with India-based Eicher Motors the position has been strengthened in many markets in Asia. Through its acquisitions the Volvo Group has also established a global industrial structure with manufacturing as well as sales and distribution channels on all continents.

	Production facilities	North America	South America
Group Trucks Operations	Volvo	New River Valley (US)	Curitiba (BR)
	Renault Trucks		
	UD Trucks		
	Mack Trucks	Macungie (US)	Las Tejerias (VE)
	Eicher*		
	Engines and transmissions	Hagerstown (US)	Curitiba (BR)
	Construction Equipment	Mexico City (MX), Shippensburg (US)	Pederneiras (BR)
	Buses	St Claire, St Eustache (CA), Mexico City (MX), Plattsburgh (US)	Curitiba (BR)
	Volvo Penta	Lexington (US)	
	Volvo Aero	Newington (US)	

*Ownership ≥ 50%

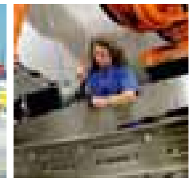
Share of Group's net sales

Trucks, 64%

Construction Equipment, 21%

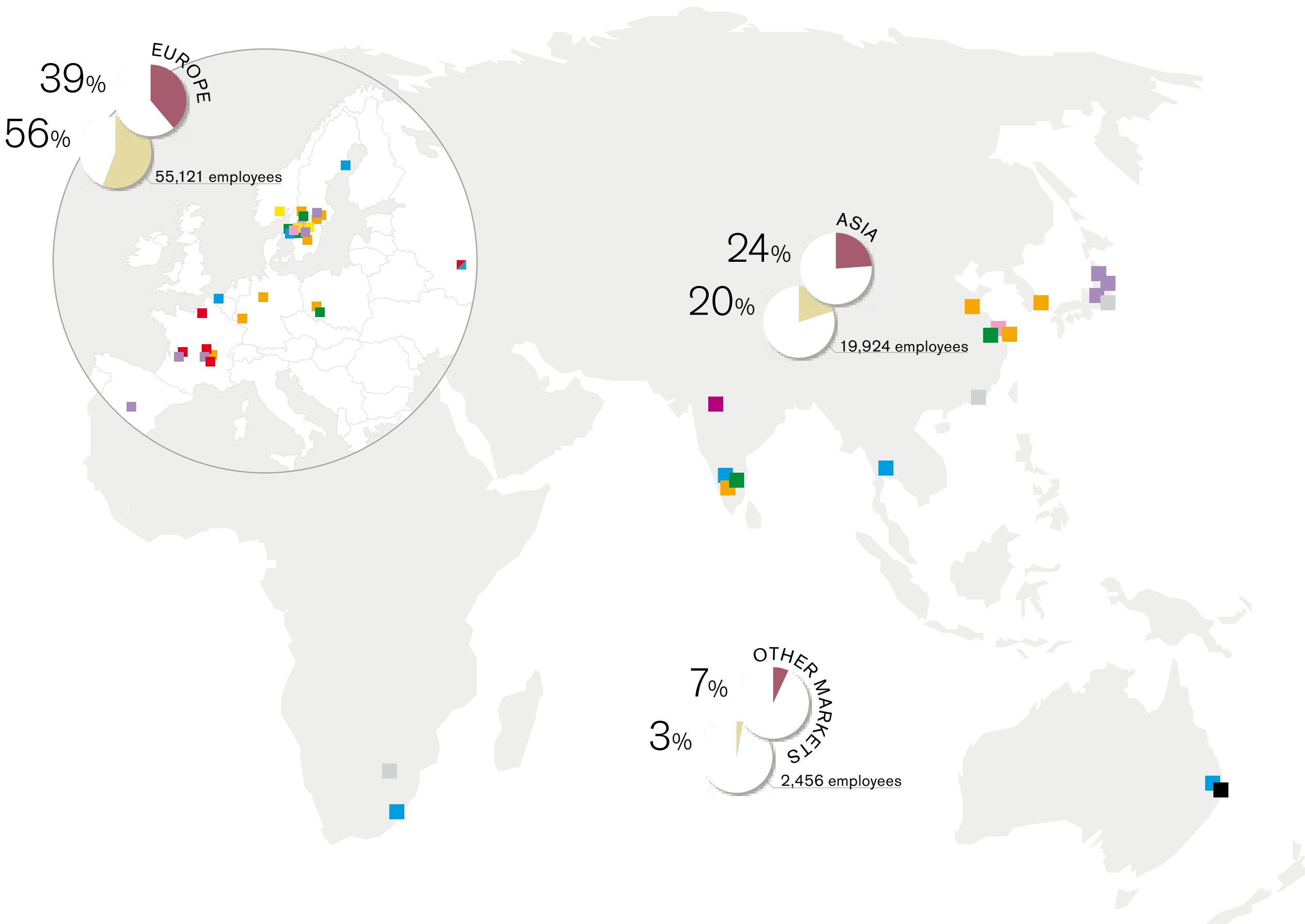
Buses, 7%

Volvo Penta, 3%



Volvo Aero, 2%

Customer Finance, 3%



Europe	Asia	Rest of world
Göteborg, Umeå (SE), Gent (BE), Kaluga (RU)	Bangalore (IN), Bangkok (TH)	Durban (ZA), Brisbane (AU)
Blainville, Bourg-en-Bresse, Limoges, Vénissieux (FR), Kaluga (RU)		
	Ageo (JP), Hangzhou* (CN)	Johannesburg* (ZA)
		Brisbane (AU)
	Pithampur* (IN)	
Köping, Skövde (SE), Leganès (ES), Vénissieux (FR)	Ageo, Kounosu, Hanyu (JP)	
Arvika, Braås, Eskilstuna, Hallsberg (SE), Konz-Könen, Hameln (DE), Belley (FR), Wroclaw (PL)	Changwon (KR), Shanghai, Linyi* (CN), Bangalore (IN)	
Borås, Säffle, Uddevalla (SE), Wroclaw (PL)	Bangalore (IN) Shanghai* (CN)	
Göteborg, Vara (SE)	Shanghai (CN)	
Trollhättan, Linköping (SE), Kongsberg (NO)		

SUSTAINABLE DEVELOPMENT
PART OF THE PROBLEM – AND THE SOLUTION

The Volvo Group's vision is to become world leader in sustainable transport solutions. Efficient transport is crucial for societal and economic development. While the Group's products and services are closely linked to growth and development, they also contribute to climate change, emissions, congestion and traffic accidents. Transports are essential for a society, but need to be made sustainable. As one of the world leading manufacturers of transport and infrastructure solutions the Volvo Group has both a responsibility and opportunity to address the issues and reduce the negative impact.

Contributing to a more sustainable world
The Volvo group has a long history of developing pioneering products and services for the transport and infrastructure industries. The Group is convinced that its products and services will play an important part also in the sustainable society. The Volvo Group has the skills, resources and global reach to shape the future of transport.

In the following section you can read more about

Responsible business is good business

Environmentally enhanced products

The Volvo Group – a high performing organization

Responsible sourcing

Responsible business is good business

The Volvo Group believes there is no contradiction in running a financially viable business while contributing to sustainable development. A strategic CSR (Corporate Social Responsibility) approach is increasingly important for the Volvo Group's competitiveness by e.g. improving brand image, reducing cost, creating new business opportunities and building stakeholder relationships.

The Volvo Group is convinced that responsible business contributes to long-term success. Responsibility is deeply rooted within the Volvo Group and is based on the values and principles in the Group's Code of Conduct. The Volvo Group strives to assume economic, environmental and social responsibility for its operations, products and services within its sphere of influence in the value chain. The Volvo Group believes this approach is essential to build lasting relations with customers, employees, suppliers and other stakeholders.

The Volvo Group's global foot print has changed dramatically in the past decade. The Volvo Group has grown significantly and has welcomed new employees and new entities. As a consequence, the Group is operating in approximately 190 markets. Local conditions differ – as do the expectations on business in different parts of the world.

From risk to value

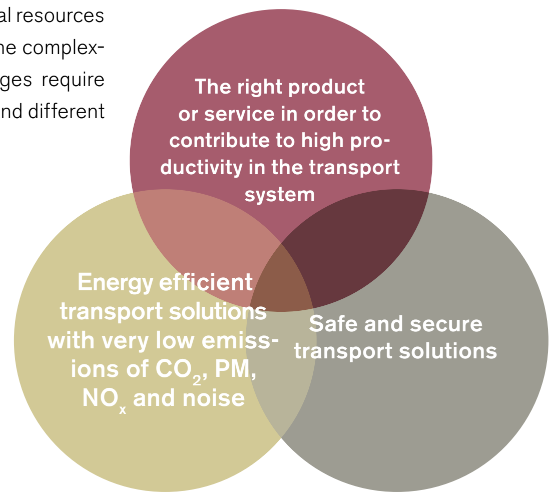
For a long time, CSR has primarily been seen as an effective risk management tool and for optimizing the use of resources. Risk management and building relationships with stakeholders are important components of the overall CSR strategy. However, the Volvo Group believes that this approach fails to fully explain the business potential of CSR or how a proactive approach creates value for the Volvo Group. The Volvo Group is convinced that CSR is much more than a risk management tool.

Creating shared value

The world faces urgent global challenges, such as climate change, depletion of natural resources and uneven distribution of wealth. The complexity, size and scale of these challenges require cooperation among states, regions and different sectors of society. The expectations on business to provide solutions to the challenges are growing. Today, a company is largely judged by the value it brings to society

The Volvo Group develops products and services based on customer needs and the Group intends to give its shareholders a good return on their investment. But the Group also strives to serve society by providing solutions that meet the challenges of sustainable transport. This is what the Volvo Group means with Creating shared value.

Sustainable Transport Solutions
Sustainable transport solutions to the Volvo Group are solutions that "improve the short and long term economic and environmental performance meanwhile social impact is considered", by providing:



VALUE

Sustainability is part of our business – Responsibility is part of our culture

The Global Compact
The Volvo Group is a signatory of the UN Global Compact.

Dow Jones Sustainability Indexes
Member 2011/12

Environmentally enhanced products

Climate change is one of the greatest challenges faced by mankind. Research shows that transport is responsible for approximately 13% of the total greenhouse gas emissions caused by humans. As one of the world's largest manufacturer of commercial vehicles the Volvo Group has a responsibility to work to reduce CO_2 emissions from its products.

The Group's vision is to become world leader in sustainable transport solutions.

It is critical for the Volvo Group's future success to continue to develop breakthrough innovations and technologies and converting them into financially viable products and services. The Volvo Group's products and services are important components of the transport system. However, the transport system sets the boundaries for our products. The Group therefore has to cooperate and partner with other actors in order to develop sustainable transport solutions.

Three areas of focus

The Group's product development is affected by the cost of, access to and availability of fuel, as well as legislation in the environmental area. Therefore, the Volvo Group focuses its research and development on the development of:

- Energy-efficient drivelines
- Hybrid drivelines
- Vehicles that can be operated on renewable fuels.

The Volvo Group also participates in public and private partnerships to develop sustainable and efficient transport systems such as Bus Rapid Transport System (BRT) and Intelligent Transport Solutions (ITS).

Energy efficient drivelines

Approximately 90% of the environmental impact results from the use of the products. The Group's main focus is therefore on reducing the environmental impact of products in use.

The Volvo Group estimates the fuel-saving potential for a standard truck will be 15% in 2020 compared with fuel consumption in 2005. New technology can lead to even more significant savings. For instance, the use of a hybrid driveline may improve fuel savings by up to 37% in certain bus operations.

The Volvo Group is working on research and development to meet the future Euro VI legislation, which will come into effect in the EU in 2014. Emissions of NO_x (Nitrogen Oxides), and PM (Particulate Matter) will be reduced by 97% compared to a truck from the early 1990s. Vehicles compliant with the Euro VI will thereby emitt very low levels of NO_x and PM.

Hybrid technology

Hybrid technology is one of the most promising and competitive technologies for commercial vehicles. Because of its potential for saving fuel, hybrid technology means lower operating costs for customers while at the same time significantly reducing environmental impact.

Hybrid technology is best suited to urban operations since the most appropriate vehicles for hybrid drivelines are those operating in continuous stop-go conditions, such as city buses and refuse or distribution trucks.

The Volvo Group's I-SAM concept consists of an electric motor and a diesel engine working in parallel, whereby each of them can be used where they are most effective. Production of the Volvo Hybrid city bus and the Volvo Hybrid doubledecker started in 2010. Significant fuel savings of up to 37% makes this bus a commercially viable option.

In 2011 Volvo Trucks commenced sales of hybrid trucks, under the name Volvo FE Hybrid, to customers in selected European markets. Tests show that the fuel saving potential for this truck is up to 20%.

Renewable and alternative fuels

Carbon dioxide neutral vehicles are powered by fuel produced from renewable raw materials such as biomass. Reducing dependency on fossil fuels such as oil, coal and natural gas by increasing the use of renewable fuels makes business and environmental sense. The Volvo Group's research on renewable fuels is mainly focused on Methane Diesel and DME (dimethyl ether).

Joint DME project

DME is a potential alternative to fossil fuel; it is energy-efficient and has a proven lower environmental impact. Estimates show that by replacing conventional diesel with Bio-DME carbon dioxide emissions will be cut by 95%.

The BioDME project is a joint venture with, among others, the EU and the Swedish Energy Agency. The aim is to involve the entire chain; from production of DME from biomass, distribution to DME used as vehicle fuel.

The Volvo Group is coordinating the project and develops demonstration vehicles for field tests between 2010 and 2012. Two vehicles were handed over to customers for field tests in early 2011.

Combining methane and diesel

The benefit of methane diesel technology is that methane fuel is already available as a fuel for vehicles.

In 2011, Volvo Trucks launched the new Volvo FM Methane Diesel truck. The truck is powered by up to 75% gas and therefore the CO_2-emissions will be considerably reduced. Volvo Trucks is the first manufacturer in Europe to start selling gas-powered trucks for long-haul operations.

Partnership with WWF

In 2010, the Volvo Group became the world's first manufacturer in the automotive industry to join the World Wildlife Fund for Nature (WWF) Climate Savers Program. The Volvo Group has thereby committed to even more ambitious emission targets for greenhouse gases than previously. The Volvo Group's truck companies have undertaken to reduce carbon dioxide emissions from vehicles manufactured between 2009 and 2014 by 13 million tons. In 2011 it was agreed that Volvo Construction Equipment and Volvo Bus should join the WWF Climate Savers program. The partnership was launched during a ceremony in February 2012 in China.

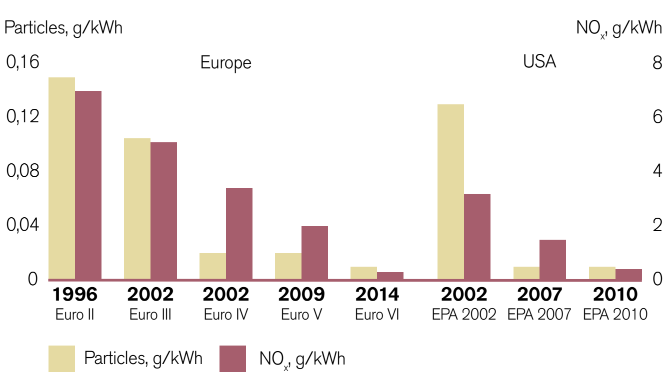
WWF
碳减排先锋
Defensores do Clima
クライメート・セイバーズ
Climate Savers

Life Cycle Assessment

Each new product from the Volvo Group should have less environmental impact than the product it replaces. The Group uses Life Cycle Analysis (LCA) to map a product's environmental impact in order to make better informed decisions in the development process.

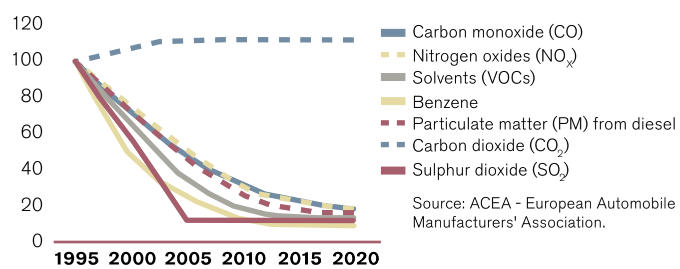
Findings from analyses indicate approximately 90% of the environmental impact results from the use of the products. The Group's main focus is therefore on reducing the environmental impact of products in use.

Emissions regulations for trucks and buses



In September 2009, Euro V was implemented in Europe and in January 2010, EPA 2010 was implemented in North America. Euro V entails a 50% reduction of NO_x emissions compared to Euro IV. With the implementation of EPA 2010, emission levels for particulates and NO_x are close to zero. Euro VI will come into effect in January 2014 in the EU.

Significantly reduced emissions



Within the EU all road transport emissions except for CO_2 are expected to decrease in the future. This is the result of stringent emission regulations.

A high-performing organization

Increased global presence, new products, new technology, demographic changes and more rapid fluctuations in the global economy will lead to challenges in the supply of expertise and resources.

Attracting and retaining competence

The Volvo Group's ambition is to offer interesting opportunities and a unique company culture that help us attract and retain the best people, whoever they are and wherever we do business.

Without engaged employees, who are willing to take an active part in the Group's development and future, the Volvo Group will not succeed in pursuing its strategies. It is therefore important we attract the right expertise and competent engineers to continue the development of environmentally enhanced products. The Volvo Group regularly maps the strategic competence needs, and annually aggregate findings on a Group level to identify the most important future needs.

Academic Partner Program

The number of people in Europe graduating with degrees in mathematics, science and technology (MST) is declining, and this trend may have an effect on the future competitiveness of Europe. The Volvo Group is involved in a comprehensive series of cooperative ventures with research bodies and academic institutions to advance the technologies needed for future product development. One example is the Academic Partner Program.

Academic Partner Program

The Volvo Group Academic Partner Program (APP) is a systematic approach for long-term cooperation with selected universities and research institutes in areas of special interest. The program aims to provide the Group with a holistic picture of important collaborative partners and to increase the Group's visibility to students and researchers.

Our involvement with universities is also important for creating relationships with students and potential employees to secure access to future competence.

Competence development

Investing in the Group's employees is a fundamental part of staying competitive, sustainable and profitable. The Volvo Group's training programs are offered at all levels for employees, and the activities range from traditional and e-based training to individual coaching and mentoring.

Individual competence development is based on a personal business plan, which provides support for translating corporate strategic objectives into individual objectives and contribution. The purpose is to ensure that employees clearly understand their role in the team and what is expected of them.

Developing talents

Every manager is responsible for assessing and developing talent in the organization. The Leadership Pipeline provides the Group with a structured approach to developing and preparing present leaders as well as potential leaders for future roles.

The Leadership Pipeline has been set up jointly with research institutes and is based on global research. It is also designed to support the Volvo Group's culture and values as well as the strategic objectives.

Diversity enhances innovation

To create the dynamics required to succeed at a global level the Volvo Group needs to recruit and retain a broad spectrum of employees with different backgrounds, experience and perspectives. In the Volvo Group diversity is considered to be a catalyst for innovation and a source of competitiveness and profitability. By expanding the knowledge base, skills and understanding, the Group becomes more responsive to customer needs and it strengthens the Group's market position.

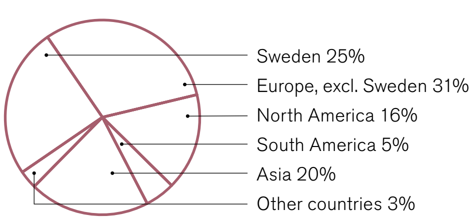
Diversity and inclusion have long been prioritized within the Volvo Group.

Employee engagement

In 2011, an Employee Engagement Index was added to the Volvo Group Attitude Survey (VGAS). By including engagement there is a clearer connection to the Group's wanted position, culture and business success.

The results from VGAS is benchmarked against an international database with data gathered from over 14 million employees, representing over 80 countries. In the 2011 VGAS, the Volvo group reached an Employee Engagement Index of 76%. This can be compared with the global norm of 68%. The survey reveals that the Volvo Group's general strengths are the employees' pride at manufacturing products of high quality and that they clearly understand their role and the business objectives.

Geographic distribution of employees



Key figures	2011	2010
Number of employees at year-end	98,162	90,409
Share of women, %	17	16
Share of women, Board Members, %	13	12
Share of women, Presidents and other senior executives, %	17	15

Responsible sourcing

Responsible supply chain management is about managing risk, promoting responsible behaviour and building long-term relationships with suppliers to improve social, environmental and business ethics in the supply chain. Ensuring good standards in the supply chain is important to the Volvo Group and its stakeholders. The Group wants to ensure that unethical values are not built into the Group's products and services.

Since 1996 the Volvo Group has gradually increased requirements for suppliers regarding environmental, business ethics and social responsibility aspects.

The requirements placed on suppliers are based on the principles contained in the Volvo Group's Code of Conduct and international norms of behaviour.

Sourcing and risk assessments

In 2011, more than 39,000 suppliers delivered products and services to the Volvo Group. Approximately 6,000 are suppliers of direct material used in automotive products. 8% of these suppliers are located in countries assessed as 'high risk' identified in the Volvo Group's CSR country risk model. The risk assessments are based on analyses conducted by internationally recognized institutions and include factors such as human rights, labour standards and incidence of corruption. The Volvo Group has chosen to apply the same requirements and the same process on all suppliers.

Results from the assessments in 2011

In 2011, 63% of Volvo Group purchasing spend derived from suppliers of direct materials that had completed the CSR assessment during 2010 and 2011. 73% of the suppliers that completed the assessment passed. Almost exclusively, the main reason for failing to comply with the assessment is a lack of adequate systems to pass on the requirements to their suppliers. Suppliers that do not pass are asked to draw up an action plan.

The assessment was completed by 83% of suppliers from countries considered to be high risk from a CSR-perspective.

In 2012, the Group will continue to focus on assessing suppliers in identified high- and medium risk countries from a CSR perspective and to work with the non-approved suppliers to ensure that the Group's requirements are met.

Production

The environmental effort is and has long been one of the cornerstones in the Group's work. The joint environmental policy is one of the most important documents for control. The policy is the foundation of the Group's environmental management system, strategies and targets, audits and measures.

Already in 1995, the first environmental management system was certified. At the end of 2011, 99% of the employees in production units were working in accordance with the certified environmental management system, primarily ISO 14001:2008. At each production unit, there is an environmental coordinator.

The Group's environmental goals are used to control, develop and monitor the environmental effort. Strategies to achieve the goals are included in the business plan. Since 2004, the Volvo Group has put an extra strong focus on energy reduction in its own production process. Energy consumption has since decreased by 46% per produced unit.

The energy-saving goal for 2010–2012 is divided into two parts:

- Continue the work with investigating the possibility of making the Group's facilities carbon neutral.
- Standby loss, i.e. energy consumption during non-production hours, must decrease by 50% and an additional 15% energy-saving per produced unit by 2012, compared with 2008.

Focusing on energy-savings measures is good for both the environment and the Group's financial results. A couple of years ago, when the Volvo Group launched the world's first carbon-neutral plant, the primary reason was to reduce the environmental load, but it soon became quite clear that it was also a solid financial investment, which will generate significant cost savings in the long term.

All production plants must comply with the common minimum requirements pertaining to chemicals, energy consumption, emissions to air and water, waste management, environmental organization and improvement work. Since 1989, environmental audits have been conducted to ensure compliance with the environmental policy and in the event of acquisitions; a review is conducted of the company and properties to observe environmental factors and risks.

In 2011, 17 facilities in Sweden required permits. All have the necessary environmental permits and no permits needs to be renewed in 2012. The existence of contaminated land in our properties is documented annually. During 2011, no after-treatment of contaminated land was in progress on Volvo Group property in Sweden. During 2011, no spills were reported, no major environmental incidents occurred and no environmental disputes are ongoing.

Volvo Group's environmental performance
For information on the Volvo Group's environmental performance see the Eleven-year summary.

Volvo Group Sustainability Report
will be available on www.volvogroup.com by the end of March.

Environmental data report
Every year, the Volvo Group publishes a detailed Environmental data report. Read more under Responsibility at www.volvogroup.com

THE SHARE

THE MOST TRADED SHARE IN STOCKHOLM

Many of the world's leading stock markets had a weak development in 2011 in the wake of the debt crisis in Europe and concern for the global economy. The Volvo share also had a negative development.

The Volvo share is listed on the Nasdaq OMX Nordic Exchange in Sweden. One A share entitles the holder to one vote at Annual General Meetings and one B share entitles the holder to one tenth of a vote. Dividends are the same for both classes of shares.

The Volvo share is included in a large number of indexes that are compiled by Dow Jones, FTSE, S&P and Nasdaq OMX Nordic.

Negative development on the stock market

In general, the development on the world's leading stock exchanges was negative following two years of positive trends. On Nasdaq OMX Nordic, the OMXSPI index fell by 18% during the year.

Trading in Volvo A shares on Nasdaq OMX Nordic decreased by 35% compared to 2010. The share price decreased by 34%, and at year-end the price for the Volvo A share was SEK 75.95. The highest price paid was SEK 119.50 on January 3, 2011.

Trading in Volvo B shares on Nasdaq OMX Nordic increased by 30% compared to 2010. The share price decreased by 36% and was SEK 75.30 per share at year-end. The highest price paid was SEK 121.70 on January 3, 2011.

In 2011, a total of 3.1 billion (2.5) Volvo shares at a value of SEK 282 billion were traded Nasdaq OMX Stockholm, corresponding to a daily average of 12.0 million shares (9.8).

The Volvo share was the most traded share on Nasdaq OMX Stockholm in 2011. At year-end 2011, Volvo's market capitalization totalled SEK 153 billion (238).

An increasing portion of the trading in Volvo shares is carried out on alternative exchanges such as Bats Europe, Burgundy, Chi-X and Turquoise. According to Fidessa the direct trading on Nasdaq OMX Stockholm accounted for 56% of the turnover in the Volvo B share while the trading at Chi-X accounted for 11%, Burgundy for 5%, Bats Europe for 3% and Turquoise for 2%. The remainder of the trading took place outside these exchanges.

Share conversion option

In accordance with a resolution on the AGM on April 6, 2011, the Articles of Association have been amended to include a conversion clause, stipulating that series A shares may be converted into series B shares, after a request sent to the Board.

During the year a total of 14.1 million A shares was converted to B shares, representing 2.1% of the initially outstanding A shares. A total of 50 requests from 33 persons or entities were handled.

Further information on the procedure is available on the Volvo Group's web site: www.volvogroup.com

Dividend

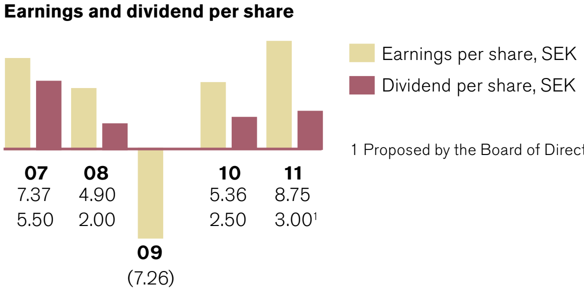
The Board proposes a dividend of SEK 3.00 per share for the financial year of 2011, which would mean that a total of SEK 6,082 M would be transferred to AB Volvo's shareholders. For the preceding year a dividend of SEK 2.50 per share was paid out, in total SEK 5,069 M.

Communication with shareholders

Dialog with the shareholders is important for Volvo. In addition to the Annual General Meeting and a number of larger activities aimed at professional investors, private shareholders and stock market analysts, the relationship between Volvo and the stock market is maintained through such events as press and telephone conferences in conjunction with the publication of interim reports, meetings with retail shareholders' associations, investor meetings and visits, as well as road shows in Europe, North America and Asia.

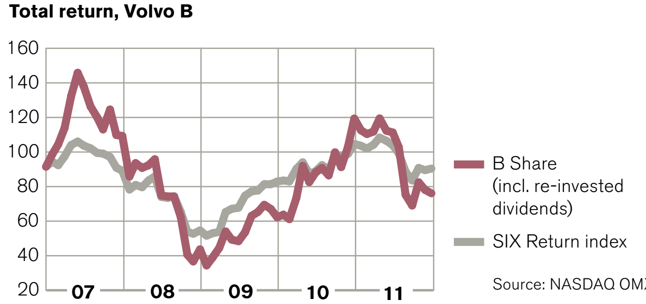
On the website www.volvogroup.com it is possible to access financial reports, search for information concerning the share, insider trading in Volvo and statistics for truck deliveries. It is also possible to access information concerning the Group's governance, including information about the Annual General Meeting, the Board of Directors, Group Management and other areas that are regulated in the "Swedish Code of Corporate Governance." The website also offers the possibility to subscribe to information from Volvo.

Earnings and dividend per share



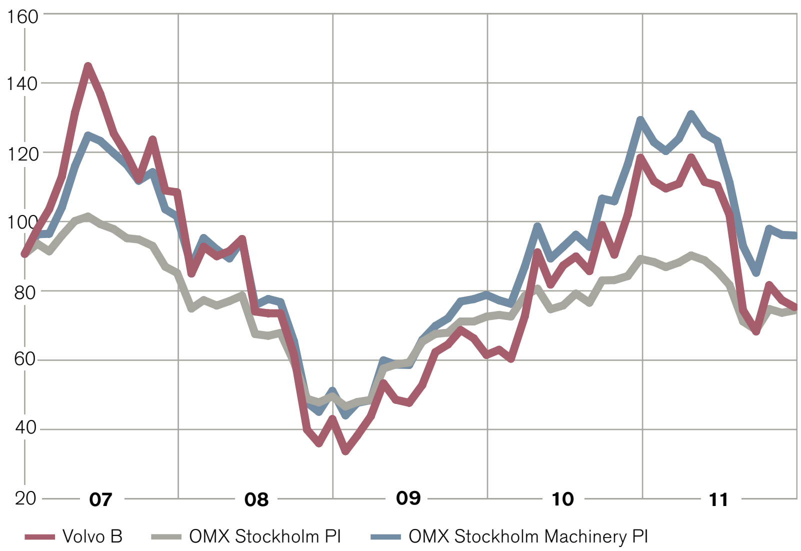
1 Proposed by the Board of Directors

Total return, Volvo B



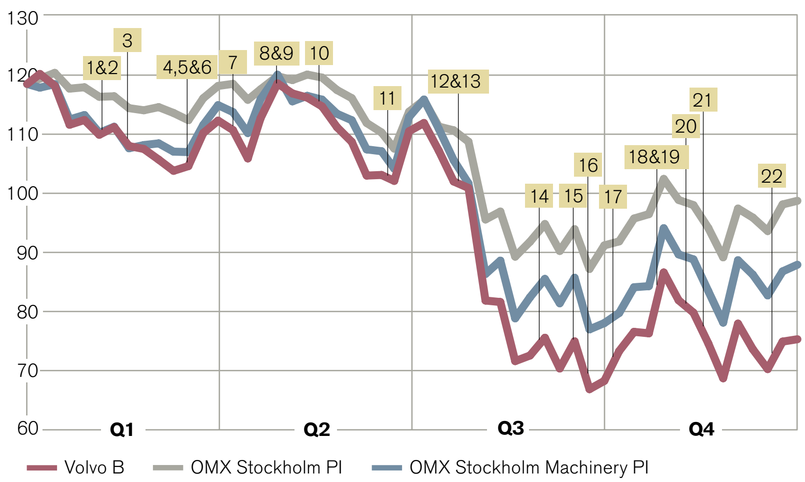
Source: NASDAQ OMX

Price trend, Volvo Series B shares, 2007–2011, SEK



Source: NASDAQ OMX

Price trend, Volvo Series B shares, 2011, SEK



Source: NASDAQ OMX

Events

1 Truck deliveries for December 2010, February 4
2 Year-end report 2010, February 4
3 Truck deliveries for January, February 16
4 Annual Report 2010, March 16
5 Truck deliveries for February, March 16
6 Olof Persson appointed new Volvo CEO, March 16
7 Annual General Meeting 2011, April 6
8 Truck deliveries for March, April 27
9 Report on the first quarter, April 27
10 Truck deliveries for April, May 17
11 Truck deliveries for May, June 17
12 Truck deliveries for June, July 22
13 Report on the second quarter, July 22
14 Truck deliveries for July, August 30
15 Truck deliveries for August, September 15
16 New financial targets for AB Volvo, September 22
17 Volvo Group restructures, October 4
18 Truck deliveries for September, October 25
19 Report on the third quarter, October 25
20 Capital markets day in Stockholm, November 8
21 Truck deliveries for October, November 16
22 Truck deliveries for November, December 19

The largest shareholders in AB Volvo, December 31[1]	Voting rights, % 2011	2010
Renault s.a.s.	17.7	17.5
Industrivärden	15.6	11.1
Violet Partners LP	5.6	5.5
SHB[2]	4.7	4.8
AMF Försäkring och Fonder	3.9	3.9

1 AB Volvo held 20,728,135 class A shares and 80,264,131 class B shares comprising in total 4.7% of the number of registered shares on December 31, 2011.

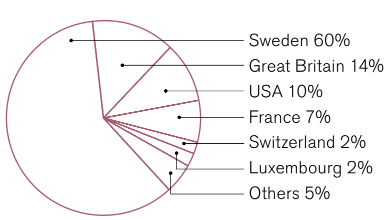
2 Comprises shares held by SHB, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen.

Share capital, December 31, 2011	
Registered number of shares[1]	2,128,420,220
of which, Series A shares[2]	663,527,946
of which, Series B shares[3]	1,464,892,274
Quota value, SEK	1.20
Share capital, SEK M	2,554
Number of shareholders	251,715
Private persons	229,825
Legal entities	21,890

For further details on the Volvo share, see note 19.

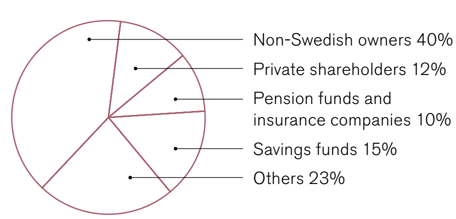
1 The number of outstanding shares was 2,027,427,954 at December 31, 2011.
2 Series A shares carry one vote each.
3 Series B shares carry one tenth of a vote each.

Ownership by country[1]



1 Share of capital, registered shares.

Ownership categories[1]



1 Share of capital, registered shares.
The employees' ownership of shares in Volvo through pension foundations is insignificant.

More details on the Volvo share and Volvo's holding of treasury shares are provided in note 19 to the financial statements and in the Eleven-year summary.

SIGNIFICANT EVENTS DURING 2011

Some of the important events during 2011 was that Olof Persson assumed position as new CEO, the Group received new financial targets and a new organization was adopted.

The first quarter

Olof Persson appointed new Volvo CEO

The Board of Directors of AB Volvo decided to appoint Olof Persson, 46, then President of Volvo Construction Equipment, as the new President and Chief Executive Officer of Volvo. Olof Persson assumed the position as President of AB Volvo and CEO of the Volvo Group on September 1, 2011 when Leif Johansson retired.

Pat Olney new CEO of Volvo CE

Effective May 1, Pat Olney, 42, was appointed new President and CEO of Volvo Construction Equipment. Pat Olney has an extensive experience spanning 17 years in the construction equipment industry, with 10 of these in senior management roles within Volvo CE. He assumed his new position on May 7, 2011.

Annual General Meeting of AB Volvo

The Annual General Meeting of AB Volvo held on April 6, 2011 approved the Board of Directors' motion that a dividend of SEK 2.50 per share be paid to the company's shareholders.

Peter Bijur, Jean-Baptiste Duzan, Leif Johansson, Hanne de Mora, Anders Nyrén, Louis Schweitzer, Ravi Venkatesan, Lars Westerberg and Ying Yeh were reelected as members of the AB Volvo Board. Leif Johansson was reelected for the period extending to August 31, 2011, when he stepped down from his assignment as President and Chief Executive Officer of Volvo. In addition, Olof Persson was elected to the Board for the period starting on September 1, 2011, when he took office as President and Chief Executive Officer of Volvo. Louis Schweitzer was reelected Chairman of the Board.

Jean-Baptiste Duzan, representing Renault s.a.s, Carl-Olof By, representing AB Industrivärden, Håkan Sandberg, representing Svenska Handelsbanken, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen, and Lars Förberg, representing Violet Partners LP, and the Chairman of the Board were elected members of the Election Committee. The Meeting resolved that no fees would be payable to the members of the Election Committee.

The Annual General Meeting adopted a proposal from Renault S.A. and Industrivärden concerning an addendum to AB Volvo's Articles of Association that will permit voluntary conversion of Series A shares to Series B shares. The amendment of the Articles of Association was subject to approval by shareholders representing at least two thirds of the votes cast and the voting rights represented at the Meeting.

Volvo CE invests in its North American operations

Over the next couple of years, Volvo Construction Equipment plans to invest USD 100 M in its Shippensburg, PA, USA manufacturing facility and start production of wheel loaders, excavators and articulated haulers in North America. Also, Volvo CE's North American sales headquarters and Volvo Rents will relocate from Asheville, NC to Shippensburg, PA by September 2012.

The second quarter

UD Trucks launches new Condor

In July, UD Trucks launched its new Condor medium-duty trucks, which have undergone a full model change. The new models adopt a new cab design that conveys the impression of a unified family identity with the Quon heavy-duty truck series. They also feature various advanced technologies accumulated on the company's heavy-duty trucks to deliver outstanding fuel economy, improved environmental and aerodynamic performance and safety. The new Condor models are powered by engines fitted with a newly developed common rail system that increases the maximum fuel injection pressure for achieving high levels of power and torque in a small displacement volume.

The third quarter

New financial targets

In September it was announced that the Board of Directors of AB Volvo had decided to implement new financial targets for the Volvo Group starting in 2012. The new targets have been set in order to enable the growth and profitability of the various operations to be measured and benchmarked annually against relevant competitors.

The financial targets for the Group are as follows:

- The annual organic sales growth for the truck, bus and construction equipment operations, as well as Volvo Penta, shall be equal to or exceed a weighted-average for comparable competitors.
- Each year, the operating margin for the truck, bus and construction equipment operations, as well as Volvo Penta, shall be ranked among the top two companies when benchmarked against relevant competitors.
- For Customer Finance Operations, the existing targets of 12-15% return of equity (ROE) and an equity ratio exceeding 8% stand firm. Volvo Aero has an ROE target of 15–25%. When calculating the ROE, Volvo Aero will be assigned the same equity ratio as that for the Group's Industrial Operations.
- The capital structure target is set to a net debt, including provisions for post-employment benefits, for the Industrial Operations of a maximum of 40% of shareholders' equity under normal conditions.

Pat Olney

Olof Persson

Volvo Aero

UD Trucks new Condor

Volvo CE at ConExpo

Sales increase in the bus business

Volvo Group restructures its truck business and launches new organization

In October it was announced that the Volvo Group is to have a new organization which better utilizes the global potential of the brands and products within the truck operations. For example, the sales and marketing of all of the truck companies will be organized in three regional organizational units, directly under the CEO. In the same manner, all product development and production of trucks and engines will be placed in two new central organizational units under the CEO. Production, product planning and product development for the non-truck business areas will remain with their respective business area. The new organization was in place as of January 1, 2012.

The fourth quarter

Volvo Group's 2011 Capital Market Day

At Volvo's Capital Market Day in Stockholm on November 8, 2011 President and CEO Olof Persson presented the Group's new financial targets that were announced on September 22, 2011, and the new organization that applies from the beginning of 2012. He also emphasized the major growth potential he sees in the existing businesses which, combined with higher cost efficiency, over time gives the Group the potential to increase its operating margin by at least 3 percentage points, thus facilitating achievement of the new financial targets.

AB Volvo evaluates the possibility of divesting Volvo Aero

On November 21, 2011 it was announced that AB Volvo, as a step in further streamlining the Volvo Group towards commercial vehicles, had initiated a process aimed at divesting Volvo Aero.

Carl-Henric Svanberg proposed as new Chairman of AB Volvo

On December 12, 2011 the Election Committee of AB Volvo proposed the election of Carl-Henric Svanberg as new Chairman of the Board at the Annual General Meeting on April 4, 2012. AB Volvo's current Chairman Louis Schweitzer has declined reelection.

The Election Committee also proposed the reelection of Board members Peter Bijur, Jean-Baptiste Duzan, Hanne de Mora, Anders Nyrén, Ravi Venkatesan, Lars Westerberg, Ying Yeh and Olof Persson.

Detailed information about the events is available at www.volvogroup.com

Corporate Governance Report Volvo has issued a corporate governance report which is separate from the annual report. The corporate governance report is included in this document, after the annual report as such, on pages 150–159.

TRUCKS
CONTINUED EARNINGS IMPROVEMENT

2011 was characterized by a continued recovery in demand in the Group's mature markets and a continued strong development in the emerging markets. Towards the end of the year the first signs of a moderate slowdown became visible in Europe.

Demand in Europe and North America increased during the year, but towards the end of the year it weakened in Europe. The Japanese market was negatively affected by the earthquake and tsunami that hit the country in March but recovered towards the end of the year. In Brazil demand was strong during the year.

Total market

In 2011 the heavy-duty truck market in Europe 29 (EU, Norway and Switzerland) increased by 35% to 242,400 trucks compared to 2010. The situation still varied significantly within Europe. While parts of Southern Europe were struggling, other regions in Northern and Eastern Europe had recovered from the low levels of 2010. In 2012, the total market for heavy-duty trucks in Europe 29 is expected to experience a moderate decline to a level of about 220,000 trucks. The start of the year is expected to be slow with a gradual pick-up in demand as customers start to renew their fleets ahead of the new emission regulation in 2014.

In 2011, the total market for heavy-duty trucks in North America increased by 52% to 216,100 trucks compared to 142,100 in the previous year. Demand was strong throughout the year, driven primarily by the need to replace the industry's aging highway tractor population. Activity in the refuse vehicle segment was steady. Although the vocational truck segment continued to suffer as a result of the depressed construction market, some positive signs were seen in the energy sector, particularly natural gas production. In 2012, the total market for heavy-duty trucks in North America is expected to grow to a level of about 250,000 trucks.

In 2011, the total market in Brazil increased by 2% to 111,500 heavy-duty trucks (109,800). The increase was lower than anticipated because of less prebuying than expected ahead of the new, stricter emission regulation that came into effect on January 1, 2012. The total Brazilian market for heavy-duty trucks is expected to record a slight decline and reach a level of about 105,000 trucks in 2012. The beginning of the year is expected to be slow followed by a gradual pick-up in demand driven by a general increase in economic activity and increased acceptance of the new, more expensive Euro V trucks.

In Japan the market for heavy-duty trucks was 24,800 vehicles in 2011 (24,500), which was an increase of 1%. Following the earthquake and the subsequent tsunami that hit Japan on March 11, 2011 there were signs of a market-recovery during the latter part of 2011 and into 2012. For 2012, the total Japanese market for heavy-duty trucks is expected to increase to about 30,000 trucks.

The Indian market for heavy-duty trucks grew by 12% to 237,000 trucks in 2011 compared to 212,000 vehicles in 2010.

Earnings

In 2011, net sales in the truck operations increased by 24% to SEK 207,703 M (167,305). The operating income improved to SEK 18,260 M (10,112), while the operating margin was 9.1% (6.0).

Increased sales volumes, higher capacity utilization and continued strict control on operating costs had a positive impact on profitability.

New products

At the annual Mid-America Trucking Show in Louisville, Kentucky, both Mack and Volvo Trucks introduced trucks with new aerodynamic and powertrain features which, when combined with the improvements already achieved through the use of SCR technology, deliver fuel efficiency gains of 8-12% over previous generations of trucks (EPA 2007).

The world's most powerful hybrid truck was launched by Volvo Trucks in the first quarter. The Volvo FE Hybrid, the first parallel hybrid from Volvo Trucks, uses techniques able to reduce fuel consumption and carbon dioxide emissions by up to 20%, and it makes the truck much more silent.

In May, Volvo Trucks launched the new Volvo FM MethaneDiesel truck, a gas-powered truck for long-haul operations enhancing its focus on alternative fuels. This truck can be powered by up to 75% gas and if run on biogas, emissions of carbon dioxide from fossil fuel could be cut by up to 70% compared with a conventional diesel engine.

In September, a 750 hp version of the Volvo FH16 was launched.

Renault Trucks delivered the first serial Renault Premium Distribution hybrid truck (Hybrys Tech).

Renault Trucks also launched a system called Optiroll on the Renault Premium Route Optifuel truck, which further reduces fuel consumption.

In July, UD Trucks launched its new Condor medium-duty trucks, which have undergone a full model change.

The truck operations consist of Volvo Trucks, Renault Trucks, UD Trucks, Mack Trucks and VECV in India (50% direct and indirect ownership). The product offer stretches from heavy-duty trucks for long-haulage and construction work to light-duty trucks for distribution.

Number of employees

41,469

Position on world market

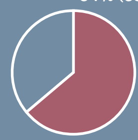
In total, the Volvo Group is Europe's largest and the world's second largest Western manufacturer of heavy trucks.

Brands

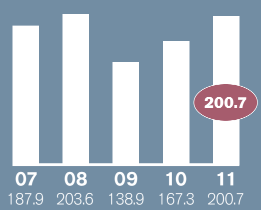
Volvo, Renault Trucks, UD Trucks, Mack and Eicher.

Fuel-efficient engines is one important factor behind the truck operations' success.

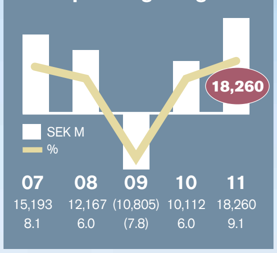
Net sales as percentage of Volvo Group's sales



Net sales SEK bn



Operating income (loss) and operating margin



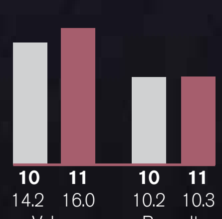
Net sales by market

SEK M	2011	2010
Europe	85,173	69,606
North America	37,120	26,901
South America	26,822	21,680
Asia	37,551	35,231
Other markets	14,037	13,888
Total	**200,703**	**167,305**

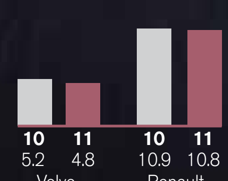
Deliveries by market

Number of trucks	2011	2010
Europe	95,113	65,503
North America	42,613	24,282
South America	29,274	21,483
Asia	56,165	53,833
Other markets	15,226	14,888
Total	**238,391**	**179,989**

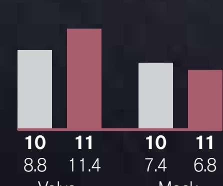
INCREASED
SALES IN ALL MARKETS



Market shares in Europe, heavy-duty trucks



Market shares in Europe, medium-duty trucks



Market shares in North America, heavy-duty trucks

Market shares in Japan, heavy-duty trucks

CONSTRUCTION EQUIPMENT

WIDESPREAD DEMAND UNDERPINS GROWTH

Volvo Construction Equipment (Volvo CE) is among the largest global producers of excavators, haulers, loaders and a range of smaller equipment such as backhoe loaders. The road machinery range includes graders, compactors and pavers. Its Chinese built SDLG branded excavators, loaders and compactors are marketed through separate sales channels.

Volvo CE's equipment is distributed to customers through a global network of independent dealers, and in some instances, Volvo-owned distributors. The customer offering also includes services such as financing, leasing and used equipment sales. Customers are using Volvo CE products in different applications, including general construction, road building and maintenance, demolition, waste processing, material handling and extraction.

Widespread demand

Measured in units sold, the total world market for heavy, compact and road machinery equipment increased by 18% in 2011, compared to 2010. After a long period of low growth, the mature markets of Europe saw rises of 31% in 2011, whereas demand in the previously sluggish North American market jumped by 37%. Asia excluding China grew by 28% and Other Markets by 14%. In China, government efforts to cool inflation dampened demand, but sales nevertheless increased by 7% in this, the world's largest construction equipment market.

Recoveries in mature economies coupled with continued buoyant demand in emerging markets and internal cost reductions saw Volvo CE to a confident 2011 in terms of sales and income. During 2011 the company sold a record 84,000 machines, compared with 66,000 in 2010.

Net sales increased by 21% to SEK 64,987 M (53,810). Operating income rose to SEK 6,653 M (6,180) whereas the operating margin amounted to 10.2% (11.5). These are solid results given the significant currency headwinds and the supplier-related consequences of the earthquake and tsunami that struck Japan in early March, which had a negative effect on both sales and income.

Strengthen position in BRIC countries

In 2011 Volvo CE saw strong momentum in all BRIC markets. Significantly, it became market leader in China for excavator and wheel loader sales, with a share of 12%. Despite a softening of the Chinese market, Volvo CE's sales there grew by 29% in 2011. In October the company broke ground on its major new technology center in Jinan, China, which, when completed, will design products for the BRIC markets and form part of the company's plan to have a global footprint of engineering and design resources.

The third quarter saw Volvo CE announce a SEK 350 M investment in a new excavator plant in Kaluga, Russia, which will see production start in early 2013. Distribution in Russia also got a boost; with new partner Ferronordic committing USD 100 M to expanding dealer locations in the vast country.

In India, dealer development was also in focus, and SEK 140 M is being spent on expanding Volvo CE's Bangalore facility to accommodate excavator production. Elsewhere, the company saw strong market growth across South America, with its SDLG wheel loader range gaining the market leadership position among Chinese brands in the region. A SEK 65 M investment will see Volvo CE excavators produced at the Pederneiras, Brazil facility.

Reduce break-even

Further investments were announced that will see efficiency gains and lower the break-even point, as well as reducing currency exposure. Localization of sourcing and production is essential to this objective, with the most notable example being the announcement of a USD 100 M investment in the company's Shippensburg, US facility to allow production of wheel loaders, excavators and articulated haulers.

Launch Tier 4i/Stage IIIB engines

Volvo has taken the lead in introducing environmentally friendly Tier 4 Interim/Stage IIIB-compliant products in North America and Europe, with the successful launch of complete new generations of machines affected by the legislation. The company's new V-ACT engine systems have the hallmarks of lower emissions, better performance, improved operational economy and higher quality. As well as advanced engine monitoring and control, the new Volvo system uses an advanced exhaust after-treatment system that reduces particulate matter by 90% compared to the previous machine series.

New products

Volvo CE chose the ConExpo exhibition in Las Vegas in March 2011 to unveil its fundamentally updated product range, which includes excavators, wheel loaders, articulated haulers, backhoe loaders – and the Red Dot award winning L220G wheel loader. In all, over 50 new models were introduced to dealers and customers in Europe and North America, with a host of new products also available in Asia and other markets.

Volvo CE manufactures equipment for construction applications and related industries.

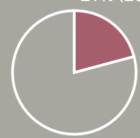
Number of employees
14,857

Position on world market
Volvo CE is the world's largest manufacturer of articulated haulers and one of the world's largest manufacturers of wheel loaders, excavators, road development machines and compact construction equipment.

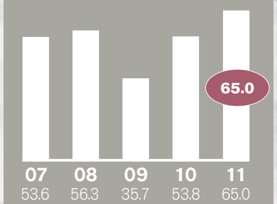
Brands
Volvo and SDLG (Lingong).

Volvo CE launched more than 50 new models during the year.

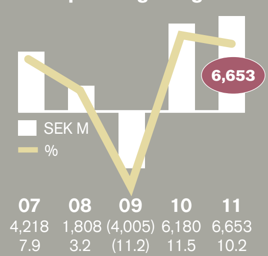
Net sales as percentage of Volvo Group sales



Net sales, SEK bn



Operating income (loss) and operating margin



Net sales by market

SEK M	2011	2010
Europe	19,052	16,138
North America	7,862	6,267
South America	4,177	4,130
Asia	30,151	24,352
Other markets	3,745	2,923
Total	**64,987**	**53,810**

RECORD

DELIVERIES AND SUBSTANTIAL RENEWAL

BUSES
INCREASED SALES AND PROFITABILITY

For Volvo Buses, 2011 was yet another strong year, with sharply increased sales and improved profitability.

Volvo Buses is one of the world's largest manufacturers of heavy buses. The range comprises complete buses, chassis, transport solutions, telematic systems, financial solutions, as well as service and maintenance contracts. The company offers global products adapted to local conditions, with manufacturing in Europe, Asia, North America and South America.

Volvo Buses has sales in about 85 countries and is one of the bus industry's strongest service networks, with more than 1,500 retailers and service workshops globally.

Global leader in hybrid buses

During the year, the trend toward more efficient transport solutions continued within the bus industry, with less energy consumption and lower environmental impact. Volvo Buses introduced a new bus model for city traffic – the Volvo 7900. The new bus model is available in hybrid and for natural gas/biogas, as well as diesel/biodiesel. The hybrid model has up to 37% lower fuel consumption and carbon-dioxide emissions than the corresponding diesel bus. With the Volvo 7900, Volvo Buses will strengthen its industry-leading position in terms of fuel-efficient hybrid vehicles. In total, Volvo Buses has now sold more than 400 hybrid buses, of which 110 were to the U.K., 60 to Curitiba, Brazil, 32 to Tromsö, Norway, 25 to Sweden, 10 to Hamburg, Germany and 8 to Mexico in 2011.

Developing the vehicle of the future

The next development step in the hybrid area is a chargeable hybrid, which can operate quietly for long distances and is completely exhaust-free, using only electricity. The technology has the potential to reduce fuel consumption by as much as 65% compared with current diesel-driven buses. A prototype was developed in 2011 and field tests will commence in Gothenburg in autumn 2012.

In China, there is major interest in alternative drivelines and fuels. Here, Volvo Buses and SAIC (Shanghai Automotive Industry Corporation) have started a joint venture company for research, development and industrialization of buses with alternative drive systems, both refined electric vehicles and hybrids.

Within the framework of the EBSF research program (European Bus System of the Future), Volvo Buses has developed a demonstration vehicle with various solutions that may contribute to making public transportation more efficient and attractive for passengers, for example, by more rapid entering and alighting, shorter travel times and less crowding. Tests in traffic commenced in Gothenburg in December 2011.

Lower operating costs with telematics

To assist customers in reducing their operating costs, Volvo Buses is also offering telematic systems. In 2011, Volvo Bus Telematics with Traffic Management, Fleet Management and Vehicle Management was launched, which will make it easier for operators to monitor fuel consumption and service requirements for each vehicle.

New investments in India

In 2011, Volvo Buses celebrated ten years of successful presence in India, where the company is the market leader in luxuriously equipped intercity buses and air conditioned low-floor buses. Comprehensive new investments are currently being planned, which will significantly increase the industrial capacity. The investments will meet demand in the domestic market and facilitate increased export.

Increased deliveries, decreased order intake

In 2011, the bus market continued to develop favorably in Asia and South America, while it decreased in Europe and North America.

Volvo Buses increased its deliveries by 25% primarily due to substantially higher deliveries in South America and North America. In total, 12,786 buses and bus chassis (10,229) were delivered, which are the highest deliveries to date. The final two quarters showed a somewhat slower order intake.

Sales and income

In 2011, net sales rose to SEK 22,289 M (20,516) strengthened by increased deliveries in South America, North America and Europe. Operating income improved to SEK 1,036 M (780) and the operating margin amounted to 4.6% (3.8). Profitability was favorably impacted by increased volumes and an improved market mix.

Buses has a product range comprising city and intercity buses, coaches and chassis.

Number of employees
7,400

Position on world market
The business area is one of the world's largest producers of buses.

Brands
Volvo, Prevost, Nova and Sunwin.

In addition to complete buses, Volvo Buses also delivers bus chassis for completion at external body builders.

Net sales as percentage of Volvo Group sales

7% (8)

Net sales
SEK bn

22.3
07 08 09 10 11
16.6 17.3 18.5 20.5 22.3

Operating income (loss) and operating margin

SEK M
%
1,036
07 08 09 10 11
231 (76) (350) 780 1,036
1.4 (0.4) (1.9) 3.8 4.6

Net sales by market

SEK M	2011	2010
Europe	7,009	6,242
North America	7,541	7,200
South America	2,721	1,737
Asia	3,027	3,299
Other markets	1,991	2,038
Total	**22,289**	**20,516**

Deliveries by market

Number of buses	2011	2010
Europe	2,695	2,395
North America	3,014	2,092
South America	2,620	1,174
Asia	3,417	3,477
Other markets	1,040	1,091
Total	**12,786**	**10,229**

LEADER IN HYBRIDS

VOLVO PENTA
IMPROVED PROFITABILITY

Volvo Penta offers complete drive systems for leisure boats and professional boats, and for industrial applications such as power generation, cranes, pumps and container trucks.

In the commercial shipping area, Volvo Penta delivers diesel engines for the toughest-possible operating conditions. Coast guards, ferry companies, port authorities and shipyards all over the world use Volvo Penta's reliable engines for towing, passenger transports, patrolling and sea rescue.

In the leisure boat industry, Volvo Penta develops and delivers complete drive systems to world-leading boat builders such as Fairline, Sunseeker and Princess in the UK, Jeanneau/Beneteau in France, Chaparral in the US and Schaefer Yachts in Brazil.

Volvo Penta's innovative technological solutions for boats create competitiveness and customer benefits in the form of lower fuel consumption, easier manoeuvering and shorter installation times. Through partnerships in the communication and navigation area, and by fully integrated drive systems, Volvo Penta offers boat driving environments with a strong focus on comfort and user-friendliness.

Volvo Penta's customers have access to the marine industry's most global service and dealer network with about 4,000 dealers worldwide.

In the industrial engine area, Volvo Penta delivers diesel engines to world-leading customers such as Cargotech in Finland, Sany in China, Kohler in the US and Sandvik in Sweden. With their unique performance, operational and environmental features, Volvo Penta's industrial engines create strong competitiveness for this type of global customers, and by utilizing the breadth and strength of the Volvo Group's combined service offering, Volvo Penta can also offer efficient support in the form of global service and aftermarket services.

Volvo Penta contributes substantial synergies and economies of scale to the Group's total diesel engine manufacturing. About one-fifth of volumes in the diesel engine plant in Skövde comprise engines delivered by Volvo Penta. More than half of the Group's total volumes of 16-liter engines are delivered to Volvo Penta's customers.

Total market

The total market for industrial engines was strong during the first half of the year, but demand in Europe and North America weakened toward year-end due to the debt crisis and global financial turmoil. Stable demand was noted in China and many other countries in Asia and South America.

The total market for marine engines remained largely unchanged compared with the weak trend during recent years. European boat sales were adversely impacted by bailout packages and austerity measures in Southern Europe, particularly in Italy and Spain. Domestic boat sales in Italy, which is traditionally Volvo Penta's largest marine market in Europe, are estimated to have decreased about 70% over five years.

In North America, boat sales were consistently at historically low levels and as a result, total demand for both marine gasoline and diesel engines remained very low in the US.

Product renewal

With an aggressive focus on product development and product renewal, Volvo Penta has created a modern and highly competitive product range for industrial engines in recent years. The Volvo Group's proven SCR technology enables the industrial engine range to meet future emissions regulations, while Volvo Penta can also offer its customers significant installation benefits and favorable operating economy.

On the marine side, Volvo Penta launched D6-400 in 2011 – the world's most powerful diesel sterndrive. This 400-hp power package confirms Volvo Penta's world-leading position in the diesel sterndrive segment.

Earnings trend

Sales amounted to SEK 8,859 M compared with SEK 8,716 M in the preceding year. Operating income was SEK 781 M compared with SEK 578 M in the preceding year. The operating margin was 8.8% (6.6). Earnings were positively impacted by increased sales, effective cost control and a favorable product mix.

Production and investments

In 2011, Volvo Penta completed the launch of a new logistics system that enables efficiency enhancements across the entire chain – from order to delivery.

In recent years, Volvo Penta's engine plant in Vara, Sweden has worked systematically to reduce its environmental impact and energy costs. The plant has accepted AB Volvo's challenge to all plants within the Group to become energy-efficient and phase out fossil fuels. Due to these efforts, all manufacturing in the Vara plant was carbon neutral from 2011.

Volvo Penta provides engines and power systems for leisure and commercial craft, as well as for industrial applications such as power generation and container trucks.

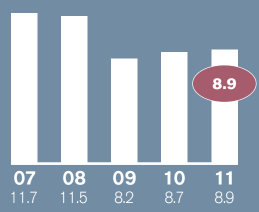
Number of employees
1,338

Position on world market
Volvo Penta is the world's largest producer of diesel engines for leisure boats and a leading, independent producer of industrial engines.

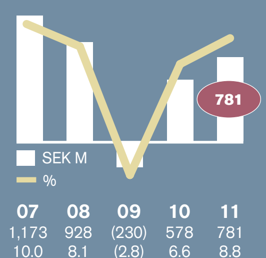
Volvo Penta offers boat driving environments with focus on comfort and user-friendliness.

Net sales as percentage of Volvo Group sales

Net sales, SEK bn



Operating income (loss) and operating margin



Net sales by market

SEK M	**2011**	2010
Europe	4,546	4,507
North America	1,386	1,500
South America	342	335
Asia	2,245	2,008
Other markets	340	366
Total	**8,859**	**8,716**

Engine volumes

No. of units	**2011**	2010
Marine engines[1]	20,074	22,183
Industrial engines	21,137	20,298
Total	**41,211**	**42,481**

1 Excluding outboard engines.

GOOD EARNINGS

DESPITE WEAK MARKET

VOLVO AERO
IMPROVED PROFITABILITY

Volvo Aero develops and manufactures advanced components for rocket engines, and civil and military aircraft engines. The company also carries out maintenance and repair on aircraft engines and stationary gas turbines.

Since the 1980s, Volvo Aero's civil operations have grown steadily in terms of sales and significance, while the company's military operations have decreased in a corresponding fashion to the present figure of about 5% of sales.

Since Volvo Aero has an independent role, the company can sign agreements with all major manufacturers in the aircraft engine industry. As a result, Volvo Aero's engine components are now found in more than 90% of all new large civil aircraft.

Volvo Aero can now also claim the role as a designer of new engine components. The company has assumed a leading role in the field of light-weight structures, which is now gaining significance in the industry since less weight leads to lower fuel consumption and, in turn, lower emissions from aircraft – two vital issues for the airline industry.

A key component in the light-weight venture is the composite company ACAB, which Volvo Aero acquired in 2007. During the year, ACAB secured a strategic contract with Korean Air concerning future collaboration in the areas of radomes, wing structures and other composite components.

The continued success of Volvo Aero's focus on high quality is confirmed by the fact that, in 2011, the single-engine military aircraft Gripen, with a Volvo RM12 engine, exceeded 160,000 hours of operation with no engine-related breakdowns or serious incidents. This is unique for all air forces worldwide.

Total market

According to the airline industry's international trade organization, IATA, passenger traffic increased 5.9% in 2011 while air-freight declined 0.7%, compared with the preceding year.

Airbus and Boeing reported 2,529 new orders during the year, nearly a two-fold increase compared with the preceding year (1,269). The order book for large civilian aircraft rose from 6,995 aircraft at the end of 2010 to 8,208 at the end of 2011. The aircraft manufacturers delivered 1,011 aircraft in 2011, a 4% increase compared with the preceding year.

Product renewal

An agreement signed with aeroengine manufacturer Pratt & Whitney in June makes Volvo Aero a program partner in the PW1100G engine, which is built with geared turbofan technology. The engine will power the A320neo aircraft and has been listed by TIME Magazine as one of the 50 best inventions of 2011. The PW1100G engine was the most significant development in the aerospace industry during the year.

Boeing's new 787 aircraft, Dreamliner, commenced operation in 2011, as well as Boeing's modernized version of the 747 (747-8). Both aircraft are offered with a GEnx engine, in which Volvo Aero is a program partner.

Development of the Rolls-Royce engine, Trent XWB, for the A350 XWB Airbus aircraft continues as planned and several major milestones were passed during the year. Volvo Aero is a program partner in the engine.

Earnings trend

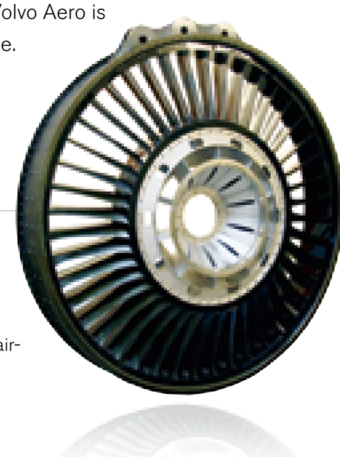
Sales totaled SEK 6,509 M compared with SEK 7,708 M in the preceding year. Operating income was SEK 336 M compared with SEK 286 M in the preceding year. The operating margin was 5.2% (3.7).

On March 31, Volvo Aero acquired all of Pratt & Whitney's shares in Volvo Aero Norway and thus became the company's sole shareholder.

On November 21, AB Volvo announced – as part of its efforts to further refine the Group's focus on heavy commercial vehicles – that it had initiated a process to divest Volvo Aero.

Production and investments

In just a few short years, Volvo Aero's North American subsidiary, VACT, outside Hartford in Connecticut in the US, has established itself as one of the market's leading players in the field of fan cases for large aircraft engines. The most recent example is a fan case for the GP7000 engine in the Airbus A380. The company already manufactures fan cases for the Trent 900 for the same aircraft. Similarly, VACT has signed a contract for manufacturing both of the engine options offered with the new Boeing 787: the Rolls-Royce Trent 1000, and GEnx 1B. Volvo Aero has also signed a contract concerning the manufacture of GEnx 2B fan cases for the new Boeing 747-8. Other assignments include the GE90 for the Boeing 777 and V2500 for the Airbus A320.

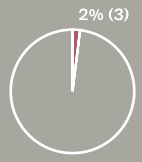


Volvo Aero offers advanced components for aircraft engines and space applications, with a focus on light-weight technology for reduced fuel consumption. Services for the aerospace industry and for stationary gas turbines are also offered.

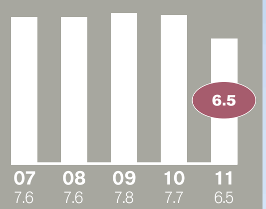
Number of employees
2,904

Position on world market
Volvo Aero holds a leading position as an independent producer, with engine components in over 90% of all new, large commercial aircraft delivered in 2011.

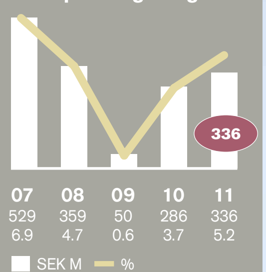
Net sales as percentage of Volvo Group sales



Net sales, SEK bn



Operating income (loss) and operating margin



Net sales by market

SEK M	**2011**	2010
Europe	3,036	3,768
North America	3,304	3,599
South America	8	27
Asia	108	233
Other markets	53	81
Total	**6,509**	**7,708**

ESTABLISHED POSITION IN MANY ENGINE PROGRAMS

VOLVO FINANCIAL SERVICES
INCREASED PROFITABILITY AND GROWTH

Volvo Financial Services (VFS) supports the Volvo Group product range with financial services by delivering integrated, competitive financial solutions that meet customer and dealer needs.

By developing long-term relationships with customers and dealers, VFS seeks to establish a number one market position for the financing of Volvo Group products where we operate.

When customers choose a vehicle or equipment supplier, the offer of supplementary services is an important factor. Customers desire solutions that can enable them to work more efficiently while maximizing profitability and reliability. VFS creates value for Volvo Group customers by providing solutions including financing, leasing and insurance. These services are of increasing importance to the Volvo Group's total offer.

Portfolio improvements

Although global economies and financial markets continued to be characterized by uncertainty and volatility during 2011, the VFS portfolio showed strong improvements in customer repayment patterns as evidenced by continued reductions in customer delinquencies, defaults and repossessions. During this period, VFS also successfully reduced inventories of repossessed units as used truck and equipment demand increased. Reduced credit losses have primarily contributed to VFS' increased profitability during the year.

Volvo Group unit deliveries strengthened and financing market shares remained stable during 2011. As a result, VFS returned to growth with a disciplined approach to balancing new business development with risk and cost control.

Market development

VFS continues to strengthen and standardize its operations in ways that increase efficiency, execution and speed to market. This approach has prepared VFS to capitalize on profitable growth opportunities with stable, efficient and scalable business platforms.

In the mature markets of North America and Europe, VFS continues to improve operational leverage and optimize results with standard technologies, solutions and shared services. In developing markets such as China, Russia and Brazil, VFS continues to make investments in prudent growth with a focus on strengthening local operations and maintaining a disciplined risk management structure. Downturn preparation and readiness are always in focus for such markets regardless of the current business environment. In India, VFS serves the market with a branded private label alliance in support of Volvo Group unit sales.

Customer finance operations

Total new financing volume in 2011 amounted to SEK 44.8 billion (35.1). Adjusted for changes in exchange rates, new business volume increased by 35% compared to 2010 as a result of increased sales volumes of the Volvo Group products and stable penetration levels. In total, 49,757 new Volvo vehicles and machines (34,522) were financed during the year. In the markets where financing is offered, the average penetration rate was 25% (25).

As of December 31, 2011, the credit portfolio was SEK 95,544 M (84,550). During 2011 the credit portfolio increased by 13.8% (decrease: 4.4), adjusted for exchange-rate movements. The funding of the credit portfolio is matched in terms of maturity, interest rates and currencies in accordance with Volvo Group policy. For further information see note 4.

The operating income for the year amounted to SEK 942 M compared to SEK 167 M in the previous year. Return on shareholders' equity was 7.3% (0.4). The equity ratio at the end of the year was 9.1% (9.0). The improvement in profitability is driven mainly by lower credit provisions and higher earning assets. During the year, credit provision expenses amounted to SEK 682 M (1,438) while write-offs of SEK 804 M (1,460) were recorded. The write-off ratio for 2011 was 0.93% (1.65). At the end of December 31, 2011, credit reserves were 1.33% (1.69%) of the credit portfolio.

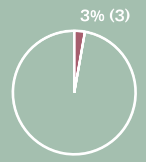
As a consequence of the strong volume growth in Brazil, VFS executed on its second large portfolio syndication in the second quarter of 2011. This transaction of approximately SEK 4 billion of the Brazilian credit portfolio served as an important risk mitigation measure and successfully freed up capital for reinvestment in the country. The transaction generated a positive impact on operating income of SEK 45 M.

Conducts operations in customer and dealer financing.

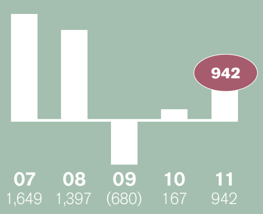
Number of employees
1,323

Position on world market
Volvo Financial Services operates exclusively to support the sales and leasing of vehicles and machines which are produced by the other business areas, enhancing their competitiveness.

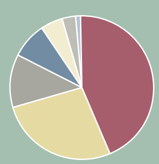
Net sales as percentage of Volvo Group sales



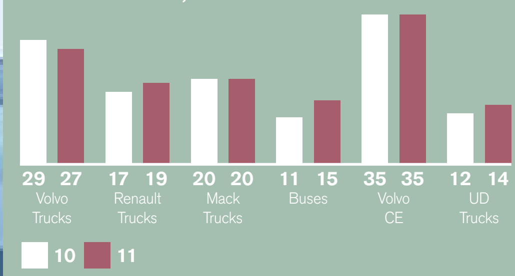
Operating income (loss)
SEK M



Distribution of credit portfolio



Penetration rate[1], %



1 Share of unit sales financed by Volvo Financial Services in relation to total number units sold by the Volvo Group in markets where financial services are offered.

AN IMPORTANT PART OF THE TOTAL SOLUTION

FINANCIAL STRATEGY
BALANCING GOOD RETURNS AND FINANCIAL STABILITY

The purpose of Volvo's long-term financial strategy is to ensure the best use of Group resources in providing shareholders with a favorable return and offering creditors financial stability.

Volvo's goal is a strong and stable financial position

A long-term competitive market position requires availability of capital to implement investments.

The financial strategy ensures that the Group's capital is used in the best possible manner by:

- balancing shareholders' expectations on favorable returns with creditors' demands for financial stability
- strong and stable credit ratings
- diversified access to financing from the capital markets
- margin in the balance sheet to cope with a strong decline in the economy
- financing at competitive conditions to customers.

The goal concerning capital structure is defined as the financial net debt for the Industrial Operations and it shall under normal circumstances be below 40% of shareholders' equity.

Volvo carefully monitors the trend of financial key ratios to confirm that the financial position is in line with the Group's policy. The financial key ratios include order intake as well as operational and financial development.

The good demand for the Group's products continued in 2011 and has contributed to the improvement of the Volvo Group's profitability and financial position. The financial net debt in Industrial Operations declined during the year from 37.4% of shareholders' equity to 25.2%.

Volvo strives for strong, stable credit ratings

The Volvo Group has continual meetings with the credit rating agencies Moody's and Standard & Poor's (S&P) to update them on the company's development. These meetings contribute to the credit rating agencies' ability to assess the Group's future ability to repay loans. A high long-term credit rating provides access to additional sources of financing and lower borrowing costs.

In April, 2011, S&P changed Volvo's credit rating from BBB-/Baa3 with stable outlook to BBB/Baa2 with stable outlook. The change was attributable to a change in Volvo's credit measurement.

Moody's rating of Volvo is BBB/Baa2 with stable outlook since July 24, 2009.

Funding

Volvo works actively for a good balance between short and long-term loans, as well as borrowing preparedness in the form of credit facilities, to satisfy the Volvo Group's long-term financing needs.

At the end of 2011, the Group had the equivalent of SEK 37.2 billion in cash and cash equivalents and short-term investments. In addition, the Group had SEK 33.4 billion in granted but unutilized credit facilities.

Credit rating at February 6, 2012

	Short-term	Long-term
Moody's	P-2	Baa2 stable
Standard & Poor's	A2	BBB stable
DBRS (Canada)	R-2 (high)	–
R&I (Japan)	a-1	A- positive

RISKS AND UNCERTAINTIES
MANAGED RISK-TAKING

All business operations involve risk – managed risk-taking is a condition of maintaining a sustained favorable profitability.

Risk may be due to events in the world and can affect a given industry or market. Risk can be specific to a single company. At Volvo work is carried out daily to identify, measure and manage risk – in some cases the Group can influence the likelihood that a risk-related event will occur. In cases in which such events are beyond the Group's control, the Group strives to minimize the consequences.

The risks to which the Volvo Group are exposed are classified into three main categories:

- **External-related risks** – such as the cyclical nature of the commercial vehicles business, intense competition, changes in prices for commercial vehicles and government regulations
- **Financial risks** – such as currency fluctuations, interest levels fluctuations, valuations of shares or similar instruments, credit risk and liquidity risk.
- **Operational risks** – such as market reception of new products, reliance on suppliers, protection and maintenance of intangible assets, complaints and legal actions by customers and other third parties and risk related to human capital.

External-related risk

The commercial vehicles industry is cyclical

The Volvo Group's markets undergoes significant changes in demand as the general economic environment fluctuates. Investments in infrastructure, major industrial projects, mining and housing construction all impact the Group's operations as its products are central to these sectors. Adverse changes in the economic conditions for the Volvo Group's customers may also impact existing order books through cancellations of previously placed orders. The cyclical demand for the Group's products makes the financial result of the operations dependable on the Group's ability to react to changes in demand, in particular to the ability to adapt production levels and production and operating expenses.

Intense competition

Continued consolidation in the industry is expected to create fewer but stronger competitors. Our major competitors are Daimler, Paccar, Navistar, MAN, Scania, Caterpillar, Komatsu, Cummins and Brunswick. In recent years, new competitors have emerged in Asia, particularly in China. These new competitors are mainly active in their domestic markets, but are expected to increase their presence in other parts of the world.

Prices may change

The prices of commercial vehicles have, at times, changed considerably in certain markets over a short period. This instability is caused by several factors, such as short-term variations in demand, shortages of certain component products, uncertainty regarding underlying economic conditions, changes in import regulations, excess inventory and increased competition. Overcapacity within the industry can occur if there is a lack of demand, potentially leading to increased price pressure.

Extensive government regulation

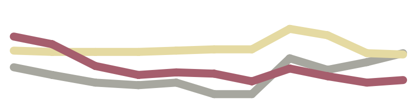
Regulations regarding exhaust emission levels, noise, safety and levels of pollutants from production plants are extensive within the industry.

Most of the regulatory challenges regarding products relate to reduced engine emissions. The Volvo Group is a significant player in the commercial vehicle industry and one of the world's largest producers of heavy-duty diesel engines. The product development capacity within the Volvo Group is well consolidated to be able to focus resources for research and development to meet tougher emission regulations. Future product regulations are well known, and the product development strategy is well tuned to the introduction of new regulations.

Financial risk

In its operations, the Volvo Group is exposed to various types of financial risks. Group-wide policies, which are updated and decided upon annually, form the basis of each Group company's management of these risks. The objectives of the Group's policies for management of financial risks are to optimize the Group's capital costs by utilizing economies of scale, to minimize negative effects on income as a result of changes in currency or interest rates, to optimize risk exposure and to clarify areas of responsibility. Monitoring and control that established policies are adhered to is continuously conducted. Information about key aspects of the Group's system for internal controls and risk management in conjunction with the financial reporting is provided in the Corporate Governance Report on page 150–159. Most of the Volvo Group's financial transactions are carried out through Volvo's in-house bank, Volvo Treasury, that conducts its operations within established risk mandates and limits. Credit risks are mainly managed by the different business areas.

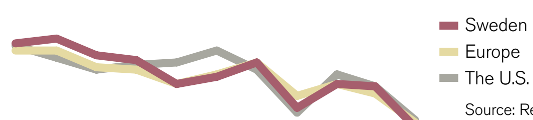
Currencies



Source: Reuters

	01	02	03	04	05	06	07	08	09	10	11
SEK/USD	10.3	9.7	8.0	7.3	7.5	7.4	6.8	7.8	7.2	6.7	6.9
SEK/EUR	9.2	9.1	9.1	9.1	9.2	9.3	9.3	10.9	10.4	9.0	8.9
SEK/100 JPY	7.9	7.3	6.7	6.5	6.7	5.8	5.8	8.6	7.7	8.3	9.0

Interest rates in Sweden, Europe and the U.S.



Source: Reuters

Government bonds, 10 year benchmarks

	01	02	03	04	05	06	07	08	09	10	11	
Sweden	5.1	5.3	4.6	4.4	3.4	3.7	4.3	2.4	3.4	3.3	1.6	%
Europe	4.8	4.8	4.1	4.0	3.4	3.8	4.3	2.9	3.4	3.0	1.8	%
The U.S.	5.0	4.5	4.0	4.2	4.3	4.8	4.0	2.2	3.8	3.3	1.9	%

The nature of the various financial risks and objectives and the policies for the management of these risks are described in detail in notes 4 and 30. Various aspects of financial risk are described briefly in the following paragraphs. Volvo's accounting policies for financial instruments are described in note 30. The overall impact on a company's competitiveness is also affected however by how various macro-economic factors interact.

Interest-related risk

Interest-related risk includes risks that changes in interest rates will impact the Group's income and cash flow (cash-flow risks) or the fair value of financial assets and liabilities (price risks).

Currency-related risk

More than 90% of the net sales of the Volvo Group are generated in countries other than Sweden. Changes in exchange rates have a direct impact on the Volvo Group's operating income, balance sheet and cash flow, as well as an indirect impact on Volvo's competitiveness, which over time affects the Group's earnings.

Credit-related risk

An important part of the Group's credit risk is related to how the financial assets of the Group have been placed. The majority are placed in interest-bearing bonds issued by Swedish real estate financing institutions.

Liquidity risk

Volvo ensures its financial preparedness by always maintaining a certain portion of revenues in liquid assets.

Market risk from investments in shares or similar instruments

The Volvo Group is indirectly exposed to market risks from shares and other similar instruments, as a result of managed capital transferred to independent pension plans being partly invested in instruments of these types.

Operational risk

The profitability depends on successful new products

The Volvo Group's long-term profitability depends on the Company's ability to successfully launch and market its new products. Product life cycles continue to shorten, putting increased focus on the success of the Group's product development.

Reliance on suppliers

Volvo purchases raw materials, parts and components from numerous external suppliers. A significant part of the Group's requirements for raw materials and supplies is filled by single-source suppliers. The effects of delivery interruptions vary depending on the item or component. Certain items and components are standard throughout the industry, whereas others are internally developed and require unique tools that are time-consuming to replace.

The Volvo Group's costs for raw materials and components can vary significantly over a business cycle. Cost variations may be caused by changes in world market prices for raw materials or by an inability of our suppliers to deliver.

Intangible assets

AB Volvo owns or otherwise has rights to patents and brands that refer to the products the Company manufactures and markets. These have been acquired over a number of years and are valuable to the operations of the Volvo Group. Volvo does not consider that any of the Group's operations are heavily dependent on any single patent or group of patents.

Through Volvo Trademark Holding AB, AB Volvo and Volvo Car Corporation jointly own the Volvo brand. AB Volvo has the exclusive right to use the Volvo name and trademark for its products and services. Similarly, Volvo Car Corporation has the exclusive right to use the Volvo name and trademark for its products and services.

The Volvo Group's rights to use the Renault brand are restricted to the truck operations only and are regulated by a license from Renault s.a.s., which owns the Renault brand.

Complaints and legal actions

The Volvo Group could be the target of complaints and legal actions initiated by customers, employees and other third parties alleging health, environmental, safety or business related issues, or failure to comply with applicable legislation and regulations. Information about legal proceedings involving entities within the Volvo Group are found in note 24 Contingent Liabilities.

Even if such disputes are resolved successfully, without having adverse financial consequences, they could negatively impact the Group's reputation and take up resources that could be used for other purposes.

Risk related to human capital

A decisive factor for the realization of the Volvo Group's vision is our employees and their knowledge and competence. Future development depends on the company's ability to maintain its position as an attractive employer. To this end, the Volvo Group strives for a work environment in which energy, passion and respect for the individual are guiding principles. Every year a Group-wide survey is conducted, and according to the survey the share of satisfied employees has been on a high level in recent years.

Short-term risk factors

An increase in demand could potentially result in delivery disturbances due to suppliers' financial instability or shortage of resources.

Uncertainty regarding customers' access to the financing of products in emerging markets might have a negative impact on demand.

Volvo verifies annually, or more frequently if necessary, the goodwill value of its business areas and other intangible assets for possible impairment. The size of the overvalue differs between the business areas and they are, to a varying degree, sensitive to changes in the business environment. Instability in the business recovery and volatility in interest and currency rates may lead to indications of impairment.

The reported amounts for contingent liabilities reflect a part of Volvo's risk exposure, see note 24 for contingent liabilities.

Contractual conditions related to take over bids

Some of AB Volvo's long term loan agreements contain conditions stipulating the right for a bondholder to request repayment in advance under certain conditions following a change of the control of the company. In Volvo's opinion it has been necessary to accept those conditions in order to receive financing on otherwise acceptable terms. Provisions stipulating that an agreement can be changed or terminated if the control of the company is changed are also included in some of the agreements whereby Renault Trucks' has been given the right to sell Renault s.a.s.' and Nissan Motor Co. Ltd's light-duty trucks as well as in some of the Group's purchasing agreements.

Further information

Note 27 Personnel contains information concerning rules on severance payments applicable for the Group Executive Team and certain other senior executives.

Note 4 and 30 contain information regarding financial risks as well as goals and policies in financial risk management.

Further risk information is provided in note 24.

CONTENT

FINANCIAL INFORMATION 2011

FINANCIAL PERFORMANCE
IMPROVED PROFITABILITY

For the full year 2011, the Volvo Group generated the highest net sales, the best operating income and the highest operating margin ever.[1]

INCOME STATEMENTS VOLVO GROUP

SEK M		Industrial operations 2011	Industrial operations 2010	Customer Finance 2011	Customer Finance 2010	Eliminations 2011	Eliminations 2010	Volvo Group Total 2011	Volvo Group Total 2010
Net sales	Note 6,7	**303,589**	**257,375**	**8,883**	**9,031**	**(2,104)**	**(1,658)**	**310,367**	**264,749**
Cost of sales		(231,516)	(197,480)	(5,693)	(5,974)	2,104	1,658	(235,104)	(201,797)
Gross income		**72,073**	**59,895**	**3,190**	**3,057**	**0**	**0**	**75,263**	**62,952**
Research and development expenses	Note 6	(13,276)	(12,970)	0	0	0	0	(13,276)	(12,970)
Selling expenses		(24,383)	(22,649)	(1,618)	(1,500)	0	0	(26,001)	(24,149)
Administrative expenses		(7,105)	(5,640)	(27)	(25)	0	0	(7,132)	(5,666)
Other operating income and expenses	Note 8	(1,045)	(659)	(603)	(1,365)	0	0	(1,649)	(2,023)
Income from investments in associated companies	Note 5,6	(82)	(86)	0	0	0	0	(81)	(86)
Income from other investments	Note 5	(225)	(57)	0	0	0	0	(225)	(58)
Operating income		**25,957**	**17,834**	**942**	**167**	**0**	**0**	**26,899**	**18,000**
Interest income and similar credits		644	544	0	0	(37)	(102)	608	442
Interest expenses and similar charges		(2,912)	(3,244)	0	0	37	102	(2,875)	(3,142)
Other financial income and expenses	Note 9	297	213	0	0	0	0	297	213
Income after financial items		**23,986**	**15,347**	**942**	**167**	**0**	**0**	**24,929**	**15,514**
Income taxes	Note 10	(6,490)	(4,168)	(323)	(134)	0	0	(6,814)	(4,302)
Income for the period*		**17,496**	**11,179**	**619**	**32**	**0**	**0**	**18,115**	**11,212**
* Attributable to:									
Equity holders of the parent company								17,751	10,866
Minority interests	Note 11							364	346
								18,115	**11,212**
Basic earnings per share, SEK	Note 19							8.76	5.36
Diluted earnings per share, SEK	Note 19							8.75	5.36

OTHER COMPREHENSIVE INCOME

SEK M		2011	2010
Income for the period		**18,115**	**11,212**
Translation differences on foreign operations		(980)	(3,891)
Translation differences on hedge instruments of net investment in foreign operations		(3)	113
Accumulated translation difference reversed to income		(30)	(95)
Available-for-sale investments		39	148
Change in cash flow hedge reserve	Note 19	(144)	(156)
Other comprehensive income, net of income taxes		**(1,118)**	**(3,881)**
Total comprehensive income for the period		**16,997**	**7,331**
Attributable to:			
Equity holders of the Parent Company		16,551	7,016
Minority interests		446	315
		16,997	**7,331**

1 Since 1999, when the Group's operation was directed towards commercial vehicles.

Net sales

Net sales for the Volvo Group increased by 17% to SEK 310,367 M in 2011, compared with SEK 264,749 M in the preceding year.

Operating income

Volvo Group operating income improved to SEK 26,899 M (18,000).

Operating income for the Industrial Operations increased to SEK 25,957 M compared with SEK 17,834 M in the preceding year. The Customer Finance operations' operating income rose to SEK 942 M (167).

Net financial items

Net interest expense was SEK 2,267 M, compared with SEK 2,700 M in the preceding year.

During the year, market valuation of derivatives, mainly used for eliminating interest exposure in the customer financing portfolio, had a positive effect on Other financial income and expenses in an amount of SEK 544 M. During 2010 the impact was positive and amounted to SEK 871 M.

The currency in Venezuela was devalued twice during 2010, which negatively impacted Other financial income and expenses by SEK 274 M in 2010.

Income taxes

The tax expense for the year amounted to SEK 6,814 M (4,302) corresponding to a tax rate of 27% (28).

Income for the period and earnings per share

The income for the period amounted to SEK 18,115 M (11,212), corresponding to diluted earnings per share of SEK 8.75 (5.36). The return on shareholders' equity was 23.1% (16.0).

Net sales by business area, SEK M	**2011**	2010	%
Trucks	200,703	167,305	20
Construction Equipment	64,987	53,810	21
Buses	22,289	20,516	9
Volvo Penta	8,859	8,716	2
Volvo Aero	6,509	7,708	(16)
Eliminations and other	242	(680)	
Industrial Operations[1]	**303,589**	**257,375**	**18**
Customer Finance	8,883	9,031	(2)
Reclassifications and eliminations	(2,104)	(1,658)	
Volvo Group	**310,367**	**264,749**	**17**

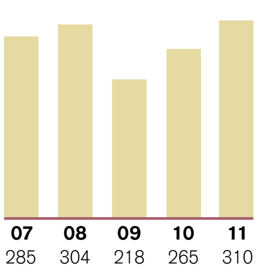
1 Adjusted for acquired and divested units and changes in currency rates, net sales increased by 20%.

Operating margin, %	**2011**	2010
Trucks	9.1	6.0
Construction Equipment	10.2	11.5
Buses	4.6	3.8
Volvo Penta	8.8	6.6
Volvo Aero	5.2	3.7
Industrial Operations	**8.6**	**6.9**
Volvo Group	**8.7**	**6.8**

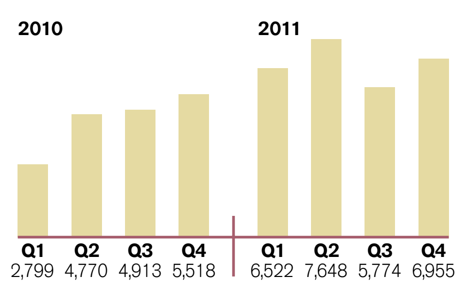
Operating income (loss) by business area, SEK M	**2011**	2010
Trucks	18,260	10,112
Construction Equipment	6,653	6,180
Buses	1,036	780
Volvo Penta	781	578
Volvo Aero	336	286
Eliminations and other	(1,109)	(102)
Industrial Operations	**25,957**	**17,834**
Customer Finance	942	167
Volvo Group	**26,899**	**18,000**

Change in operating income, SEK bn	
Operating income 2010	**18.0**
Gross income	19.4
Recognition of VAT credits in Brazil relating to previous years	0.6
Disturbances in operations in Japan as an effect of the earthquake and tsunami	(0.7)
Result from divestments of companies in 2010	0.2
Changes in currency exchange rates, Industrial operations	(5.2)
Write-down of shares listed in Japan	(0.2)
Higher capitalization of development costs	1.0
Higher research and development expenditures	(2.0)
Tax credit for research and development activities	0.3
Higher selling and administrative expenses	(4.7)
Lower credit losses	0.6
Other	(0.4)
Operating income 2011	**26.9**

Net sales, SEK bn



Operating income, SEK M



Industrial Operations

In 2011, net sales for the Volvo Group's Industrial Operations increased by 18% to SEK 303,589 M (257,375).

Compared with 2010, sales increased in all of the Group's market areas. Sales increased strongly in Eastern Europe and had a very positive development in North America, South America and Asia. In Western Europe demand weakened towards the end of the year.

Considerable earnings improvement

In 2011, the operating income for the Volvo Group's Industrial Operations amounted to SEK 25,957 M compared to SEK 17,834 M in the preceding year. The operating margin for the Industrial Operations amounted to 8.6% (6.9).

The earnings improvement is the result of increased sales and improved cost coverage in the industrial system, as an effect of increased production levels.

In 2011, research and development expenses amounted to SEK 13,276 M (12,970). The continued high cost level is primarily a consequence of projects relating to new emission regulations in Europe and South America and the development of products for the growth markets.

Selling expenses increased by 8% and administration expenses by 26%.

Since return on equity was 23,1%, SEK 550 M was provisioned for profit-sharing to employees.

Impact of exchange rates on operating income

The combined effect of changed exchange rates had a negative effect on operating income of approximately SEK 5.2 billion in 2011, compared with 2010. This is mainly attributable to that the USD was weak during most of 2011.

Income Statement Industrial Operations, SEK M	**2011**	2010
Net sales	303,589	257,375
Cost of sales	(231,516)	(197,480)
Gross income	**72,073**	**59,895**
Gross margin, %	23.7	23.3
Research and development expenses	(13,276)	(12,970)
Selling expenses	(24,383)	(22,649)
Administrative expenses	(7,105)	(5,640)
Other operating income and expenses	(1,045)	(659)
Income from investments in associated companies	(82)	(86)
Income from other investments	(225)	(57)
Operating income (loss) Industrial Operations	**25,957**	**17,834**
Operating margin, %	8.6	6.9

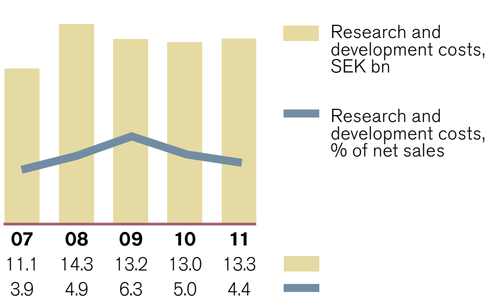
Net sales by market area, SEK M	**2011**	2010	%
Western Europe	97,925	87,241	12
Eastern Europe	20,298	12,570	61
North America	58,253	45,409	28
South America	34,013	27,876	22
Asia	73,017	65,072	12
Other markets	20,083	19,207	5
Total Industrial Operations	**303,589**	**257,375**	**18**

Impact of exchange rates on operating income Compared with preceding year, SEK M	
Net sales[1]	(20,286)
Cost of sales	13.280
Research and development expenses	397
Selling and administrative expenses	1.408
Total effect of changes in exchange rates on operating income	**(5.201)**

1 Group sales are reported at monthly spot rates and the effects of currency hedges are reported among Cost of sales.

Operating net flow per currency Local currency, million	**2011**	2010
USD	3,970	2,410
EUR	57	373
GBP	555	405
CAD	397	241
JPY (x100)	(218)	(103)

Research and development costs



Customer Finance Operations

Total new financing volume in 2011 amounted to SEK 44.8 billion (35.1). Adjusted for changes in exchange rates, new business volume increased by 35% compared to 2010 as a result of increased sales volumes of the Volvo Group products and stable penetration levels. In total, 49,757 new Volvo vehicles and machines (34,522) were financed during the year. In the markets where financing is offered, the average penetration rate was 25% (25).

As of December 31, 2011, the credit portfolio was SEK 95,544 M (84,550). During 2011 the credit portfolio increased by 13.8% (decrease: 4.4), adjusted for exchange-rate movements. The funding of the credit portfolio is matched in terms of maturity, interest rates and currencies in accordance with Volvo Group policy. For further information see note 15.

The operating income for the year amounted to SEK 942 M compared to SEK 167 M in the previous year. Return on shareholders' equity was 7.3% (0.4). The equity ratio at the end of the year was 9.1% (9.0). The improvement in profitability is driven mainly by lower credit provisions and higher earning assets. During the year, credit provision expenses amounted to SEK 682 M (1,438) while write-offs of SEK 804 M (1,460) were recorded. The write-off ratio for 2011 was 0.93% (1.65). At the end of December 31, 2011, credit reserves were 1.33% (1.69%) of the credit portfolio.

Income Statement Customer Finance, SEK M	**2011**	2010
Finance and lease income	8,883	9,031
Finance and lease expenses	(5,693)	(5,974)
Gross income	**3,190**	**3,057**
Selling and administrative expenses	(1,645)	(1,526)
Credit provision expenses	(682)	(1,438)
Other operating income and expenses	78	73
Operating income (loss)	**942**	**167**
Income taxes	(323)	(134)
Income (Loss) for the period	**619**	**32**
Return on Equity	7.3	0.4

Key ratios, Customer Finance[1]	**2011**	2010
Credit portfolio net, SEK bn	94.3	83.1
Operating income, SEK M	942	167
Return on shareholders' equity, %	7.3	0.4
Total penetration rate, %	24.8	24.5
Penetration by business area[1]**, %**		
Volvo CE	35	35
Volvo Trucks	27	29
Renault Trucks	19	17
Mack Trucks	20	20
Buses	15	11
UD Trucks	14	12

1 Share of unit sales financed by Volvo Financial Services in relation to the total number units sold by the Volvo Group in markets where financial services are offered.

FINANCIAL POSITION
IMPROVED DURING THE YEAR

Net debt in the Volvo Group's Industrial Operations amounted to SEK 19.3 billion at December 31, 2011, equal to 25.2% of shareholders' equity. Excluding provisions for post-employment benefits the Industrial Operation's net debt amounted to SEK 15.0 billion, which was equal to 19.5% of shareholders' equity.

BALANCE SHEETS VOLVO GROUP

		Industrial Operations		Customer Finance		Eliminations		Volvo Group	
SEK M		**Dec 31 2011**	Dec 31 2010	**Dec 31 2011**	Dec 31 2010	**Dec 31 2011**	Dec 31 2010	**Dec 31 2011**	Dec 31 2010
Assets									
Non-current assets									
Intangible assets	Note 12	39,385	40,613	122	101	–	–	39,507	40,714
Tangible assets	Note 13								
Property, plant and equipment		53,563	53,221	94	72	–	–	53,657	53,294
Investment property		883	948	–	–	–	–	883	948
Assets under operating leases		16,749	13,217	11,525	10,055	(4,352)	(3,625)	23,922	19,647
Financial assets									
Shares and participation	Note 5	1,871	2,080	3	18	–	–	1,874	2,098
Non-current customer-financing receivables	Note 15	579	598	44,651	36,270	(4,612)	(843)	40,618	36,025
Deferred tax assets	Note 10	12,480	12,019	358	291	–	–	12,838	12,310
Prepaid pensions	Note 20	2,263	1,636	14	12	–	–	2,277	1,648
Non-current interest-bearing receivables	Note 16	757	941	–	204	(63)	(379)	694	766
Other non-current receivables	Note 16	4,500	3,401	50	41	(235)	(24)	4,315	3,418
Total non-current assets		**133,030**	**128,674**	**56,817**	**47,064**	**(9,262)**	**(4,871)**	**180,585**	**170,868**
Current assets									
Inventories	Note 17	43,828	38,956	771	882	–	–	44,599	39,837
Current receivables									
Customer-financing receivables	Note 15	1,123	830	38,050	36,897	(1,092)	(1,064)	38,081	36,663
Tax assets		1,152	1,045	48	90	–	–	1,200	1,135
Interest-bearing receivables	Note 16	1,461	1,071	226	1,283	(1,020)	(2,012)	667	342
Internal funding[1]		2,253	7,505	–	–	(2,253)	(7,505)	–	–
Accounts receivable	Note 16	27,492	24,332	207	101	–	–	27,699	24,433
Other receivables	Note 16	13,438	11,561	1,411	1,352	(1,024)	(1,056)	13,825	11,857
Non interest-bearing assets held for sale	Note 3	9,344	136	–	–	–	–	9,344	136
Interest-bearing assets held for sale	Note 3	4	–	–	–	–	–	4	–
Marketable securities	Note 18	6,838	9,735	24	32	–	–	6,862	9,767
Cash and cash equivalents	Note 18	29,113	21,756	1,593	1,545	(327)	(335)	30,379	22,966
Total current assets		**136,046**	**116,928**	**42,330**	**42,182**	**(5,717)**	**(11,970)**	**172,659**	**147,139**
Total assets		**269,076**	**245,602**	**99,147**	**89,246**	**(14,979)**	**(16,841)**	**353,244**	**318,007**
Shareholders' equity and liabilities	Note 19								
Equity attributable to the equity holder of the Parent Company		75,582	65,090	8,999	8,020	–	–	84,581	73,110
Minority interests		1,100	1,011	–	–	–	–	1,100	1,011
Total shareholders' equity		**76,682**	**66,101**	**8,999**	**8,020**	**-**	**-**	**85,681**	**74,121**
Non-current provisions									
Provisions for post-employment benefits	Note 20	6,635	7,478	30	32	–	–	6,665	7,510
Provisions for deferred taxes	Note 10	4,171	3,026	1,465	1,496	–	–	5,636	4,522
Other provisions	Note 21	5,492	5,785	154	150	2	1	5,648	5,936
Non-current liabilities	Note 22								
Bond loans		38,192	38,767	–	–	–	–	38,192	38,767
Other loans		38,848	37,180	8,974	8,225	(57)	(78)	47,765	45,327
Internal funding[1]		(35,453)	(26,971)	33,459	25,927	1,994	1,044	–	–
Other liabilities		12,902	11,172	740	389	(3,195)	(2,330)	10,447	9,231
Current provisions	Note 21	9,438	8,429	92	105	1	1	9,531	8,534
Current liabilities	Note 22								
Loans		38,644	32,101	6,741	8,299	(863)	(799)	44,522	39,601
Internal funding[1]		(24,837)	(21,220)	35,373	33,643	(10,536)	(12,423)	–	–
Non interest-bearing liabilities held for sale	Note 3	4,710	135	–	–	–	–	4,710	135
Interest-bearing liabilities held for sale	Note 3	6	–	–	–	–	–	6	–
Trade payables		56,546	47,111	242	139	–	–	56,788	47,250
Tax liabilities		2,220	1,571	171	161	–	–	2,391	1,732
Other liabilities		34,880	34,937	2,707	2,660	(2,325)	(2,257)	35,262	35,341
Total shareholders' equity and liabilities		**269,076**	**245,602**	**99,147**	**89,246**	**(14,979)**	**(16,841)**	**353,244**	**318,007**

1 Internal funding is internal lending from Industrial Operations to Customer Finance.

The Volvo Group's cash, cash equivalents and marketable securities combined, amounted to SEK 37.2 billion at December 31, 2011. Of this, SEK 9.3 billion are restricted for immediate use by the Volvo Group compared to SEK 7.4 billion a year earlier. In addition to this, granted but not utilized credit facilities amounted to SEK 33.4 billion.

Total assets in the Group amounted to SEK 353.2 billion on December 31, 2011, an increase of SEK 35.2 billion compared to year-end 2010. The increase is mainly a result of increase in inventories and accounts receivables, increased customer financing receivables due to portfolio growth in the Customer Finance Operations and increase in assets under operating lease mainly related to the construction equipment rental operation.

The Group's intangible assets amounted to SEK 39.5 billion on December 31, 2011. Investments in research and development amounted to SEK 4.2 billion in 2011, resulting in a net value of capitalized development costs of SEK 11.5 billion at the end of the year. The Group's total goodwill amounted to SEK 23.9 billion on December 31, 2011, an increase by SEK 1.0 billion compared to year-end 2010 as a result of aquisitions in the construction equipment rental operation.

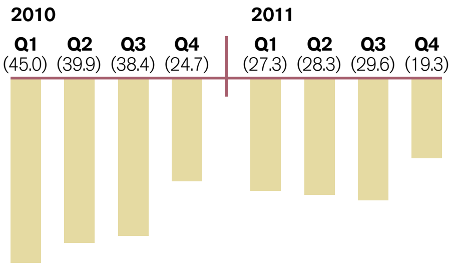
The tangible assets increased by SEK 4.6 billion during 2011, mainly related to the expansion in the construction equipment rental operation.

The value of the inventories increased by SEK 4.8 billion during 2011. The increase is mainly related to finished products within the truck operations and construction equipment.

The net value of assets and liabilities related to pensions and similar obligations amounted to SEK 4.4 billion on December 31, 2011, a decrease of SEK 1.5 billion compared to year-end 2010. Post-employment benefits valued at SEK 12.2 billion were reported outside the Volvo Group's balance sheet. For further information see Note 20.

At year-end, the equity ratio in the Industrial Operations was 28.5% and in the Volvo Group 24.3%. Shareholder's equity in the Volvo Group amounted to SEK 85.7 billion at December 31, 2011.

Net debt, Industrial Operations, SEK bn



Net financial position, SEK M	Industrial Operations		Volvo Group	
	Dec 31 2011	Dec 31 2010	**Dec 31 2011**	Dec 31 2010
Non-current interest-bearing assets				
Non-current customer-financing receivables	–	–	40,618	36,025
Non-current interest-bearing receivables	757	941	694	766
Current interest-bearing assets				
Customer-financing receivables	–	–	38,081	36,663
Interest-bearing receivables	1,461	1,071	667	342
Internal funding	2,253	7,505	–	–
Interest-bearing assets held for sale	4	–	4	–
Marketable securities	6,838	9,735	6,862	9,767
Cash and bank	29,113	21,756	30,379	22,966
Total financial assets	**40,426**	**41,008**	**117,305**	**106,529**
Non-current interest-bearing liabilities				
Bond loans	(38,192)	(38,767)	(38,192)	(38,767)
Other loans	(38,848)	(37,180)	(47,765)	(45,327)
Internal funding	35,453	26,971	–	–
Current interest-bearing liabilities				
Loans	(38,644)	(32,101)	(44,522)	(39,601)
Internal funding	24,837	21,220	–	–
Interest-bearing liabilities held for sale	(6)	–	(6)	–
Total financial liabilities	**(55,400)**	**(59,857)**	**(130,485)**	**(123,695)**
Net financial position excl. post employment benefits	**(14,974)**	**(18,849)**	**(13,180)**	**(17,166)**
Provision for post employment benefits, net	(4,372)	(5,842)	(4,388)	(5,862)
Net financial position incl. post employment benefits	**(19,346)**	**(24,691)**	**(17,568)**	**(23,028)**

Change in net financial position, Industrial Operations, SEK bn	**2011**	2010
Beginning of period	**(24.7)**	**(41.5)**
Cash flow from operating activities	26.9	28.8
Investments in fixed assets (to)/from	(14.0)	(10.6)
Disposals	1.2	0.8
Operating cash-flow	**14.1**	**19.0**
Investments and divestments of shares	(0.1)	(0.1)
Acquired and divested operations, net	(3.0)	0.2
Capital injections (to)/from Customer Finance Operations	(0.1)	(0.5)
Currency effect	(1.9)	(1.6)
Payment to AB Volvo shareholders	(5.1)	–
Dividend paid to minority shareholders	0.0	(0.1)
Other	1.5	(0.1)
Total change	**5.4**	**16.8**
Net financial position at end of period	**(19.3)**	**(24.7)**

Read more about capital structure on page 6–7

CASH-FLOW STATEMENT
STRONG OPERATING CASH-FLOW

During 2011, operating cash flow in the Industrial Operations amounted to SEK 14.1 billion (19.0).

CONSOLIDATED CASH-FLOW STATEMENTS

SEK M		Industrial operations Dec 31 2011	Industrial operations Dec 31 2010	Customer Finance Dec 31 2011	Customer Finance Dec 31 2010	Eliminations Dec 31 2011	Eliminations Dec 31 2010	Volvo Group Total Dec 31 2011	Volvo Group Total Dec 31 2010
Operating activities									
Operating income (loss)		25,957	17,834	942	167	0	(1)	26,899	18,000
Depreciation tangible assets	Note 13	6,109	6,060	15	15	0	2	6,124	6,077
Amortization intangible assets	Note 12	3,227	3,282	20	23	0	0	3,247	3,305
Depreciation leasing vehicles	Note 13	2,083	1,996	2,537	2,415	1	(1)	4,621	4,410
Other non-cash items	Note 29	622	170	614	1,330	26	61	1,262	1,561
Total change in working capital whereof		(4,180)	4,576	(13,831)	148	2,926	77	(15,085)	4,801
Change in accounts receivable		*(3,094)*	*(4,049)*	*(101)*	*316*	*0*	*0*	*(3,195)*	*(3,733)*
Change in customer financing receivables		*(240)*	*(174)*	*(14,202)*	*(1,271)*	*3,007*	*98*	*(11,435)*	*(1,347)*
Change in inventories		*(7,099)*	*(4,769)*	*(155)*	*847*	*0*	*1*	*(7,254)*	*(3,921)*
Change in trade payables		*9,871*	*13,057*	*107*	*(46)*	*0*	*0*	*9,978*	*13,011*
Other changes in working capital		*(3,618)*	*511*	*520*	*302*	*(81)*	*(22)*	*(3,179)*	*791*
Interest and similar items received		720	532	–	–	(42)	(103)	678	429
Interest and similar items paid		(3,391)	(2,768)	–	–	12	36	(3,379)	(2,732)
Other financial items		(184)	(604)	–	–	0	0	(184)	(604)
Income taxes paid		(4,129)	(2,255)	(384)	(336)	0	1	(4,513)	(2,590)
Cash flow from operating activities		**26,834**	**28,823**	**(10,087)**	**3,762**	**2,923**	**72**	**19,670**	**32,657**
Investing activities									
Investments in tangible assets		(8,267)	(6,729)	(50)	(97)	27	67	(8,290)	(6,759)
Investments in intangible assets		(4,293)	(3,557)	(20)	(18)	0	0	(4,313)	(3,575)
Investment in leasing vehicles		(1,422)	(295)	(6,044)	(4,554)	53	38	(7,413)	(4,811)
Disposals of fixed assets and leasing vehicles		1,233	776	2,099	2,293	0	(2)	3,332	3,067
Operating cash flow		**14,085**	**19,018**	**(14,102)**	**1,386**	**3,003**	**175**	**2,986**	**20,579**
Investments and divestments of shares, net	Note 5,29							(119)	(106)
Acquired and divested operations, net	Note 3,29							(1,590)	617
Interest-bearing receivables incl marketable securities								2,665	6,813
Cash-flow after net investments								**3,942**	**27,903**
Financing activities									
Change in loans, net	Note 29							8,734	(25,711)
Dividend to AB Volvo shareholders								(5,069)	–
Dividend to minority shareholders								(2)	(75)
Other								(30)	(25)
Change in cash and cash equivalents excl. translation differences								**7,575**	**2,092**
Translation difference on cash and cash equivalents								(162)	(360)
Change in cash and cash equivalents								**7,413**	**1,732**
Cash and cash equivalents, Beginning of year	Note 18							**22,966**	**21,234**
Cash and cash equivalents, End of year	Note 18							**30,379**	**22,966**

The cash flow within Industrial Operations was positively affected by the operating income and negatively affected by the increased working capital. Accounts receivables and inventories increased with SEK 3.1 and 7.1 billion respectively, partly offset by the increase of trade payables of SEK 9.9 billion.

Financial items and paid income taxes had a SEK 6.9 billion negative effect on cash flow within Industrial Operations, mainly through payments of interests and income tax.

Operating cash flow within Customer Finance was a negative SEK 14.1 billion (pos: SEK 1.4 billion), mainly due to increased customer financing-receivables.

Investments

The Industrial Operations' investments in fixed assets and capitalized R&D during 2011 amounted to SEK 12.6 billion (10.3).

Capital expenditures in Trucks amounted to SEK 8.4 billion (7.2). The capital expenditures within Trucks consist to a large extent of investments related to product renewals in our product program, with product development activities and required adaptations in the plants. In the plants there are also ongoing investments aiming for increased capacity and flexibility, mainly in the cab plant in Umeå, Sweden, and in the engine plants with machining and assembly processes in Skövde, Sweden, and Ageo, Japan. During 2011 we have also invested in the dealer network and workshops, mainly in Europe and Asia, as well as in our joint venture VE Commercial Vehicles (VECV).

Capital investments for Construction Equipment amounted to SEK 1.9 billion (1.4). As for previous year, the majority of the investments refer to expansion of the excavator business for both Volvo brand and SDLG brand. During 2011 mainly China and Korea have been impacted, in capacity investments in machining and assembly area. Product related investments during the year refer to the emission regulations in Europe and North America, and Tier 2 and Tier 3 requirements for new models in the BRIC countries.

The investments within Volvo Aero was during 2011 SEK 0.5 billion (0.8). The majority of the investments refer to the involvement in the new engine programs, PW1100G and PW1000G with Pratt & Whitney, and Trent XWB with Rolls-Royce. The investments also refer to finalization of a number of investments in Volvo Aero's production facilities in order to secure the capacity required for the XWB and GP7000 program (P&W), and rationalizations in the spool shop.

The investments in Buses were SEK 0.3 billion (0.2), and in Volvo Penta SEK 0.2 billion (0.2).

Investments in leasing assets amounted to SEK 1.4 billion (0.3), the increase versus previous year refers mainly to expansion of the rental fleet as well as replacement of existing fleet.

For 2012, the Volvo Group estimates that investments in property, plant and equipment will be around SEK 10 billion. The investment level is however pending the market development, and in order to be able to adapt the level, the ongoing and future investments are continuously reviewed and prioritized. The investments in coming product programs continue during 2012, as well as the expansion of the business in the BRIC countries.

Acquisitions and divestments

Acquired and divested operations 2011 had a negative impact on cash flow of SEK 1.6 billion (positive 0.6).

Acquired operations refer mainly to several minor acquisitions of assets and liabilities in construction equipment rental operations. The remaining minority interest in Volvo Aero Norge and UD Trucks South Africa has also been acquired during the year.

Financing and dividend

Net borrowings increased cash and cash equivalents by SEK 8.7 billion during 2011.

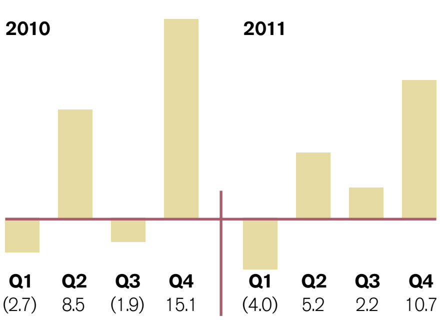
During the year dividend of SEK 5.1 billion, corresponding to SEK 2.50 per share, was paid to the shareholders of AB Volvo.

Change in cash and cash equivalents

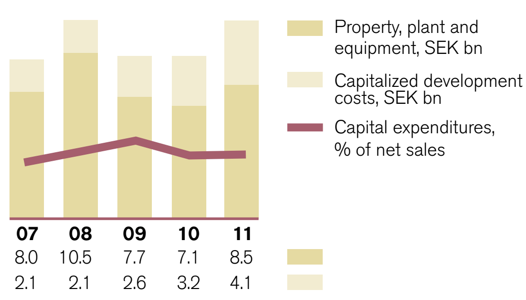
The Group's cash and cash equivalents increased by SEK 7.4 billion during the year and amounted to SEK 30.4 billion at December 31, 2011.

Refer to Note 29 for principles for preparing the cash flow analysis.

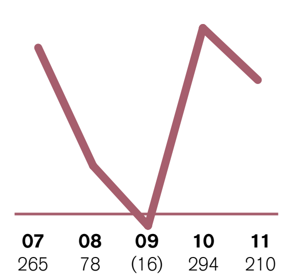
Operating cash flow, Industrial Operations, SEK bn



Capital expenditures, Industrial Operations



Self-financing ratio, Industrial Operations %



Cash-flow from operating activities divided by net investments in fixed assets and leasing assets.

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

SEK M		Shareholders' equity attributable to equity holders of the Parent Company: Share capital	Other reserves[1]	Translation reserve	Retained earnings	Total	Minority interests	Total equity
Balance at December 31, 2009		**2,554**	**123**	**6,112**	**57,616**	**66,405**	**629**	**67,034**
Transition effect IFRS 3, capitalized transaction costs		–	–	–	(135)	(135)	–	(135)
Total equity at beginning of period		**2,554**	**123**	**6,112**	**57,481**	**66,270**	**629**	**66,899**
Income for the period		–	–	–	10,866	10,866	346	11,212
Other comprehensive income								
Translation differences on foreign operations		–	–	(3,859)	–	(3,859)	(32)	(3,891)
Translation differences on hedge instruments of net investments in foreign operations		–	–	113	–	113	–	113
Accumulated translation differences reversed to income		–	–	(95)	–	(95)	–	(95)
Available-for-sale investments:	Note 5, 19							
Gains/losses at valuation to fair value		–	148	–	–	148	–	148
Change in cash flow hedge reserve	Note 19	–	(156)	–	–	(156)	–	(156)
Other comprehensive income		–	(8)	(3,841)	–	(3,849)	(32)	(3,881)
Total income for the period		–	(8)	(3,841)	10,866	7,017	314	7,331
Transactions with shareholders								
Dividends to shareholders		–	–	–	–	–	(412)	(412)
Capital contribution		–	–	–	–	–	358	358
Share based payments	Note 27	–	–	–	–	–	–	–
Changes in minority interests		–	–	–	(180)	(180)	115	(65)
Other changes		–	–	–	3	3	7	10
Transactions with shareholders		–	–	–	(177)	(177)	68	(109)
Balance at December 31, 2010		**2,554**	**115**	**2,271**	**68,170**	**73,110**	**1,011**	**74,121**
Income for the period		–	–	–	17,751	17,751	364	18,115
Other comprehensive income								
Translation differences on foreign operations		–	–	(1,062)	–	(1,062)	82	(980)
Translation differences on hedge instruments of net investments in foreign operations		–	–	(3)	–	(3)	–	(3)
Accumulated translation differences reversed to income		–	–	(30)	–	(30)	–	(30)
Available-for-sale investments:	Note 5, 19							
Gains/losses at valuation to fair value		–	39	–	–	39	–	39
Change in cash flow hedge reserve	Note 19	–	(144)	–	–	(144)	–	(144)
Other comprehensive income for the period		–	(105)	(1,095)	–	(1,200)	82	(1,118)
Total income for the period		–	(105)	(1,095)	17,751	16,551	446	16,997
Transactions with shareholders								
Dividends to shareholders		–	–	–	(5,069)	(5,069)	(2)	(5,071)
Transactions with minority interests		–	–	–	(67)	(67)	–	(67)
Share based payments	Note 27	–	–	–	57	57	–	57
Changes in minority interests		–	–	–	–	–	(356)	(356)
Other changes		–	–	–	(1)	(1)	1	(0)
Transactions with shareholders		–	–	–	(5,080)	(5,080)	(357)	(5,437)
Balance at December 31, 2011		**2,554**	**10**	**1,176**	**80,841**	**84,581**	**1,100**	**85,681**

1 For specification of other reserves, see Note 19.

NOTES TO FINANCIAL STATEMENTS

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2010.

NOTE 1 ACCOUNTING PRINCIPLES

The consolidated financial statements for AB Volvo and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the EU. The portions of IFRS not adopted by the EU have no material impact on this report. This Annual Report is prepared in accordance with IAS 1 Presentation of Financial Statements and with the Swedish Companies Act. In addition, RFR 1 Supplementary Rules for Groups, has been applied, which is issued by the Swedish Financial Reporting Board. As of 2005, Volvo has applied International Financial Reporting Standards (IFRS) in its financial statements. In accordance with the IFRS transitions rules in IFRS 1, Volvo applies retrospective application from the IFRS transition date at January 1, 2004. The details of the transition from Swedish GAAP to IFRS are set out in Note 3 in the annual reports of 2005 and 2006. Refer to the 2004 Annual Report for a description of the previous Swedish accounting policies applied by Volvo.

How should Volvo's accounting policies be read?
Volvo describes the accounting policies in conjunction with each note in the aim of providing enhanced understanding of each accounting area. Volvo focuses on describing the accounting choices that the Group has made within the framework of the prevailing IFRS policy and avoids repeating the actual text of the standard, unless Volvo considers it particularly important to the understanding of the note's content. Refer to the table below to see the note in which each accounting policy is listed and for the relevant and material IFRS standard.

Accounting principle	Note	IFRS-standard
Non-current assets held for sale and discontinued operations	3, Acquisitions and divestments of shares in subsidiaries	IFRS 5
Joint ventures	5, Shares and participations	IAS 31
Investments in associates	5, Shares and participations	IAS 28
Operating segments	6, Segment reporting	IFRS 8
Revenue	7, Income	IAS 17, IAS 18
Shares and participations	5, Shares and participations	IAS 28, IAS 32, IAS 36, IAS 39
Financial income and expenses	9, Other financial income and expenses	IAS 39
Income taxes	10, Income taxes	IAS 12
Minority interests	11, Minority interests	IAS 27
Research and development expenditure	12, Intangible assets	IAS 38
Intangible assets	12, Intangible assets	IAS 36, IAS 38
Tangible assets	13, Tangible assets	IAS 16, IAS 40
Leasing	14, Leasing	IAS 17
Customer-financing receivables	15, Customer-financing receivables	IAS 17, IAS 18, IAS 39, IFRS 7
Inventories	17, Inventories	IAS 2
Earnings per share	19, Shareholder's equity	IAS 33
Pensions and similar obligations	20, Provisions for post-employment benefits	IAS 19
Provisions for residual value risks	21, Other provisions	IAS 17, IAS 18, IAS 37
Warranty expenses	21, Other provisions	IAS 37
Restructuring costs	21, Other provisions	IAS 37
Liabilities	22, Liabilities	IAS 37, IAS 39, IFRS 7
Contingent liabilities	24, Contingent liabilities	IAS 37
Transactions with related parties	25, Transactions with related parties	IAS 24
Government grants	26, Government grants	IAS 20
Share-based payments	27, Personnel	IFRS 2
Cash-flow statement	29, Cash flow	IAS 7
Financial instruments	4, Goals and policies in financial risk management	IAS 32, IAS 39, IFRS 7
	16, Receivables	
	18, Marketable securities and liquid funds	
	30, Financial instruments	

Consolidated financial statements

Principles for consolidation

The consolidated financial statements have been prepared in accordance with the principles set forth in IAS 27, Consolidated and Separate Financial Statements. Accordingly, intra-Group transactions and gains on transactions with associated companies are eliminated. The consolidated financial statements comprise the Parent Company, subsidiaries, joint ventures and associated companies.

- Subsidiaries are defined as companies in which Volvo holds more than 50% of the voting rights or in which Volvo otherwise has a controlling interest.
- Joint ventures are companies over which Volvo has joint control together with one or more external parties. Joint ventures are recognized using the proportionate method of consolidation.
- Associated companies are companies in which Volvo has a significant influence, which is normally when Volvo's holdings correspond to at least 20% but less than 50% of the voting rights. Holdings in associated companies are recognized in accordance with the equity method.

Translation to Swedish kronor when consolidating companies using foreign currencies

AB Volvo's functional currency is the Swedish krona (SEK). The functional currency of each Volvo Group company is determined based on the primary economic environment in which it operates. The primary economic environment is normally the one in which the company primarily generates and expends cash. In most cases, the functional currency is the currency of the country where the company is located. AB Volvo's and the Volvo Group's presentation currency is SEK. In preparing the consolidated financial statements, all items in the income statements of foreign subsidiaries and joint ventures (except for subsidiaries in hyperinflationary economies) are translated to SEK at monthly exchange rates. All balance-sheet items are translated at exchange rates at the respective year-ends (closing rate). The differences in consolidated shareholders' equity, arising from variations between closing rates for the current and preceding year are charged or credited directly to other comprehensive income as a separate component.

The accumulated translation difference related to a certain subsidiary, joint venture or associated company is reversed to profit or loss as a part of the gain/loss arising from the divestment or liquidation of such a company.

IAS 29, Financial Reporting in Hyperinflationary Economies, is applied to financial statements of subsidiaries operating in hyperinflationary economies. Volvo's method of recognition is based on cost. Translation differences due to inflation are charged against earnings for the year. Currently, Volvo has no subsidiaries with a functional currency that could be considered a hyperinflationary currency.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are measured at closing rates. Translation differences on operating assets and liabilities are recognized in operating income, while translation differences arising in financial assets and liabilities are charged to other financial income and expenses. Financial assets and liabilities are defined as items included in the net financial position of the Volvo Group (see Definitions at the end of this report). Derivative financial instruments used for hedging of exchange and interest risks are recognized at fair value. Gains on exchange rates are recognized as receivables and losses on exchange rates are recognized as liabilities. Depending on the lifetime of the financial instrument, the item is recognized as current or non-current in the balance sheet. Exchange rate differences on loans and other financial instruments in foreign currency, which are used to hedge net assets in foreign subsidiaries and associated companies, are offset against translation differences in the shareholders' equity of the respective companies. Exchange-rate gains and losses on assets and liabilities in foreign currencies, both on payments during the year and on measurements at year-end, impact profit or loss in the year in which they are incurred. The more important exchange rates applied are shown in the table.

Exchange rates		Average rate		Closing rate	
Country	Currency	2011	2010	2011	2010
Brazil	BRL	3.8850	4.0925	3.7109	4.0560
Canada	CAD	6.5694	6.9973	6.7808	6.8085
China	CNY	1.0057	1.0643	1.0998	1.0300
Denmark	DKK	1.2137	1.2823	1.2044	1.2086
Euro zone	EUR	9.0430	9.5502	8.9540	9.0113
Great Britain	GBP	10.4179	11.1319	10.6831	10.5538
Japan	JPY	0.0817	0.0823	0.0892	0.0835
Norway	NOK	1.1596	1.1926	1.1515	1.1530
South Korea	KRW	0.0059	0.0062	0.0060	0.0060
United States	USD	6.4982	7.2060	6.9247	6.8038

New accounting principles for 2011

None of the new accounting principles or interpretations that came into effect as of January 1, 2011 has had any significant impact on the Volvo Group's financial statements.

New accounting principles for 2012 and later

When preparing the consolidated financial statements as of December 31, 2011, a number of standards and interpretations has been published, but has not yet become effective. The following is a preliminary assessment of the effect that the implementation of these standards and statements could have on the Volvo Group's financial statements.

*Amendment to IAS 19 Employee benefits**

As from January 1, 2013 the amendment to IAS 19, Employee benefits will become effective. The revised standard is applied retrospectively, and hence the closing balance for 2011 will be adjusted in accordance with revised IAS 19 and the reported numbers for 2012 will be restated accordingly for comparison reason.

The amended standard removes the option to use the corridor method currently used by the Volvo Group. Discount rate will be used when calculating the net interest income or expense on the net defined benefit liability (asset), hence the expected return will no longer be used. All changes in the net defined benefit liability or asset will be recognized when they occur. Service cost and net interest will be recognized in profit and loss while remeasurements such as actuarial gains and losses will be recognized in other comprehensive income.

In accordance with IAS 19 revised, the recognized pension liability will increase by approximately SEK 12 billion as the unrecognized part of the pension liability no longer can be reported off balance. Shareholders' equity will decrease by approximately SEK 8 billion net of deferred taxes in the opening balance for 2012 in accordance with IAS 19 revised. Net financial position including post-employment benefits would increase by SEK 12 billion while the equity ratio would decrease. Further changes in the net defined benefit liability will be the modified net interest calculation and the removal of the amortisation of actuarial gains and losses.

Off-balance	Unrecognized actuarial gains and losses	Effect on operating income of amortization of unrecognized actuarial losses
Dec 31, 2009	SEK 9 billion	–
Dec 31, 2010	SEK 7 billion	SEK 420 M
Dec 31, 2011	SEK 12 billion	SEK 335 M

For the Swedish part of the net pension liability there are still some uncertainties regarding the accounting for Swedish special payroll tax and Swedish yield tax. Swedish special payroll tax' assignable to the amount reported as the corridor for the Swedish entities amounts to approximately SEK 1 billion. In the opening balance for 2012 in accordance with IAS 19 revised, this will likely be reported as an increase of the recognized pension liability and in shareholders' equity net of deferred taxes.

For further information of provision for post-employment benefit, see note 20.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements* and IFRS 12 Disclosures of Interests in Other Entities* applicable from January 1, 2013.*

IFRS 10 replaces the consolidation instructions in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities and aims to implement a consolidation policy based on control, defined as the extent to which the owner (i) has control of the investment object, (ii) receives, or is entitled to, variable returns from his/her involvement in the investment object and (iii) has the ability to exercise his/her control of the investment object to influence the size of the return.

IFRS 11 replaces IAS 31 Interests in Joint Ventures and implements new accounting requirements for joint ventures. The ability to apply the proportionate method used by Volvo when recognizing jointly controlled companies will be abolished, meaning that the equity method will remain for the type of joint ventures that Volvo has. Hereafter Volvo will not consolidate the assignable part item by item, the assignable part will be shown as income from investments in associated companies. The equity interest of the joint ventures result will be affect the investment in joint ventures in the balance sheet.

IFRS 12 Disclosure of Interests in Other Entities requires more detailed disclosure reports on subsidiaries, associated companies and non-consolidated structured companies, in which the company is involved.

Volvo is currently conducting a full analysis of the significance of these standards and how they will affect Volvo. Although the standards are considered to change the recognition of joint ventures, they are not considered to have any significant impact on the consolidation of other companies of which Volvo has ownership or is involved. The scope of the disclosures will probably increase in this area due to IFRS 12.

*IFRS 9 Financial instruments**

IFRS 9 is published in three parts: Classification and Measurement, Impairment and Hedge Accounting, which will replace the current IAS 39 with application not earlier than January 1, 2015. Prior application is voluntary, subject to EU approval. Volvo is currently conducting a review of how the implementation of IFRS 9 will impact the Group. A joint position will be taken in conjunction with the final version of all three components of the project being published.

* These standards/interpretations had not been adopted by the EU when this Annual Report was published. The dates listed for application may thus be subject to change due to decisions made during the EU approval process.

NOTE 2 KEY SOURCES OF ESTIMATION UNCERTAINTY

Volvo's most significant accounting policies are primarily described together with the applicable note. Refer to Note 1, Accounting Policies for a specification. The preparation of Volvo's Consolidated Financial Statements requires the use of estimates, judgements and assumptions that affect the recognized amounts of assets, liabilities and provisions at the date of the financial statements and the recognized amounts of sales and expenses during the periods presented. In preparing these financial statements, Volvo's management has made its best estimates and judgements of certain amounts included in the financial statements, giving due consideration to materiality. Since future results are an unknown quantity, actual results could differ from these estimates due to the application of these assumptions. In accordance with IAS 1, the company is required to provide additional disclosure of accounting policies in which estimates, judgments and assumptions are particularly sensitive and which, if actual results differ, may have a material impact on the financial statements.

! The sources of uncertainty which has been identified by Volvo and which fulfil those criterias are presented in connection to the items considered to be affected. The adjacent table shows where to find those presentations.

Source of estimation uncetainty	Note
Revenue recognition	7, Income
Deferred taxes	10, Income taxes
Impairment of goodwill and other intangible assets	12, Intangible assets
Assets and other non-current assets	13, Tangible assets
Credit loss reserves	15, Customer-financing receivables 16, Receivables
Inventory obsolescence	17, Inventories
Pensions and other post-employment benefits	20, Provisions for post-employment benefits
Product warranty costs	21, Other provisions
Legal proceedings	21, Other provisions
Residual value risks	21, Other provisions

NOTE 3 ACQUISITIONS AND DIVESTMENTS OF SHARES IN SUBSIDIARIES

ACCOUNTING POLICY

Reporting of business combinations

Volvo applies IFRS 3, Business Combinations, for acquisitions. All business combinations are accounted for in accordance with the purchase method. Volvo values acquired identifiable assets, tangible and intangible, and liabilities at fair value. Any surplus amount from the purchase price, possible non-controlling interests and fair value of previously held equity interests at the acquisition date compared to the Group's share of acquired net assets is reported as goodwill. Any lesser amount, known as negative goodwill, is recognized in profit and loss.

In step acquisitions, a business combination occurs only on the date control is achieved, which is the point when goodwill is calculated. Transactions with the minority are recognized as equity as long as control of the subsidiary is retained. For each business combination, Volvo decides whether the non-controlling interest should be valued at fair value or at the non-controlling interest's proportionate share of the net assets of the acquiree. All acquisition-related costs are expensed. Companies acquired during the year are consolidated as of the date of acquisition. Companies that have been divested are included in the consolidated financial statements up to and including the date of divestment.

Non-current assets held for sale and discontinued operations

Volvo applies IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. The standard also includes the treatment of current assets. In a global group like the Volvo Goup, processes are continuously ongoing regarding the sale of assets or groups of assets at minor values. In cases in which the criteria for being classified as a non-current asset held for sale are fulfilled and the asset or group of assets is not of minor value, the asset or group of assets and the related liabilities are recognized on a separate line in the balance sheet. The asset or group of assets are tested for impairment and, if impaired, measured at fair value after deductions for selling expenses. The balance sheet items and the income effect resulting from the revaluation to fair value less selling expenses are normally recognized in the segment Group headquarter functions and other, until the sale is completed and the result attributed to each segment.

AB Volvo's holding of shares in subsidiaries as of December 31, 2011 is shown in the disclosures of AB Volvo's holding of shares in Note 5. Significant acquisitions, formations and divestments within the Group are listed below.

Acquisitions for the period

The Volvo Group has not made any acquisitions during 2010 and 2011, which solely or jointly have had a significant impact on the Volvo Group's financial statements. For acquisitions in 2010 and 2011, the fair-value adjustments to the acquisition balance sheets have thus not been significant for the Volvo Group.

The impact on the Volvo Group's balance sheet and cash-flow statement in connection with the acquisition of subsidiaries and other business units are specified in the following table based on valuations on the respective acquisition dates:

Acquisitions	2011	2010
Intangible assets	1	0
Property, plant and equipment	132	32
Assets under operating lease	1,503	468
Inventories	38	56
Current receivables	236	99
Cash and cash equivalents	39	15
Other assets	1	12
Minority interests	387	20
Provisions	(36)	(22)
Loans	(1,510)	(374)
Current liabilities	(191)	(143)
	600	163
Goodwill	967	52
Acquired net assets	**1,567**	**215**
Cash and cash equivalents paid	(1,567)	(229)
Cash and cash equivalents according to acquisition analysis	39	15
Effect on Group cash and cash equivalents	**(1,528)**	**(214)**

Divestments

The Volvo Group has not made any divestments during 2011, which solely or jointly have had a significant impact on the Volvo Group's financial statements. Comparative figures for 2010 include the divestment of Volvo Aero's US subsidiary, Volvo Aero Services (VAS) and Volvo CE's distribution networks in Turkey and Russia.

The impact on the Volvo Group's balance sheet and cash-flow statement in connection with the divestment of subsidiaries and other business units are specified in the following table:

Divestments	2011	2010
Intangible assets	(5)	0
Property, plant and equipment	(4)	(32)
Assets under operating lease	0	(190)
Shares and participations	0	0
Inventories	(45)	(1,096)
Other receivables	(130)	(334)
Cash and cash equivalents	(21)	(176)
Other provisions	17	(10)
Other liabilities	143	540
	(45)	(1,298)
Goodwill	0	(122)
Divested net assets	**(45)**	**(1,420)**
Cash and cash equivalents received	(41)	1,007
Cash and cash equivalents, divested companies	(21)	(176)
Effect on Group cash and cash equivalents	**(62)**	**831**

Acquisitions and divestments after the end of the period
Volvo has not made any acquisitions or divestments after the end of the period that have had any significant impact on the Volvo Group.

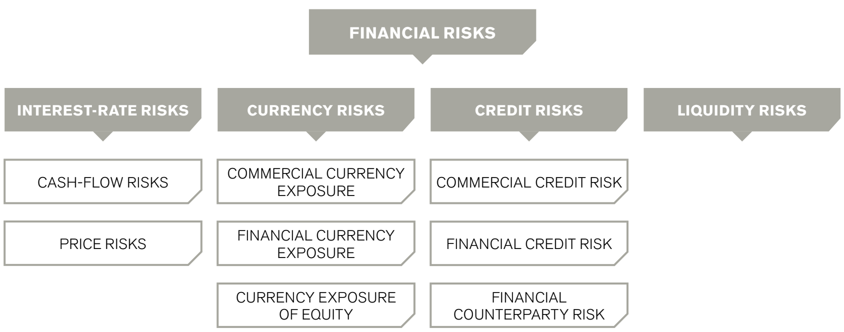
Assets and liabilities held for sale
At year-end 2011, the Volvo Group recognized assets amounting to 9,348 and liabilities amounting to 4,716 as assets and liabilities held for sale. Translation differences on foreign operations of 3 is included in other comprehensive income. This is referring to the initiated process to divest the business area Volvo Aero. A divestment is in line with the further streamlining of the Volvo Group towards commercial vehicles. Depending on the progress with the sales process, changes in the business environment, access to liquidity, market outlook, etc. the fair value of assets held for sale may change in the forthcoming periods or when the transaction is finalized. For the comparative year 2010, the Volvo Group recognized assets amounting to 136 and liabilities to 135 classified as assets and liabilities held for sale.

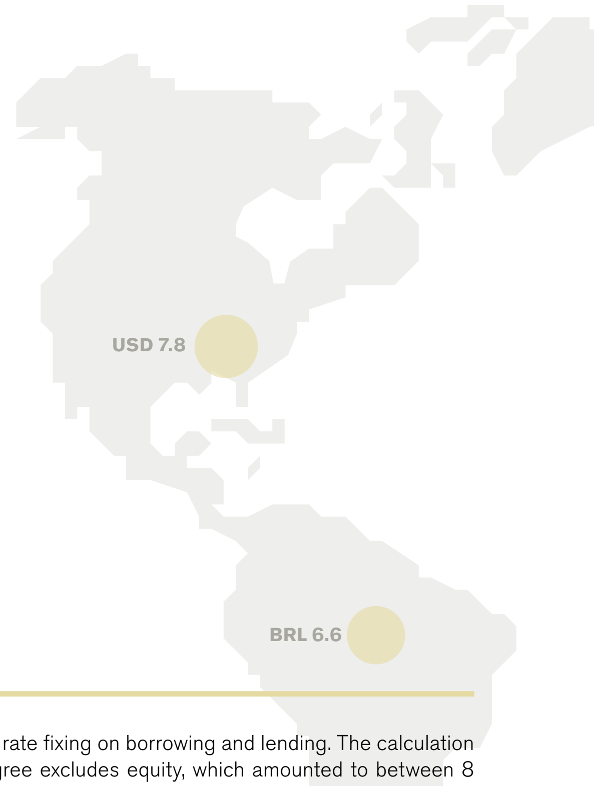
Assets and liabilities held for sale	2011	2010
Intangible assets	3,316	0
Tangible assets	1,984	43
Inventories	2,216	8
Accounts receivable	566	56
Other current receivables	982	24
Other assets	284	5
Total assets	**9,348**	**136**
Trade payables	1,025	31
Other current liabilities	3,691	104
Total liabilities	**4,716**	**135**

NOTE 4 GOALS AND POLICIES IN FINANCIAL RISK MANAGEMENT

Volvo's global operations expose the company to financial risks in the form of interest rate risks, currency risks, credit risks and liquidity risks. Work on financial risks comprises an integrated element of Volvo's business. Volvo Group strives to minimize these risks by optimizing the Group's capital costs by utilizing economies of scale, minimize negative effects on income as a result of changes in currency or interest rates and to optimize risk exposure. All risks are managed pursuant to Volvo's established policies in these areas. For further information on Accounting principles for Financial Instruments refer to note 30, Financial Instruments.

Volvo's risk management related to specific balance sheet items are thus also described in other areas of the Annual Report. Refer to the Note's instructions.





INTEREST-RATE RISKS A

Interest-rate risk refers to the risk that changed interest-rate levels will affect consolidated earnings and cash flow (cash-flow risks) or the fair value of financial assets and liabilities (price risks).

POLICY

Matching the interest-fixing terms of financial assets and liabilities reduces the exposure. Interest-rate swaps are used to change/influence the interest-fixing term for the Group's financial assets and liabilities. Currency interest-rate swaps enable borrowing in foreign currencies from different markets without introducing currency risk. Volvo also has standardized interest-rate forward contracts (futures) and FRAs (forward-rate agreements). Most of these contracts are used to hedge interest-rate levels for short-term borrowing or investments.

Cash-flow risks

The effect of changed interest rate levels on future currency and interest-rate flows primarily pertains to the Group's customer financing operations and net financial items. Customer finance operations measure the degree of matching interest rate fixing on borrowing and lending. The calculation of the matching degree excludes equity, which amounted to between 8 and 10% in the customer finance operations. At year-end 2011, the degree of such matching was 97% (100), which was in line with the Group's policy. At year-end 2011, in addition to the assets in its customer-financing operations, Volvo's interest- bearing assets consisted primarily of cash, cash equivalents and liquid assets invested in short-term interest-bearing securities. The objective is to achieve an interest-fixing term of three months for the liquid assets in Volvo's industrial operations through the use of derivatives. On December 31, 2011, after taking derivatives into account, the average interest on these assets was 1.9% (2.0). After taking derivatives into account, outstanding loans had interest terms corresponding to an interest-rate fixing term of three months and the average interest at year-end amounted to 4.1% (4.3), including Volvo's credit costs.

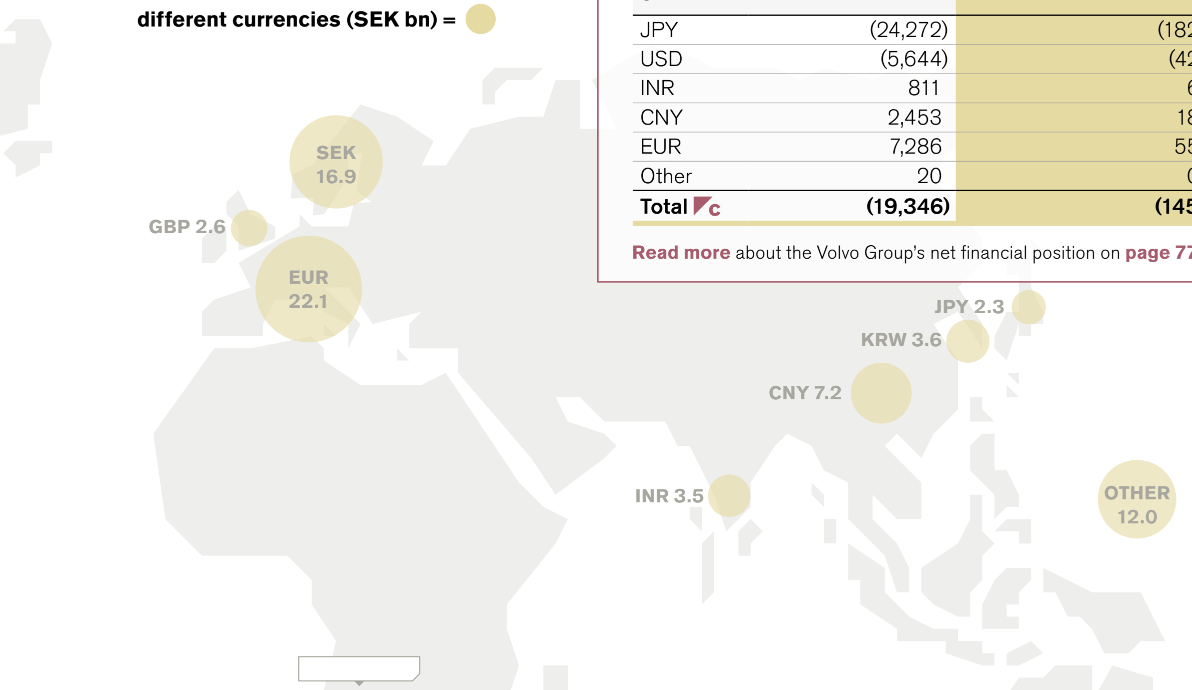
Price risks C

Exposure to price risks as result of changed interest-rate levels refers to financial assets and liabilities with a longer interest-rate fixing term (fixed interest).

The following table* D shows the effect on income before taxes in Industrial Operations financial net position , including pensions and similar net obligations, if interest rates were to increase by 1 percentage point, (100 basis points) assuming an average interest-rate fixed term of three months.

* The Note's sensitivity analysis on interest rate risks is based on simplified assumptions. It is not unreasonable for market interest rates to change by 1 percentage point (100 basis points) on an annual basis. However, in reality, these rates often rise or decline at different points in time. The sensitivity analysis also assumes a parallel deferment of the return curve, and that the interest rates on assets and liabilities will be equally impacted by changes in market interest rates. Accordingly, the impact of real interest-rate changes may differ from the analysis presented above. D

Volvo's net assets in different currencies (SEK bn) =



Currency SEK M	Net financial position incl. pensions	Impact on earnings before tax if interest rate rises 1% A (Interest-rate risks)	Impact on Net financial position if SEK rises 10% B (Currency risks)
JPY	(24,272)	(182)	2,427
USD	(5,644)	(42)	564
INR	811	6	(81)
CNY	2,453	18	(245)
EUR	7,286	55	(729)
Other	20	0	(17)
Total C	**(19,346)**	**(145)**	**1,919**

Read more about the Volvo Group's net financial position on **page 77.**

D

CURRENCY RISKS

CURRENCY RISKS B

The content of the recognized balance sheet may be affected by changes in different exchange rates. Currency risks in Volvo's operations are related to changes in the value of contracted and expected future payment flows (commercial currency exposure), changes in the value of loans and investments (financial currency exposure) and changes in the value of assets and liabilities in foreign subsidiaries (currency exposure of shareholders' equity).

POLICY

The aim of Volvo's currency risk management is to secure cash flow from firm flows through currency hedges pursuant to the established currency policy, and to minimize the exposure of financial items in Volvo's balance sheet. Below is a presentation on how this work is conducted for commercial and financial currency exposure, and for currency exposure of shareholders' equity.

Commercial currency exposure

Transaction exposure from commercial flows

Volvo uses forward contracts and currency options to hedge the value of future payment flows in foreign currencies. Volvo only hedges firm flows, most of which are realized within six months. The hedged amount of firm flows for all periods fall within the framework of Volvo's currency policy.

cont. >>

The Volvo Group's outstanding forward contracts and options contracts for hedging of commercial currency risks

		Currencies				Other currencies	Market value
Millions		USD	GBP	EUR	JPY	Net SEK	
Due date 2012	amount	1,100	75	(22)	(5,514)	604	
Due date 2013	amount	(2)	–	–	(115)	17	
Due date 2014	amount	(2)	–	–	–	-	
Total local currency		**1,096**	**75**	**(22)**	**(5,629)**	**621**	
Average contract rate		6.76	10.73	9.21	0.08		
Market value of outstanding forward contracts SEK M		**(147)**	**(3)**	**(37)**	**16**	**(1)**	**(172)**

F

» The table on the preceding page F shows outstanding forward and option contracts for the hedging of commercial currency risks. The table on page 74 shows commercial net flows per currency (transactional flows net).

Translation exposure during the consolidation of operating income in foreign subsidiaries
In conjunction with the translation of operating income in foreign subsidiaries, Volvo's earnings are impacted if currency rates change. Volvo does not hedge this risk. For more information on currency hedging of equity see below.

*Sensitivity analysis – currencies**
The tables below show the impact on sales and operating income for Volvo if key currencies fluctuate. The sensitivity analysis include the transaction impact from commercial flows and the translation impact during the consolidation of foreign subsidiaries.

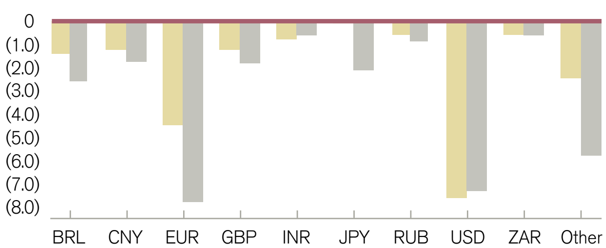
Financial currency exposure
Loans and investments in the Group's subsidiaries are performed mainly through Volvo Treasury in local currencies, which minimizes individual companies' financial currency exposure. Volvo Treasury uses various derivatives to facilitate lending and borrowing in different currencies without increasing the company's risk. The financial net position of the Volvo Group is affected by exchange-rate fluctuations since financial assets and liabilities are distributed among Group companies that conduct their operations using different currencies.

The Impact on Net financial position table on the previous page shows the impact on earnings before tax of Industrial operations financial net position, including pensions and similar net obligations, if the SEK were to strengthen by 10%. D

Currency exposure of equity
The consolidated value of assets and liabilities in foreign subsidiaries is affected by current exchange rates in conjunction with the translation of assets and liabilities to Swedish kronor. To minimize currency exposure of equity, the size of equity in foreign subsidiaries is continuously optimized with respect to commercial and legal conditions. Currency hedging of equity may occur in cases where a foreign subsidiary is considered overcapitalized. Net assets in foreign subsidiaries and associated companies amounted at year-end 2011 to SEK 67.8 billion (60.3). The remaining loans used as hedging instruments have expired in 2011. For more information on hedging of net investments in foregin operations recognized in equity refer to note 30 Financial Instruments.The need to undertake currency hedging relating to investments in associated companies and other companies is assessed on a case-by-case basis.

Volvos net assets in different currencies are presented on the map on the previous page.

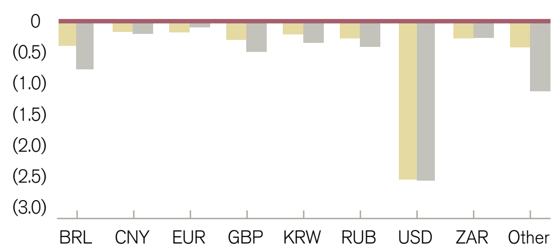
Sensitivity analysis
Currency effect on net sales from inflows in foreign currency and translation effect when consolidating net sales in foreign subsidiaries.



Changes in currency exchange rates compared to 2010 (Total SEK neg 20,2 bn)
Strenghten in value of SEK by 10% (Total SEK neg 31,0)

G

Sensitivity analysis
Currency effect on operating income from net flows in foreign currency and translation effect when consolidating operating income in foreign subsidiaries.



Changes in currency exchange rates compared to 2010 (Total SEK neg 4,7 bn)
Strenghten in value of SEK by 10% (Total SEK neg 6,3)

H

Volvo's currency review When Volvo communicates the currency impact on operating income, the following factors are included:

Currency impact on operating income SEK billion	2011	2010	Change
Net flows in foreign currency			(3.7)
Realized gains and losses on hedging contracts	0.2	0.5	(0.3)
Unrealized gains and losses on hedging contracts	(0.3)	0.2	(0.5)
Unrealized gains and losses on receivables and liabilities in foreign currency	0.3	0.1	0.2
Currency effect from devaluation in Venezuela	0	(0.1)	0.1
Translation effect on operating income in foreign subsidiaries			(1.0)
Total currency impact on operating income			**(5.2)**

Currency impact on Net flows in foreign currency and Translation effect on operating income in foreign subsidiaries are detailed in table H in key currencies for Volvo.

I

* The Note's sensitivity analysis on currency rate risks is based on simplified assumptions. It is not unreasonable for the value in SEK to strengthen by 10% in relation to other currencies. In reality, currencies usually do not change in the same direction at any given time, so the actual effect of exchange-rate changes may differ from the sensitivity analysis. Please refer to table D G H

CREDIT RISKS

Credit risks are defined as the risk that Volvo does not receive payment for recognized accounts receivable and customer-financing receivables (commercial credit risk), that Volvo's investments are unable to be realized (financial credit risk) and that potential profit is not realized due to the counterparty not fulfilling its part of the contract when using derivative instruments (financial counterparty risk).

POLICY

The objective of the Volvo Group Credit Policy is to define and measure the credit exposure and control the risk of losses deriving from credits to customers, credits to suppliers, counter party risks and Customer Dealer Financing activities.

Commercial credit risk

Volvo's credit granting is steered by Group-wide policies and customer-classification rules. The credit portfolio should contain a sound distribution among different customer categories and industries. The credit risks are managed through active credit monitoring, follow-up routines and, where applicable, product repossession. Moreover, regular monitoring ensures that the necessary allowances are made for incurred losses on doubtful receivables. In Notes 15 and 16, ageing analyses are presented of customer finance receivables overdue and accounts receivables overdue in relation to the reserves made.

The credit portfolio of Volvo's customer-financing operations amounted at December 31, 2011, to approximately net SEK 79 billion (73). The credit risk of this portfolio is distributed over a large number of retail customers and dealers. Collaterals are provided in the form of the financed products. In the credit granting Volvo strives for a balance between risk exposure and expected return.

Read more about Volvo's credit risk in the customer-financing operation in **Note 15.**

Financial credit risk

The Volvo Group's financial assets are largely managed by Volvo Treasury and invested in the money and capital markets. All investments must meet the requirements of low credit risk and high liquidity. According to Volvo's credit policy, counterparties for investments and derivative transactions should have a rating of A or better from one of the well-established credit rating institutions.

Financial counterparty risk

The use of derivatives involves a counterparty risk, in that a potential gain will not be realized if the counterparty fails to fulfill its part of the contract. To reduce the exposure, master netting agreements are signed, wherever possible, with the counterparty in question. Counterparty risk exposure for futures contracts is limited through daily or monthly cash transfers corresponding to the value change of open contracts. The estimated gross exposure to counterparty risk relating to futures, interest-rate swaps and interest-rate forward contracts, options and commodities contracts amounted at December 31, 2011, to 281 (331), 4,024 (3,539), 284 (190) and 68 (168).

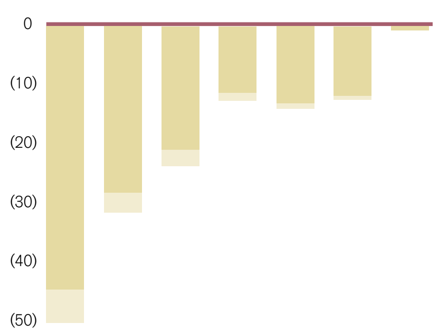
LIQUIDITY RISKS

Liquidity risk is defined as the risk that Volvo would be unable to finance or refinance its assets or fulfill its payment obligations.

POLICY

Volvo assures itself of sound financial preparedness by always keeping a certain percentage of its sales in liquid assets. A sound balance between short and long-term borrowing, as well as borrowing preparedness in the form of overdraft facilities, are intended to meet its long-term financing needs.

Future cash-flow including derivatives related to non-current and current financial liabilities



	2012	2013	2014	2015	2016	2017	2018
Capital flow, SEK bn	(44.5)	(28.2)	(20.9)	(11.3)	(13.0)	(11.8)	(0.7)
Interest flow, SEK bn	(5.6)	(3.3)	(2.7)	(1.3)	(0.9)	(0.6)	(0)

The adjacent graph shows expected future cash-flows including derivatives related to financial liabilities. Capital flow refers to expected payments of loans and derivatives, see note 22. Expected interest flow refers to the future interest payments on loans and derivatives based on interest rates expected by the market. The interest flow is recognized within cash flow from operating activities.

In addition to derivatives included in capital flow in the table there are also derivatives related to financial liabilities reported as assets, which are expected to give a future capital flow of SEK 0.8 bn and a future interest flow of SEK 3.4 bn.

Read more about the maturity structure concerning bond loans and other loans, as well as granted but unutilized credit facilities in **Note 22.**

Read more about contractual term analyses of Volvo's future rental payments from non-annullable financial and operational lease contracts in **Note 14.**

NOTE 5 SHARES AND PARTICIPATIONS

ACCOUNTING POLICIES

Joint ventures
Joint ventures are companies over which Volvo has controlling influence together with one or more external parties. As stated in Note 1 concerning principles for consolidation, joint ventures are recognized by applying the proportionate consolidation method, in accordance with IAS 31 Interests in Joint ventures.

Associated companies
Associated companies are companies in which Volvo has a significant influence, which is normally when Volvo's holdings equal at least 20% but less than 50% of the voting rights. Holdings in associated companies are recognized in accordance with the equity method. The Group's share of recognized income in such companies is included in the consolidated statement of profit or loss under Income from participations in associated companies, less, where appropriate, depreciation of surplus values and the effect of applying different accounting policies. Income from associated companies is included in operating income since the Volvo investments are of operating nature. For practical reasons, some of the associated companies are included in the consolidated financial statements with a certain time lag, normally one quarter. Dividends from associated companies are not included in consolidated income. In the consolidated balance sheet, the carrying amount of shareholdings in associated companies is affected by Volvo's share of the company's net income, less depreciation of surplus values and dividends received.

Shares and participations in other companies
Holdings that do not provide Volvo with significant influence, which generally means that Volvo's holding corresponds to less than 20% of the votes, are recognized as shares and participations in other companies. For listed shares, the carrying amount is equivalent to the market value. Unlisted shares and participations, in which fair value cannot reasonably be determined, are measured at cost less any impairment losses.

Joint ventures
Group holdings of shares in joint ventures are listed below.

Shares in joint ventures	Dec 31, 2011 Holding percentage	Dec 31, 2010 Holding percentage
Shanghai Sunwin Bus Corp., China	50	50
Dong Feng Nissan Diesel Motor Co., Ltd., China	50	50
VE Commercial Vehicles, Ltd., India	50[1]	50[1]
Xian Silver Bus Corp., China	–	50

1 Direct and indirect ownership.

Volvo's share of joint ventures' income statements	2011	2010
Net sales	4,196	4,178
Operating income	323	127
Income after financial items	379	169
Income taxes	(73)	(66)
Volvo's share of income for the period	**306**	**103**

Volvo's share of joint ventures' balance sheets	Dec 31, 2011	Dec 31, 2010
Non-current assets	1,915	1,932
Current assets	2,248	2,206
Total assets	**4,163**	**4,138**
Shareholders' equity	2,505	2,627
Provisions	274	294
Long-term liabilities	6	12
Current liabilities	1,378	1,205
Total shareholders' equity and liabilities	**4,163**	**4,138**

At December 31, 2011, guarantees amounting to 0 (78) were issued by AB Volvo for the benefit of joint ventures. At the same date, Volvo's share of contingent liabilities in its joint ventures totaled 38 (46).

Volvo's share of total number of employees	2011		2010	
	Number of employees	of which women, %	Number of employees	of which women, %
Shanghai Sunwin Bus Corp.	453	16	455	16
Xian Silver Bus Corp.	–	–	144	21
Dong Feng Nissan Diesel Motor Co., Ltd.	152	13	141	14
VE Commercial Vehicles, Ltd.	3,600	1	1,479	1
Volvo's share of total number of employees	**4,205**	**3**	**2,219**	**7**

NOTES TO FINANCIAL STATEMENTS

Associated companies

The following table presents summarized financial information for Volvo's associated companies. The income statement and balance sheet below reflect the total associated companies, not only the part consolidated by Volvo.

Shares and participations in associated companies, equity method of accounting	Registration number	Percentage holding	Dec 31, 2011 Carrying value	Dec 31, 2010 Carrying value
Blue Chip Jet II HB, Sweden	969717-2105	50	405	319
UD Trucks Doto Corporation, Japan	–	38	103	94
UD Trucks Niigata Corporation, Japan	–	34	69	61
Merkavim Metal Works Ltd, Israel	–	27	17	37
JV Fonderie Venissieux, France	–	49	35	32
PK-UD Axle Co.,Ltd. (HangZhou), China[1]	–	51	–	30
Diamond Finance Ltd, Great Britain[2]	–	–	–	18
Blue Chip Jet HB, Sweden	969639-1011	50	8	3
Quingdao Sunwin Bus Corp, China	–	43	9	9
Arabian Vehicle & Truck Industry Ltd, Saudi Arabia	–	25	9	9
Effpower AB, Sweden[3]	556570-8541	9	–	29
Powercell Sweden AB, Sweden	556759-8353	47	17	27
Other holdings	–	–	12	16
Total shares and participations in associated companies[4]			**684**	**684**

1 In 2011 Volvo acquired additional 6% and the company is now a subsidiary. In 2010 the holding in PK-UD Axle Co., Ltd was 45%.
2 The company was liquidated during 2011. In 2010 the holding in Diamond Finance Ltd was 40%.
3 In 2011 the holding was reduced to 9% and the company is therefore no longer accounted for as an associated company. In 2010 the holding in Effpower AB was 34%.
4 Volvo's share of shareholders' equity in associated companies (incl. equity in untaxed reserves) amounted to 684 (684).

The following table presents summarized financial information for Volvo's associated companies. The income statement and balance sheet below reflect the total associated companies, not only the part consolidated by Volvo.

Income statement data	2011	2010
Net sales	2,543	3,794
Cost of sales	(2,491)	(3,840)
Financial income and expense	(29)	(32)
Income before taxes	**23**	**(78)**
Income taxes	(23)	(46)
Income of the period	**0**	**(124)**

Balance sheet data	Dec 31 2011	Dec 31 2010
Non-current assets	2,094	2,085
Current assets	1,485	1,558
Total assets	**3,579**	**3,643**
Shareholders' equity	1,605	1,686
Provisions	53	61
Non-current liabilities	621	452
Current liabilities	1,300	1,444
Total shareholders' equity and liabilities	**3,579**	**3,643**

Income from investments in associated companies

Income/loss	2011	2010
UD Trucks Niigata Co	5	7
JV Fonderie Venissieux	4	(1)
Merkavim Metal Works Ltd	17	15
Blue Chip Jet I & II HB	(46)	(39)
Holdings of Volvo Technology Transfer[1]	(6)	(58)
Other companies	2	1
Subtotal	**(24)**	**(75)**
Revaluation and write-down of shares		
Blue Chip Jet I & II HB	–	(11)
Holdings of Volvo Technology Transfer[1]	(48)	–
Other companies	(4)	–
Subtotal	**(52)**	**(11)**
Gains (losses) on divestment of shares in associated companies		
Holdings of Volvo Technology Transfer[1]	(5)	–
Subtotal	**(5)**	**-**
Total income (loss) from investments in associated companies	**(81)**	**(86)**

1 Investments held by the Volvo venture-capital company.

Shares and participations in other companies

The carrying amount of Volvo's holdings of shares and participations in other companies as of December 31, 2011, is shown in the table below.

Holdings in listed companies	Percentage holding	Dec 31, 2011 Carrying value	Dec 31, 2010 Carrying value
Deutz AG, Germany	7.2	299	458
Nippon Express Co.,Ltd., Japan	0.4	93	131
TBK Co.,Ltd., Japan	6.7	61	68
Sankyu Inc., Japan	0.5	44	53
Fukuyama Transporting Co.,Ltd., Japan	0.2	16	15
Senko Co.,Ltd, Japan	1.0	32	30
Tonami Holdings Co.,Ltd., Japan	1.1	15	14
Yamato Holdings Co.,Ltd., Japan	0.1	25	21
Holdings in other listed companies	–	50	46
Total holdings in listed other companies		**635**	**836**
Holdings in non-listed companies[1]		555	578
Total shares and participations in other companies		**1,190**	**1,414**

1 Unlisted shares and participations, in which fair value cannot be reasonably determined, are measured at cost less any impairment losses.

Income from other investments

Dividends received	2011	2010
Deutz AG	2	2
Holdings in Japanese companies	13	14
Other	6	7
Subtotal	**21**	**23**
Write-downs of shares		
Holdings of Volvo Technology Transfer[1]	(43)	(107)
Holdings in Japanese companies	(226)	–
Other	(1)	(1)
Subtotal[2]	**(270)**	**(108)**
Gain on divestment of shares		
Holdings of Volvo Technology Transfer[1]	11	10
Holdings in Japanese companies	5	24
Other	8	(7)
Subtotal	**24**	**27**
Total	**(225)**	**(58)**

1 Investments held by the Volvo venture-capital company.
2 Write-downs of shares refer mainly to financial assets available for sale for which a reliable market value can be calculated.

Changes in the Volvo Group's holdings of shares and participations:	2011	2010
Balance sheet, December 31, preceding year	2,098	2,044
Change in Group structure	(19)	–
Acquisitions and divestments, net	92	104
Write-downs	(96)	(119)
Capital contribution	23	31
Share of income in associated companies	(24)	(75)
Revaluation of shares to fair value	(203)	148
Translation differences	34	22
Dividends	(35)	(1)
Reclassifications	–	(42)
Other	4	(14)
Balance sheet, December 31	**1,874**	**2,098**

NOTES TO FINANCIAL STATEMENTS

NOTE 6 SEGMENT REPORTING

Reporting by product area

The Volvo Group's operations are, until year end 2011, organized in nine business areas: Volvo Trucks, Renault Trucks, North American Trucks, Trucks Asia, Buses, Construction Equipment, Volvo Penta, Volvo Aero and Customer Finance. In addition to the nine business areas, there are other operations consisting mainly of business units that are designed to support the business areas' operations. The business units include Volvo Powertrain, Volvo 3P, Volvo IT, Volvo Logistics and Volvo Parts. As the four truck brands share product development, production and other activities in business units such as Volvo 3P and Volvo Powertrain and also share certain infrastructure in distribution such as dealers, the four truck brands are reported as one aggregated business segment. The Volvo Group is thus reported divided in six segments in which net sales and operating income are reported for each product area.

Each business area, except for Customer Finance, has total responsibility for its operating income, operating capital and operating cash flow. Volvo Financial Services within Customer Finance has responsibility for its net income and total balance sheet within certain restrictions and principles that are established centrally. The supervision and coordination of treasury and tax matters is organized centrally to obtain the benefits of a Group-wide approach. The legal structure of the Volvo Group is based on optimal handling of treasury, tax and administrative matters and, accordingly, differs from the operating structure.

The business units are designated to support the business areas and are therefore not reportable business segments. The results from the synergies created in the business units are transferred back to the various product areas based on the degree to which individual areas have utilized the services of the business units. The heading Other contains mainly earnings linked to corporate functions including the Group's treasury operations. The Group's real estate, held in Volvo Group Real Estate, is reported under industrial operations, and earnings are transferred back to the business areas.

Reported segment information is based on the information used internally by the chief operating decision maker, which in Volvo is the Volvo Group Executive Committee.

As from January 1, 2012, the Volvo Group has a new organizational structure (see pages 8-9 in this report). The business will continue to be divided in six segments under the new organization. The organizational change may however result in some shifts between the segments.

Net sales	2011	2010
Trucks	200,703	167,305
Construction Equipment	64,987	53,810
Buses	22,289	20,516
Volvo Penta	8,859	8,716
Volvo Aero	6,509	7,708
Other and eliminations	242	(680)
Industrial Operations	**303,589**	**257,375**
Customer Finance	8,883	9,031
Reclassifications and eliminations	(2,104)	(1,657)
Volvo Group	**310,367**	**264,749**

The above sales figures include internal sales in the following amounts:

Net sales to Group companies	2011	2010
Trucks	1,921	1,421
Construction Equipment	606	347
Buses	526	490
Volvo Penta	140	129
Volvo Aero	1	21
Other and eliminations	(1,426)	(984)
Industrial Operations	**1,769**	**1,424**
Customer Finance	337	231
Eliminations	(2,106)	(1,655)
Volvo Group	**0**	**0**

Internal sales between business areas are generally made at standard cost of sales, including calculated interest and product improvement expenses. Internal sales from service companies are generally made at market prices.

Operating income	2011	2010
Trucks	18,260	10,112
Construction Equipment	6,653	6,180
Buses	1,036	780
Volvo Penta	781	578
Volvo Aero	336	286
Other	(1,109)	(102)
Industrial Operations	**25,957**	**17,834**
Customer Finance	942	167
Volvo Group	**26,899**	**18,000**

Depreciation and amortization	2011	2010
Trucks	8,531	8,721
Construction Equipment	1,903	1,975
Buses	472	464
Volvo Penta	474	453
Volvo Aero	504	436
Other	(464)	(710)
Industrial Operations	**11,419**	**11,338**
Customer Finance	2,572	2,454
Volvo Group total[1]	**13,992**	**13,792**

1 Of which write-down 102 (33).

Research and development expenses	2011	2010
Trucks	8,627	9,230
Construction Equipment	2,556	1,972
Buses	1,052	882
Volvo Penta	692	670
Volvo Aero	275	156
Other	74	60
Volvo Group total	**13,276**	**12,970**

Income from investments in associated companies	2011	2010
Trucks	10	8
Construction Equipment	–	–
Buses	13	15
Volvo Penta	–	–
Volvo Aero	0	0
Other	(105)	(109)
Industrial Operations	**(82)**	**(86)**
Customer Finance	0	0
Volvo Group total	**(82)**	**(86)**

Total assets	2011	2010
Operating assets, Industrial Operations[1]:		
Trucks	126,617	114,169
Construction Equipment	47,742	43,309
Buses	11,905	11,565
Volvo Penta	5,026	4,870
Volvo Aero	–	9,881
Non-interest bearing assets held for sale	9,344	136
Other	7,831	2,051
Total operating assets Industrial Operations	**208,464**	**185,981**
Interest-bearing financial assets	42,689	42,645
Tax receivables	13,632	13,064
Total assets in Customer Finance	99,147	89,246
Other and eliminations	(10,689)	(12,929)
Volvo Group total	**353,244**	**318,007**

1 Defined as total assets less interest-bearing financial assets and tax receivables.

Total shareholders' equity and liabilities	2011	2010
Operating liabilities, Industrial Operations[1]:		
Trucks	80,031	69,039
Construction Equipment	22,494	18,697
Buses	8,213	7,762
Volvo Penta	2,575	2,519
Volvo Aero	–	3,517
Non interest-bearing liabilities held for sale	4,710	135
Other	1,586	1,259
Total operating liabilities Industrial Operations	**119,609**	**102,928**
Financial liabilities	62,037	67,335
Tax liabilities	6,515	4,702
Total liabilities in Customer Finance	90,148	81,226
Other and eliminations	(10,747)	(12,305)
Total liabilities	**267,563**	**243,886**
Shareholders' equity	85,681	74,121
Volvo Group total	**353,244**	**318,007**

1 Defined as total liabilities less shareholders' equity, financial liabilities and tax liabilities.

Investments in associated companies	2011	2010
Trucks	228	241
Construction Equipment	–	–
Buses	23	46
Volvo Penta	–	–
Volvo Aero	1	1
Customer Finance	0	18
Other	432	378
Volvo Group total	**684**	**684**

Capital expenditures	2011	2010
Trucks	9,138	7,650
Construction Equipment	2,231	1,555
Buses	367	343
Volvo Penta	332	331
Volvo Aero	797	734
Other	1,293	30
Industrial Operations	**14,159**	**10,643**
Customer Finance	6,112	4,600
Eliminations	(52)	(38)
Volvo Group total	**20,220**	**15,205**

Reporting by market

Net sales	2011	2010
Europe	120,828	102,947
North America	60,560	47,922
South America	35,142	29,013
Asia	73,586	65,487
Other markets	20,251	19,380
Volvo Group total*	**310,367**	**264,749**
*of which:		
Sweden	14,108	12,463
United States	46,984	35,752
France	27,061	24,457

Total assets	2011	2010
Sweden	80,584	73,806
Europe excluding Sweden	93,411	86,645
North America	60,948	53,683
South America	25,521	23,442
Asia	84,913	72,481
Other markets	7,868	7,950
Volvo Group total	**353,244**	**318,007**

Capital expenditures	2011	2010
Sweden	5,670	3,323
Europe excluding Sweden	7,639	6,733
North America	3,427	2,039
South America	478	292
Asia	2,953	2,707
Other markets	53	111
Volvo Group total	**20,220**	**15,205**

NOTE 7 INCOME

ACCOUNTING POLICY

The Group's recognized net sales pertain mainly to revenues from sales of goods and services. Net sales are, if the occasion arises, reduced by the value of discounts granted and by returns.

Revenue from the sale of goods is recognized when significant risks and rewards of ownership have been transferred to external parties, normally when the goods are delivered to the customer. However, if the sale of goods is combined with a buy-back agreement or a residual value guarantee, the transaction is recognized as an operating lease transaction if significant risks in regard to the goods are retained in Volvo. Revenue is then recognized over the period of the residual value commitment. If the residual value risk commitment is not significant and the sale was made to an independent party or in combination with a commitment from the customer to buy a new Volvo product in connection to a buy-back option, the revenue is recognized at the time of sale and a provision is made to reflect the estimated residual value risk (refer to Note 21 Other provisions).

Revenue from the sale of workshop services is recognized when the service is provided. Interest income in conjunction with finance leasing or instalment contracts is recognized during the underlying contract period. Revenue for maintenance contracts are recognized in line with the allocation of associated costs over the contract period.

Interest income is recognized on a continuous basis and dividend income when the right to receive dividend is obtained.

SOURCES OF ESTIMATION UNCERTAINTY

In certain cases, Volvo enters into a buy-back agreement or residual value guarantee after Volvo has sold the product to an independent party or in combination with an undertaking from the customer to purchase a new Volvo product in the event of a buy-back. In such cases, there may be a question of judgement regarding whether or not significant risks and rewards of ownership have been transferred to the customer. If it is determined that such an assessment was incorrect, Volvo's recognized revenue and income for the period will decline and instead be distributed over several reporting periods. Refer to Note 21, Other provisions, for a description of residual value risks.

Hard and soft products

The Volvo Group's product range is divided into hard and soft products. The sale of new vehicles, machinery and engines comprise hard products. Soft products include all products and services apart from the sale of new and used vehicles, machinery and engines and some extended product offerings, that are sold to customers to provide the customer with an enhanced experience and greater satisfaction.

» **Refer to page 42** for more about the Volvo Group's services.

» **Refer to Note 6** for information regarding net sales by product and market.

NOTE 8 OTHER OPERATING INCOME AND EXPENSES

Changes in provisions for doubtful accounts receivable and customer-financing receivables are recognized in Other operating income and expenses, which during the period impacted the Group in an amount of 770 (1,326).

Read more regarding the company's management of credit risk and credit reserves in Note 4.

	2011	2010
Gains/losses on divestment of Group companies	(19)	(34)
Write down of assets held for sale	(54)	(65)
Reversal of write down of assets held for sale	60	–
Change in allowances and write-offs for doubtful receivables, customer financing	(682)	(1,438)
Change in allowances and write-offs for doubtful receivables, other	(88)	112
Damages and litigations	(227)	(57)
Restructuring cost	(94)	11
Volvo profit sharing program	(523)	(360)
Other income and expenses	(22)	(192)
Total	**(1,649)**	**(2,023)**

NOTE 9 OTHER FINANCIAL INCOME AND EXPENSES

The market values of derivatives utilized to eliminate interest-rate exposure in the customer-financing portfolio are reported in Other financial income and expenses. During the year, these had a positive impact of 544 (871) on earnings.

SEK M	2011	2010
Financial instruments at fair value through profit or loss	544	871
Exchange rate gains and losses on financial assets and liabilities[2]	25	(351)
Financial income and expenses related to taxes	18	(20)
Costs for Treasury function, credit facilities, etc	(290)	(287)
Total[1]	**297**	**213**

1 Other financial income and expenses attributable to financial instruments amounted to 569 (520). For additional information regarding financial instruments, refer to Note 30 Financial instruments.
2 Exchange-rate gains and losses on financial assets and liabilities for 2010, includes an adverse effect of 274 for the devaluation in Venezuela.

NOTE 10 INCOME TAXES

ACCOUNTING POLICY

Income tax for the period includes current and deferred taxes. Current taxes are calculated on the basis of the tax regulations prevailing in the countries in which the Parent Company and subsidiaries are active and generate taxable income.

Deferred taxes are recognized on differences that arise between the taxable value and recognized value of assets and liabilities as well as on tax-loss carryforwards. However, with regard to the measurement of deferred tax assets, that is, the value of future tax reductions, these items are recognized provided that it is probable that the amounts can be utilized against future taxable income.

Deferred taxes on temporary differences on participations in subsidiaries and associated companies are only recognized when it is probable that the difference will be recovered in the near future.

Tax laws in Sweden and certain other countries allow companies to defer payment of taxes through allocations to untaxed reserves. These items are treated as temporary differences in the consolidated balance sheet, meaning that deferred tax liability and equity capital are separated. In the consolidated income statement an allocation to, or withdrawal from, untaxed reserves is divided between deferred taxes and net income for the year.

SOURCE OF UNCERTAINTY IN ESTIMATES

Volvo recognizes valuation allowances for deferred tax assets where management does not expect such assets to be realized based upon current forecasts. In the event that actual results differ from these estimates or adjustments are made to future periods in these estimates, changes in the valuation allowance may be required, which could materially impact the financial position and the income for the period. At December 31, 2011, the valuation allowance amounted to 263 (339) of the value of deferred tax assets. Most of the reserve consists of unused loss carryforwards. Net of this valuation allowance, deferred tax assets of 18,552 (20,109) were recognized in the Group's balance sheet.

Volvo has significant tax-loss carryforwards that are related to countries with long or indefinite periods of utilization, mainly Sweden, Japan and France. Volvo considers it to be most certain that the Group will be able to generate sufficient income in the coming years to utilize the tax-loss carryforwards.

Income taxes were distributed as follows:

	2011	2010
Current taxes relating to the period	(5,331)	(3,668)
Adjustment of current taxes for prior periods	76	180
Deferred taxes originated or reversed during the period	(1,584)	(747)
Remeasurements of deferred tax assets	25	(67)
Total income taxes	**(6,814)**	**(4,302)**

Provisions have been made for estimated tax charges that may arise as a result of prior tax audits in the Volvo Group. Volvo evaluates tax processes on a regular basis and makes provisions for possible outcome when it is probable that Volvo will have to pay more taxes and when it is possible to make a reasonably assessment of the possible outcome. Tax claims for which no provision was deemed necessary were recognized as contingent liabilities.

Deferred taxes amounting to 1 (93) have been recognized in other comprehensive income, attributable to fair value of derivative instruments.

At year-end 2011, the Group had unused tax-loss carryforwards amounting to 22,462 (24,869). These loss carryforwards expire according to the table below:

Due date	2011	2010
2012	40	64
2013	77	50
2014	180	190
2015	434	363
2016	2,302	757
2017–	19,429	23,445
Total	**22,462**	**24,869**

The Swedish corporate income tax rate is 26.3%. The table below shows the principal reasons for the difference between this rate and the Group's tax rate, based on income after financial items.

	2011, %	2010, %
Swedish corporate income tax rate	26	26
Difference in tax rate in various countries	3	4
Other non-taxable income	(3)	(3)
Other non-deductible expenses	1	1
Current taxes attributable to prior years	0	(1)
Remeasurement of deferred tax assets	0	1
Income tax rate for the Group	**27**	**28**

Specification of deferred tax assets and tax liabilities	2011	2010
Deferred tax assets:		
Unused tax-loss carryforwards	6,907	7,327
Other unused tax credits	141	121
Intercompany profit in inventories	780	711
Allowance for inventory obsolescence	368	439
Valuation allowance for doubtful receivables	482	587
Provisions for warranties	2,067	1,722
Provisions for residual value risks	288	306
Provisions for post-employment benefits	1,188	2,068
Provisions for restructuring measures	42	61
Adjustment to fair value during corporate acquisitions	0	12
Market value of derivative instruments	28	45
Land	2,204	2,455
Other deductible temporary differences	4,320	4,594
Deferred tax assets before deduction for valuation allowance	**18,815**	**20,448**
Valuation allowance	(263)	(339)
Deferred tax assets after deduction for valuation allowance	**18,552**	**20,109**
Netting of deferred tax assets/liabilities	(5,714)	(7,799)
Deferred tax assets, net	**12,838**	**12,310**
Deferred tax liabilities:		
Accelerated depreciation on property, plant and equipment	3,811	4,094
Accelerated depreciation on leasing assets	1,959	2,111
LIFO valuation of inventories	270	224
Capitalized product and software development	3,721	3,597
Adjustment to fair value at company acquisitions	31	0
Untaxed reserves	92	97
Market value of derivative instruments	1	20
Other taxable temporary differences	1,464	2,178
Deferred tax liabilities	**11,349**	**12,321**
Netting of deferred tax assets/liabilities	(5,714)	(7,799)
Deferred tax liabilities, net	**5,636**	**4,522**
Deferred tax assets/liabilities, net[1]	**7,203**	**7,788**

1 The deferred tax assets and liabilities above are partially recognized in the balance sheet on a net basis after taking into account offsetting possibilities. Deferred tax assets and liabilities have been measured at the tax rates that are expected to apply during the period when the asset is realized or the liability is settled, according to the tax rates and tax regulations that have been resolved or announced at the balance-sheet date.

Tax-loss carryforwards are largely attributable to countries with long or indefinite periods of utilization, mainly Sweden, Japan and France. Of the total deferred tax assets of 6,907 (7,327) attributable to tax-loss carryforwards, 2,914 (3,665) pertains to Sweden, with an indefinite period of utilization.

The cumulative amount of undistributed earnings in foreign subsidiaries, which Volvo currently intends to indefinitely reinvest outside of Sweden and upon which deferred income taxes have not been provided is approximately SEK 62 billion (47) at year end. The main part of the undistributed earnings is pertaining to countries where the dividends are not taxable.

Refer to Note 4 for information on how Volvo handles equity currency risk.

NOTE 11 MINORITY INTERESTS

ACCOUNTING POLICY

Minority interests, are interest attributable to non-controlling shareholders. Minority interests are presented in the equity, separately from the equity of the owners of the parent (IAS 27). At business combinations minority interests should be valued either at fair value or at the minority's proportionate share of the acquiree's net assets (IFRS 3). Minority interests are assigned the minority shareholder's portion of the equity of the subsidiary. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. (IAS 27)

Minority interests in income (loss) for the period and in shareholders' equity consisted mainly of the minority interests in Shandong Lingong Construction Machinery Co, Ltd (30%).

NOTE 12 INTANGIBLE ASSETS

ACCOUNTING POLICIES

Intangible assets

Volvo applies the cost method of valuation for measurement of intangible assets. Borrowing costs are included in the cost of assets that necessarily take more than 12 months to prepare for their intended use or sale, known as qualifying assets.

When participating in industrial projects in partnership with other companies, such as the aircraft engine projects in which Volvo Aero participates, Volvo pays an entrance fee to participate in certain cases. These entrance fees are capitalized as intangible assets.

Research and development expenses

Volvo applies IAS 38, Intangible Assets, for the recognition of research and development expenses. Pursuant to this standard, expenditures for the development of new products, production systems and software are recognized as intangible assets if such expenditures, with a high degree of certainty, will result in future financial benefits for the company. The cost for such intangible assets is amortized over the estimated useful life of the assets.

The rules require stringent criteria to be met for these development expenditures to be recognized as assets. For example, it must be possible to prove the technical functionality of a new product or software prior to its development being recognized as an asset. In normal cases, this means that expenditures are capitalized only during the industrialization phase of a product development project. Other research and development expenses are charged to income as incurred.

Volvo has developed a process for conducting product development projects named the Global Development Process (GDP). The GDP has six phases focused on separate parts of the project. Every phase starts and ends with a reconciliation point, known as a gate, the criteria for which must be met for the project's decision-making committee to open the gate and allow the project to progress to the next phase. During the industrialization phase, the industrial system is prepared for series production and the product is launched.

Goodwill

Goodwill is recognized as an intangible asset with indefinite useful life. For non-depreciable assets such as goodwill, impairment tests are performed annually, as well as if there are indications of impairments during the year, by calculating the asset's recovery value. If the calculated recovery value is less than the carrying value, the asset's recovery value is impaired.

Volvo's measurement model is based on a discounted cash-flow model, with a forecast period of four to six years. Cash-generating units, identified as Volvo's business areas, are measured.

Goodwill assets are allocated to these cash-generating units on the basis of anticipated future utility. Measurements are based on management's best estimation of the operations' development. The basis for this estimation is long-term forecasts of the market's growth, 2 to 4%, in relation to the performance of Volvo's operations. In the model, Volvo is expected to maintain stable capital efficiency over time. Measurements are based on nominal values and utilize a general rate of inflation in line with the European target. Volvo uses a discounting factor calculated to 12% (12) before tax for 2011.

In 2011, the value of Volvo's operations exceeded the carrying amount of goodwill for all business areas, which is why no impairment was recognized. Volvo has also tested whether a surplus value would still exist after being subjected to reasonable potential changes to the assumptions, negatively adjusted by one percentage point on an individual basis, whereof no adjustment would have sufficient impact to require impairment for the majority of the carrying amount.

Since the surplus values differ between the business areas, they are to a varying degree sensitive to changes in the assumptions described above. Therefore, Volvo continuously follows the performance of the business areas whose overvalue is dependent on the fulfillment of Volvo's assessments. Instability in the recovery of the market and volatility in interest and currency rates may lead to indications of a need for impairment. The most important factors for the future operations of Volvo are described in the Volvo business area section, as well as in the Risk management section.

Depreciation, amortization and impairment

Depreciation is made on a straight-line basis based on the cost of the assets, adjusted in appropriate cases by impairments, and estimated useful lives. Depreciation is reported in the respective function to which it belongs. Impairment tests for depreciable assets are performed if there are indications of impairment at the balance sheet date.

Depreciation/amortization periods

Trademarks	20 years
Distribution networks	10 years
Product and software development	3 to 8 years
Aircraft engine projects	35 years

* The depreciation/amortization period for aircraft engine projects was changed from 20 to 35 years as of 2010.

SOURCES OF ESTIMATION UNCERTAINTY

Impairment of goodwill and other intangible assets

Intangible assets other than goodwill are amortized and depreciated over their useful lives. Useful lives are based on estimates of the period in which the assets will generate revenue. If, at the date of the financial statements, any indication exists that an intangible non-current asset has been impaired, the recoverable amount of the asset is calculated. The recoverable amount is the higher of the asset's net selling price and its value in use, estimated with reference to management's projections of future cash flows. If the recoverable amount of the asset is less than the carrying amount, an impairment loss is recognized and the carrying amount of the asset is reduced to the recoverable amount. Determination of the recoverable amount is based upon management's projections of future cash flows, which are generally based on internal business plans or forecasts. While management believes that estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect valuations. The need for impairment of goodwill and certain other intangible assets with indefinite useful lives is determined on an annual basis, or more frequently if required through calculation of the value of the asset. Such an impairment review will require management to determine the fair value of Volvo's cash generating units, on the basis of projected cash flows and internal business plans and forecasts. Surplus values differ between the business areas and they are, to a varying degree, sensitive to changes in assumptions and the business environment. Volvo has performed similar impairment reviews since 2002. No need for impairment losses was required for the period 2002 until 2011.

Intangible assets, acquisition costs	Goodwill[1]	Entrance fees, industrial programs	Capitalized product and software development	Other intangible assets[2]	**Total intangible assets**
Balance-sheet amount 2009	23,827	3,833	25,148	6,719	**59,527**
Capital expenditures[3]	–	15	3,255	54	**3,324**
Sales/scrapping	–	0	(156)	(79)	**(235)**
Acquired and divested operations	(70)	0	0	0	**(70)**
Translation differences	(847)	(49)	(400)	138	**(1,158)**
Reclassifications and others	26	1	4	57	**88**
Balance-sheet amount 2010	**22,936**	**3,800**	**27,851**	**6,889**	**61,476**
Capital expenditures[3]	–	109	4,238	122	**4,469**
Sales/scrapping	–	(484)	(657)	(323)	**(1,464)**
Acquired and divested operations	967	0	(4)	0	**963**
Translation differences	272	1	431	(32)	**672**
Reclassified to assets held for sale	(274)	(3,199)	(1,963)	(60)	**(5,496)**
Reclassifications and other	(2)	(3)	6	54	**55**
Balance-sheet amount 2011	**23,899**	**224**	**29,902**	**6,650**	**60,675**

Accumulated depreciation and amortization	Goodwill[1]	Entrance fees, industrial programs	Capitalized product and software development	Other intangible assets[2]	**Total intangible assets**
Balance-sheet amount 2009	–	1,762	13,739	2,398	**17,899**
Depreciation and amortization[5]	–	59	2,857	389	**3,305**
Sales/scrapping	–	0	(45)	(78)	**(123)**
Acquired and divested operations	–	0	0	0	**0**
Translation differences	–	(1)	(285)	(84)	**(370)**
Reclassifications and other	–	0	5	46	**51**
Balance-sheet amount 2010	**-**	**1,820**	**16,271**	**2,671**	**20,762**
Depreciation and amortization[5]	–	76	2,788	383	**3,247**
Sales/scrapping	–	(265)	(406)	(322)	**(993)**
Acquired and divested operations	–	0	0	0	**0**
Translation differences	–	0	312	33	**345**
Reclassified to assets held for sale		(1,596)	(570)	(24)	**(2,190)**
Reclassifications and other	–	(2)	1	(2)	**(3)**
Balance-sheet amount 2011	**-**	**33**	**18,396**	**2,739**	**21,168**
Net value in balance sheet 2010[4]	**22,936**	**1,980**	**11,580**	**4,218**	**40,714**
Net value in balance sheet 2011[4]	**23,899**	**191**	**11,506**	**3,911**	**39,507**

1 Includes on the date of IFRS adoption, costs of 14,184 and accumulated amortization of 3,863.
2 Other intangible assets mainly consist of trademarks and distribution networks.
3 Includes capitalized borrowing costs of 112 (25).
4 Costs less accumulated depreciation, amortization and impairments.
5 Of which impairments 74 (7).

Goodwill per Business Area	2011	2010
Volvo Trucks	3,975	3,913
Renault Trucks	2,230	2,249
Trucks Asia	6,269	6,041
North American Trucks	1,354	1,334
Construction Equipment	7,764	7,806
Buses	1,169	1,174
Other business areas	1,138	419
Total goodwill value	**23,899**	**22,936**

NOTE 13 TANGIBLE ASSETS

ACCOUNTING POLICIES

Tangible assets
Volvo applies the cost method for measurement of tangible assets. Borrowing costs are included in the acquisition value of assets that necessarily take more than 12 months to get ready for their intended use or sale, so called qualifying assets.

Investment properties are properties owned for the purpose of obtaining rental income and/or appreciation in value. Investment properties are reported at cost. Information regarding the estimated fair value of investment properties is based on discounted cash flow projections. The estimation is performed by the Group's Real Estate business unit. The required return is based on current property market conditions for comparable properties in comparable locations.

Depreciation, amortization and impairment
Property, plant and equipment are amortized and depreciated over their useful lives. Useful lives are based on estimates of the period over which the assets will generate revenue.

Depreciation is applied on a straight-line basis based on the cost of the assets, adjusted in appropriate cases by impairments, and estimated useful lives. Depreciation is recognized in the respective function to which it belongs. Impairment tests for depreciable non-current assets are performed if there are indications of impairment at the balance-sheet date.

Depreciation/amortization periods	
Type-specific tools	2 to 8 years
Assets under operating leases	3 to 5 years
Machinery	5 to 20 years
Buildings and investment properties	25 to 50 years
Land improvements	20 years

SOURCES OF ESTIMATION UNCERTAINTY

Impairment of tangible assets
If, at the date of the financial statements, there is any indication that a tangible asset has been impaired, the recoverable amount of the asset should be estimated. The recoverable amount is the higher of the asset's net selling price and its value in use, estimated with reference to management's projections of future cash flows. If the recoverable amount of the asset is less than the carrying amount, an impairment loss is recognized and the carrying amount of the asset is reduced to the recoverable amount. Determination of the recoverable amount is based upon management's projections of future cash flows, which are generally made by use of internal business plans or forecasts. While management believes that estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect valuations.

Tangible assets, acquisition costs	Buildings	Land and land improvements	Machinery and equipment[3]	Construction in progress, including advance payments	**Total investment property, property, plant and equipment**	Assets under operating leases	**Total tangible assets**
Balance-sheet amount 2009	31,859	12,641	68,851	4,578	**117,929**	31,993	**149,922**
Capital expenditures[1]	617	119	3,806	2,446	**6,988**	4,893	**11,881**
Sales/scrapping	(472)	(105)	(1,730)	(7)	**(2,314)**	(5,459)	**(7,773)**
Acquired and divested operations	0	0	0	0	**0**	223	**223**
Translation differences	(912)	50	(1,308)	(148)	**(2,318)**	(2,843)	**(5,161)**
Reclassifications and other	466	(138)	895	(1,160)	**63**	288	**351**
Balance-sheet amount 2010	**31,558**	**12,567**	**70,514**	**5,709**	**120,348**	**29,095**	**149,443**
Capital expenditures[1]	548	266	3,947	3,455	**8,216**	7,414	**15,630**
Sales/scrapping	(299)	(88)	(1,969)	0	**(2,356)**	(4,786)	**(7,142)**
Acquired and divested operations	36	10	64	0	**110**	1,503	**1,613**
Translation differences	373	411	889	(33)	**1,640**	122	**1,762**
Reclassified to assets held for sale	(706)	(49)	(4,586)	(57)	**(5,398)**	(131)	**(5,529)**
Reclassifications and other	619	141	1,897	(2,622)	**35**	(652)	**(617)**
Balance-sheet amount 2011	**32,129**	**13,258**	**70,756**	**6,452**	**122,595**	**32,565**	**155,160**

Accumulated depreciation and amortization	Buildings	Land and land improvements	Machinery and equipment[3]	Construction in progress, including advance payments	**Total investment property, property, plant and equipment**	Assets under operating leases	**Total tangible assets**
Balance-sheet amount 2009	14,780	1,042	46,827	–	**62,649**	11,605	**74,254**
Depreciation and amortization[4]	1,207	98	4,772	–	**6,077**	4,410	**10,487**
Sales/scrapping	(224)	(22)	(1,549)	–	**(1,795)**	(3,082)	**(4,877)**
Acquired and divested operations	0	0	0	–	**0**	(55)	**(55)**
Translation differences	(192)	(20)	(691)	–	**(903)**	(1,142)	**(2,045)**
Reclassifications and other	(4)	(32)	114	–	**78**	(2,288)	**(2,210)**
Balance-sheet amount 2010	**15,567**	**1,066**	**49,473**	**-**	**66,106**	**9,448**	**75,554**
Depreciation and amortization[4]	1,191	77	4,856	–	**6,124**	4,621	**10,745**
Sales/scrapping	(260)	(9)	(1,647)	–	**(1,916)**	(2,407)	**(4,323)**
Acquired and divested operations	0	0	(18)	–	**(18)**	0	**(18)**
Translation differences	338	20	819	–	**1,177**	20	**1,197**
Reclassified to assets held for sale	(496)	(23)	(2,980)	–	**(3,499)**	(94)	**(3,593)**
Reclassifications and other	(24)	4	101	–	**81**	(2,945)	**(2,864)**
Balance-sheet amount 2011	**16,316**	**1,135**	**50,604**	**-**	**68,055**	**8,643**	**76,698**
Net value in balance sheet 2010[2, 5]	**15,991**	**11,501**	**21,041**	**5,709**	**54,242**	**19,647**	**73,889**
Net value in balance sheet 2011[2, 5]	**15,813**	**12,123**	**20,152**	**6,452**	**54,540**	**23,922**	**78,462**

1 Includes capitalized borrowing costs of 83 (67).
2 Acquisition costs less accumulated depreciation, amortization and write-downs.
3 Machinery and equipment pertains mainly to production related assets.
4 Of which write-down 28 (26).
5 Of which, investment property 883 (948) and property, plant and equipment 53,657 (153,294).

Reclassifications and other mainly consist of assets under operating leases related to legal sales transactions, where revenue is deferred and accounted for as operating lease revenue. Assets classified as inventory will, when the operating lease model is applied for revenue recognition, be reclassified from inventory to assets under operating leases, when the legal sales transaction occurs. If the product is returned after the lease period, there will again be a reclassification from assets under operating leases to inventory. When a buy-back agreement has expired, but the related product is not returned, the cost and the accumulated depreciation are reversed in reclassification and other, within the line item assets under operating leases. Most reclassifications within tangible assets relate to construction in progress, which are reclassified to the respective category within property, plant and equipment.

Investment properties

The acquisition cost of the investment properties was 1,625 (1,692) at year-end. Capital expenditures during 2011 amounted to 39 (11). Accumulated depreciation was 742 (744) at year-end, of which 53 (55) during 2011. The estimated fair value of investment properties was SEK 2.5 billion (1.8) at year-end. 91% of the investment properties were leased out during the year (89). Net income for the year was affected by 235 (223) in rental income from investment properties and 53 (63) in direct costs.

NOTE 14 LEASING

ACCOUNTING POLICIES

Volvo as the lessor

Leasing contracts are defined in two categories, operational and financial leases, depending on the contract's financial implications. Operational leasing contracts are recognized as non-current assets in Assets under operational leases. Income from operational leasing is recognized equally distributed over the leasing period. Straight-line depreciation is applied to these assets in accordance with the terms of the undertaking and the deprecation amount is adjusted to correspond to the estimated realizable value when the undertaking expires. Assessed impairments are charged to the income statement. The product's assessed realizable value at expiration of the undertaking is reviewed continuously on an individual basis.

Financial leasing agreements are recognized as either non-current or current receivables in the customer finance operations. Payments from financial leasing contracts are distributed between interest income and amortization of the receivable in the customer finance operations.

Volvo as the lessee

Volvo evaluates leasing contracts in accordance with IAS 17, Leases. In those cases in which risks and rewards that are related to ownership are substantially held by Volvo, so-called financial leases, Volvo recognizes the asset and related obligation in the balance sheet at the lower of the leased asset's fair value or the present value of minimum lease payments. Future leasing fee commitments are recognized as obligations. The lease asset is depreciated in accordance with Volvo's policy for the respective non-current asset. The lease payments when made are allocated between amortization and interest expenses. If the leasing contract is considered to be a so-called operational lease, lease payments are charged to profit or loss over the lease contract period.

Volvo as the lessor

At December 31, 2011, future rental income from non-cancellable financial and operational leases (minimum leasing fees) amounted to 50,704 (45,530). Future rental income is distributed as follows:

	Finance leases	Operating leases
2012	12,562	4,111
2013–2016	24,227	8,447
2017 or later	604	753
Total	**37,393**	**13,311**
Allowance for uncollectible future rental income	(414)	
Unearned rental income	(3,100)	
Present value of future rental income related to non-cancellable leases	33,879	

Volvo as a lessee

At December 31, 2011, future rental payments (minimum leasing fees) related to non-cancellable leases amounted to 3,799 (3,916).

Future rental payments are distributed as follows:

	Finance leases	Operating leases
2012	459	834
2013–2016	360	1,660
2017 or later	63	423
Total	**882**	**2,917**

Rental expenses amounted to:

	2011	2010
Finance leases:		
Contingent rents	(12)	(8)
Operating leases:		
Contingent rents	(20)	(20)
Rental payments	(1,035)	(923)
Sublease payments	5	6
Total	**(1,062)**	**(945)**

Carrying amount of assets subject to financial leases:

	2011	2010
Costs:		
Buildings	92	124
Land and land improvements	53	69
Machinery and equipment	1,901	1,863
Assets under operating lease[1]	194	338
Total	**2,240**	**2,394**
Accumulated depreciation:		
Buildings	(30)	(41)
Land and land improvements	-	–
Machinery and equipment	(1,231)	(1,174)
Assets under operating lease[1]	(68)	(81)
Total	**(1,329)**	**(1,296)**
Carrying amount in the balance sheet:		
Buildings	62	83
Land and land improvements	53	69
Machinery and equipment	670	689
Assets under operating lease[1]	126	257
Total	**911**	**1,098**

1 Refer to assets leased by Volvo as financial lease which are later leased to customers as operating lease.

NOTE 15 CUSTOMER-FINANCING RECEIVABLES

Non-current and current receivables recognized in Volvo's customer financing operations.

! SOURCE OF UNCERTAINTY IN THE ESTIMATES

Credit loss reserves

The establishment of credit loss reserves on customer-financing receivables is dependent on estimates including assumptions regarding past dues, repossession rates and the recovery rate on the underlying collaterals. At December 31, 2011, the total credit loss reserves in the Customer Finance segment amounted to 1.33 % (1.69) of the total credit portfolio in the segment.

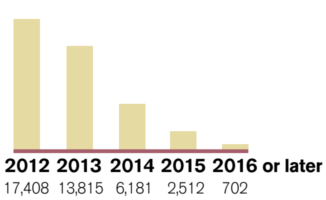
» **Refer to Note 4** for a description of the credit risk and **Note 30** for further information regarding customer-financing receivables.

Non-current customer-financing receivables

Allocation of non-current customer-financing receivables	2011	2010
Installment credits	17,457	15,673
Financial leasing	22,454	19,620
Other receivables	707	732
Total	**40,618**	**36,025**

The effective interest rate for non-current customer-financing receivables was 6.98 % as per December 31, 2011.

Non-current customer-financing receivables maturities



Current customer-financing receivables

Allocation of current customer-financing receivables	2011	2010
Installment credits	11,079	11,988
Financial leasing	11,425	10,860
Dealer financing	13,820	12,598
Other receivables	1,757	1,217
Total	**38,081**	**36,663**

The effective interest rate for current customer-financing receivables was 6.44% as per December 31, 2011.

Credit risk in the customer-financing operations

Customer-financing receivables	2011	2010
Customer-financing receivables gross	79,849	74,013
Valuation allowance for doubtful customer-financing receivables	(1,150)	(1,325)
Whereof specific reserve	*(374)*	*(530)*
Whereof other reserve	*(776)*	*(795)*
Customer-financing receivables, net	**78,699**	**72,688**

Customer financing receivables (days/ MSEK) payments due	2011					2010				
	Not due	1–30	31–90	>90	**Total**	Not due	1–30	31–90	>90	**Total**
Overdue amount	–	391	230	648	**1,269**	–	490	405	805	**1,700**
Valuation allowance for doubtful customer financing receivables	(99)	(63)	(40)	(172)	**(374)**	(91)	(56)	(74)	(308)	**(530)**
Customer financing receivables, net book value	**(99)**	**328**	**190**	**476**	**895**	**(91)**	**434**	**331**	**497**	**1,170**

The table above presents overdue payments within the customer financing operations in relation to specific reserves. It is not unusual for a receivable to be settled a couple of days after its due date, which impacts the age interval of one to 30 days.

NOTES TO FINANCIAL STATEMENTS

Change of valuation allowances for doubtful customer-financing receivables	2011	2010
Balance sheet, December 31, preceding year	1,325	1,513
New valuation allowance charged to income	910	1,586
Reversal of valuation allowance charged to income	(250)	(207)
Utilization of valuation allowance related to actual losses	(821)	(1,451)
Translation differences	(14)	(116)
Balance sheet, December 31	**1,150**	**1,325**

The total contractual amount to which the overdue payments pertain are presented in the table below. In order to provide for occurred but not yet identified customer-financing receivables overdue, there are additional reserves of 776 (795). The remaining exposure is secured by liens on the purchased equipment, and, in certain circumstances, other credit enhancements such as personal guarantees, credit insurance, liens on other property owned by the borrower etc.

Collateral taken in possession that meet the recognition criteria amounted to 412 (594) at December 31, 2011.

Customer financing receivables total exposure	2011					2010				
	Not due	1–30	31–90	>90	**Total**	Not due	1–30	31–90	>90	**Total**
Customer financing receivables	70,085	6,828	1,971	965	**79,849**	63,153	6,425	2,369	2,066	**74,013**

Concentration of credit risk

Customer concentration

The ten largest customers in Customer Finance account for 5.6 % (5.8) of the total asset portfolio. The rest of the portfolio is pertinent to a large number of customers. This way the credit risk is spread across both many markets and among many customers.

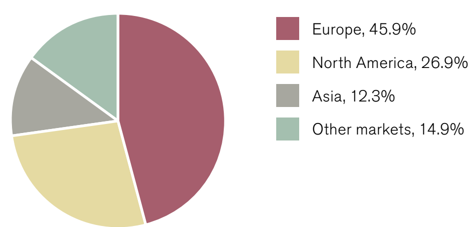
Concentration by geographical market

The adjacent table shows the concentration of the customer-financing portfolio divided into geographical markets.

» **Read more about** Volvo's overriding description of all Group credit risks in **Note 4**, Financial-risk management.

» **Read more about** Volvo Financial Services' trend during the year on **page 66.**

Geographic market, percentage of customer-financing portfolio (%).



NOTE 16 RECEIVABLES

SOURCES OF ESTIMATION UNCERTAINTY

Credit loss reserves

The establishment of credit loss provisions for account receivables is entered as soon as it is probable that a credit loss has incurred. A credit loss has incurrent when there has been an event that has triggered the customer's inability to pay. At December 31, 2011, the total credit loss reserves for account receivables amounted to 2.57% (2.87) of total account receivables. Refer to Note 4 for a description of the credit risk.

Non-current receivables

	2011	2010
Other interest-bearing loans to external parties	98	204
Other interest-bearing financial receivables	596	562
Other financial receivables	2,131	1,741
Other receivables	2,184	1,676
Total[1]	**5,009**	**4,184**

1 Of non-current receivables, 2,822 (2,528) pertains to financial instruments. Refer to Notes 4 and 30 for financial instruments as well as goals and policies governing financial risk and financial instruments.

Current receivables

	2011	2010
Loans to external parties	1	11
Other interest-bearing financial receivables	666	331
Accounts receivable	27,699	24,433
Prepaid expenses and accrued income	2,761	3,043
VAT receivables	3,387	2,662
Other financial receivables	1,746	1,715
Other receivables	5,932	4,436
Total, after deduction of valuation allowances for doubtful accounts receivable[1]	**42,191**	**36,633**

1 Of current receivables, 30,133 (26,490) pertains to financial instruments. Refer to Notes 4 and 30 for financial instruments and goals and policies in financial risk management.

Credit risks in accounts receivable

Change of valuation allowances for doubtful accounts receivable	2011	2010
Balance sheet, December 31, preceding year	721	1,301
New valuation allowance charged to income	175	187
Reversal of valuation allowance charged to income	(126)	(609)
Utilization of valuation allowance related to actual losses	(100)	(86)
Acquired and divested operations	33	(1)
Translation differences	5	(44)
Reclassifications, etc.	24	(28)
Balance sheet, December 31	**731**	**721**

Refer to Note 4 for more information regarding Volvo's financial risks.

Refer to Note 15 for more information regarding credit risk in customer financing receivables.

Age analysis of portfolio value – Accounts receivable	2011					2010				
	Not Due	1-30	31-90	>90	**Total**	Not Due	1-30	31-90	>90	**Total**
Accounts receivable gross	26,152	1,102	465	711	**28,430**	23,324	799	391	640	**25,154**
Provision for doubtful accounts receivable	(155)	(30)	(57)	(490)	**(731)**	(205)	(26)	(26)	(464)	**(721)**
Accounts receivable net	**25,997**	**1,073**	**408**	**221**	**27,699**	**23,119**	**773**	**365**	**176**	**24,433**

NOTE 17 INVENTORIES

ACCOUNTING POLICY

Inventories

Inventories are recognized at the lower of cost and net realizable value. The cost is established using the first-in, first-out method (FIFO) and is based on the standard cost method, including costs for all direct manufacturing expenses and the attributable share of capacity and other manufacturing-related costs. The standard costs are tested regularly and adjustments are made based on current conditions. Costs for research and development, selling, administration and financial expenses are not included. Net realizable value is calculated as the selling price less costs attributable to the sale.

SOURCE OF UNCERTAINTY IN THE ESTIMATES

Inventory obsolescence

Fair value is adjusted by the estimated value depletion of outdated articles, over-stocking, physical damages, inventory lead-times, handling and other selling costs. If the fair value is lower than cost, a valuation allowance is established for inventory obsolescence. The total inventory value, net of inventory obsolescence allowance, was SEK 44,599 (39,837) billion at December 31, 2011.

	2011	2010
Finished products	28,985	24,572
Production materials, etc.	15,614	15,265
Total	**44,599**	**39,837**

Inventories recognized as cost of sold products during the period amounted to 219,946 (170,723).

Increase (decrease) in allowance for inventory obsolescence	2011	2010
Balance sheet, December 31, preceding year	3,382	4,101
Increase in allowance for inventory obsolescence charged to income	(213)	(79)
Scrapping	(264)	(439)
Translation differences	(23)	(191)
Reclassifications, etc.	(258)	(10)
Balance sheet, December 31	**2,624**	**3,382**

NOTES TO FINANCIAL STATEMENTS

NOTE 18 MARKETABLE SECURITIES AND LIQUID FUNDS

ACCOUNTING POLICY

Cash and cash equivalents include high liquid interest-bearing securities that are considered easily convertible to cash. Interest-bearing securities that fail to meet this definition are recognized as marketable securities.

Marketable securities

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

	2011	2010
Government securities	136	146
Banks and financial institutions	521	3,527
Real estate financial institutions	6,205	6,094
Total	**6,862**	**9,767**

Cash and cash equivalents

	2011	2010
Cash in banks	21,206	16,858
Bank certificates[1]	1,492	2,286
Time deposits in banks	7,681	3,822
Total	**30,379**	**22,966**

1 Bank certificates which matures within three months of the date of acquisition.

Cash and cash equivalents at December 31, 2011, include SEK 0.7 billion (0.7) that is not available for use by the Volvo Group and SEK 9.3 billion (7.4) where other limitations exist, mainly liquid funds in countries where exchange controls or other legal restrictions apply. With that it is not possible to immediately use the liquid funds in other parts of the Group, however normally there is no limitation for use for the Group's operation in the respective country.

NOTE 19 SHAREHOLDERS' EQUITY

ACCOUNTING POLICY

Earnings per share is calculated as income for the period, attributable to the Parent Company's shareholders, divided by the Parent Company's average number of shares outstanding for the fiscal year. Diluted earnings per share is calculated as income for the period attributable to the Parent Company's shareholders divided by the average number of shares outstanding plus the average number of shares that would be issued as an effect of ongoing share-based incentive programs. If during the year there were potential shares redeemed or expired during the period, these are also included in the average number of shares used to calculate the earnings per share after dilution.

The share capital of the Parent Company is divided into two series of shares, A and B. Both series carry the same rights, except that each Series A share carries the right to one vote and each Series B share carries the right to one tenth of a vote. The shares quota value is SEK 1.20.

Cash dividend decided by the Annual General Meeting 2011 was SEK 2.50 (0.00) per share or total of SEK 5,068.6 million (0.0).

During 2011 AB Volvo transferred, free of consideration, 929 treasury B-shares, with a total quota value of 1,114.80 SEK, to participants of Volvo's long-term, share-based incentive program for senior executives in the Volvo Group, as accelerated allotment.

The transferred treasury shares represent an insignificant portion of the share capital of AB Volvo.

Unrestricted equity in the Parent Company at December 31, 2011 amounted to SEK 32,268 million (31,962).

The cumulative amount of the exchange difference deferred to equity relating to assets held for sale amount to SEK 33 million (3).

Information regarding number of shares	2011	2010
Own Series A shares	20,728,135	20,728,135
Own Series B shares	80,264,131	80,265,060
Total own shares	**100,992,266**	**100,993,195**
Own shares in % of total registered shares	4.74	4.74
Outstanding Series A shares	642,766,887	656,873,495
Outstanding Series B shares	1,384,661,067	1,370,553,530
Total outstanding shares	**2,027,427,954**	**2,027,427,025**
Total registered Series A shares	663,495,022	677,601,630
Total registered Series B shares	1,464,925,198	1,450,818,590
Total registered shares	**2,128,420,220**	**2,128,420,220**
Average number of outstanding shares	2,027,427,172	2,027,427,025

Change in other reserves (SEK M)	Hedge reserve	Available-for-sale reserve	Total
Balance at January 1, 2011	87	28	115
Hedge contracts reversed to income	(3)	–	(3)
Tax on hedge contracts reversed to income	1	–	1
Change in fair value of commodity contracts	(142)	–	(142)
Fair value adjustments regarding holding in Deutz	–	(159)	(159)
Fair value adjustments regarding holdings in Japanese companies	–	200	200
Fair value adjustments regarding other holdings	–	(2)	(2)
Balance at December 31, 2011	**(57)**	**67**	**10**

Earnings per share

The long-term share-based incentive program decided by the Annual General Meeting 2011 creates a dilution effect. For 2010 AB Volvo had no share-based incentive program. No other transactions have occurred that affected, or will have an effect on, the compilation of the reported share capital.

	2011	2010
Number of shares, December 31, in millions	2,027	2,027
Average number of shares before dilution in millions	2,027	2,027
Average number of shares after dilution in millions	2,028	2,027
Average share price, SEK	94.84	85.75
Net income attributable to Parent Company shareholders	17,751	10,866
Basic earnings per share, SEK	8.76	5.36
Diluted earnings per share, SEK	8.75	5.36

NOTE 20 PROVISIONS FOR POST-EMPLOYMENT BENEFITS

Volvo's post-employment benefits, such as pensions, healthcare and other benefits are mainly settled by means of regular payments to independent authorities or bodies that assume pension obligations and administer pensions through *defined-contribution plans*.

The remaining post-employment benefits are *defined-benefit plans*; that is, the obligations remain within the Volvo Group or are secured by proprietary pension foundations. The Volvo Group's defined-benefit plans relate mainly to subsidiaries in the U.S. and comprise both pensions and other benefits, such as healthcare. Other large-scale defined-benefit plans apply to salaried employees in Sweden (mainly through the Swedish ITP pension plan) and employees in France and Great Britain.

ACCOUNTING POLICY

Volvo applies IAS 19, Employee Benefits, for post-employment benefits. In accordance with IAS 19, actuarial calculations should be made for all defined-benefit plans in order to determine the present value of obligations for benefits vested by its current and former employees. The actuarial calculations are prepared annually and are based upon actuarial assumptions that are determined close to the balance-sheet date each year. Changes in the present value of obligations due to revised actuarial assumptions and experience adjustments constitute actuarial gains or losses. These are expensed according to function over the employees' average remaining service period to the extent they exceed the corridor value for each plan.

Deviations between the expected return on plan assets and the actual return are also treated as actuarial gains or losses. Provisions for post-employment benefits in Volvo's balance sheet correspond to the present value of obligations at year-end, less fair value of plan assets, unrecognized actuarial gains or losses and unrecognized unvested past service costs.

As a supplement to IAS 19, Volvo applies UFR 4*, in accordance with the recommendation from the Swedish Financial Reporting Board, in calculating the Swedish pension liabilities.

For defined contribution plans, premiums are recognized as incurred in profit and loss according to function.

IAS 19 will be amended as of January 1, 2013. For additional information, refer to Note 1 under New Accounting Policies 2011 and later.

* UFR 4 states how Swedish special payroll tax and Swedish yield tax should be accounted for regarding the part of the net pension liability that is attributable to Swedish entities. Swedish special payroll tax is shown as a receivable/liability on the difference compared to the legal pension liability. Swedish yield tax is considered when estimating expected return on plan asset.

SOURCES OF UNCERTAINTY IN ESTIMATES

Provisions and costs for post-employment benefits, mainly pensions and health-care benefits, are dependent on assumptions used by actuaries in calculating such amounts. The appropriate assumptions and actuarial calculations are made separately for the respective countries of Volvo's operations which result in obligations for postemployment benefits. The assumptions include discount rates, health care cost trends rates, inflation, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. Health care cost trend assumptions are based on historical cost data, the near-term outlook, and an assessment of likely long-term trends. Inflation assumptions are based on an evaluation of external market indicators. The salary growth assumptions reflect the historical trend, the near-term outlook and assumed inflation. Retirement and mortality rates are based primarily on officially available mortality statistics. The actuarial assumptions are annually reviewed by Volvo and modified when deemed appropriate to do so. Actual results that differ from management's assumptions are accumulated and amortized over future periods.

The following tables disclose information about defined-benefit plans in the Volvo Group. Volvo recognizes the difference between the obligations and the plan assets adjusted for unrecognized actuarial gains and losses in the balance sheet. The information refers to assumptions applied for actuarial calculations, periodical costs and the value of obligations and plan assets at year-end. The tables also include reconciliation of obligations and plan assets during the year and the difference between fair values and carrying amounts reported on the balance-sheet date.

NOTES TO FINANCIAL STATEMENTS

Summary of provision for post-employment benefits	2011	2010
Obligations	40,358	36,121
Fair value of plan assets	23,873	22,954
Funded status	**(16,485)**	**(13,167)**
Unrecognized actuarial (gains) and losses	11,939	6,995
Unrecognized past service costs	222	310
Net provisions for post-employment benefits	**(4,324)**	**(5,862)**
Whereof related to Assets held for sale	64	–
Net provision for post-employment benefits excluding Assets held for sale	**(4,388)**	**(5,862)**

Assumptions applied for actuarial calculations, %	December 31 2011	December 31 2010
Sweden		
Discount rate[1]	3.50	4.75
Expected return on plan assets[2]	6.00	6.00
Expected salary increase	3.00	3.00
Inflation	1.50	1.50
United States		
Discount rate[1 3]	3.00–4.75	3.25–5.50
Expected return on plan assets[2]	7.65	7.65
Expected salary increase	3.00	3.00
Inflation	2.00	2.00
France		
Discount rate[1]	4.50	4.50
Expected salary increase	3.00	1.00–3.00
Inflation	1.50	1.50
Great Britain		
Discount rate[1]	4.75–5.00	5.40–5.50
Expected return on plan assets[2]	3.60–4.50	5.00
Expected salary increases	3.30–3.40	3.70–3.85
Inflation	3.20	3.20

1 The discount rate for each country is determined by reference to market yields on high-quality corporate bonds. In countries where there is no functioning market in such bonds, the market yields on government bonds are used. The discount rate for the Swedish pension obligation 2011 is determined by reference to mortgage bonds.
2 Applicable in the subsequent accounting period. These assumptions reflect the expected long-term return rate on plan assets, based upon historical yield rates for different categories of investments and weighted in accordance with the foundation's investment policy. The expected return has been calculated net of administrative expenses and applicable taxes.
3 For all plans except one the discount rate used is within the range 4.25–4.75% (4.75–5.50).

Pension costs	2011	2010
Current year service costs	867	896
Interest costs	1,448	1,510
Expected return on plan assets	(1,405)	(1,402)
Actuarial gains and losses[1]	326	420
Past service costs		
– Unvested	9	19
– Vested	60	28
Curtailments and settlements	50	(38)
Termination benefits	84	34
Pension costs for the period, defined-benefit plans	**1,439**	**1,467**
Pension costs for defined-contribution plans[2]	2,032	2,107
Total pension costs for the period	**3,471**	**3,574**

1 For each plan, actuarial gains and losses are recognized as income or expense when the accumulated amount exceeds the so-called corridor. The income or expenses are then recognized over the expected average remaining service period of the employees.
2 In certain countries, part of social cost relate to pensions. In previous years, Volvo has reclassified such portion of social cost to pension cost for Swedish group companies. In the 2011 Annual Report, these pension related components of social cost has not been reclassified to pension cost, which makes for a better comparison with other Swedish companies. Pension cost for 2010 has been adjusted downwards with an amount of 1,166 compared to the 2010 Annual Report.

Costs for the period, post-employment benefits other than pensions	2011	2010
Current year service costs	85	49
Interest costs	148	170
Expected return on plan assets	–	–
Actuarial gains and losses[1]	9	(1)
Past service costs		
– Unvested	5	–
– Vested	–	26
Curtailments and settlements	(35)	2
Termination benefits	25	7
Total costs for the period, post-employment benefits other than pensions	**237**	**253**

1 For each plan, actuarial gains and losses are reported as income or expense when the accumulated amount exceed the so called corridor. The income or expenses are then recognized over the expected average remaining service period of the employees.

An increase of one percentage point per year in healthcare costs would increase the accumulated post-employment benefit obligation as of December 31, 2011 by approximately 164, and the post-employment benefit expense for the period by approximately 8. A decrease of one percentage point would decrease the accumulated value of obligations by about 136 and reduce costs for the period by approximately 7. Calculations made as of December 31, 2011 show an annual increase of 8% in the weighted average per capita costs of covered health care benefits. It is assumed that the percentage will decline gradually to 4.5% until 2029 and subsequently remain at that level.

Obligations in defined-benefit plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Obligations at January 1, 2010	**9,881**	**13,358**	**1,897**	**4,438**	**3,697**	**4,799**	**38,070**
Acquisitions, divestments and other changes	–	10	–	–	2	28	**40**
Current year service costs	302	258	54	45	39	247	**945**
Interest costs	401	665	77	233	167	157	**1,700**
Past service costs							
– Unvested	–	3	–	–	(4)	(5)	**(6)**
– Vested	27	3	(44)	–	–	–	**(14)**
Termination benefits	33	–	(2)	–	–	5	**36**
Curtailments and settlements	(6)	(7)	(18)	(1)	–	(11)	**(43)**
Employee contributions	–	–	–	21	–	9	**30**
Actuarial (gains) and losses	(1,170)	571	(2)	28	(33)	78	**(528)**
Exchange rate translation	–	(789)	(245)	(370)	(207)	(171)	**(1,782)**
Benefits paid	(324)	(1,074)	(112)	(168)	(220)	(429)	**(2,327)**
Obligations at December 31, 2010	**9,144**	**12,998**	**1,605**	**4,226**	**3,441**	**4,707**	**36,121**
of which							
Funded defined-benefit plans	8,794	11,378	–	4,226	–	2,203	**26,601**
Acquisitions, divestments and other changes	(1)	(2)	1	(2)	(59)	(3)	**(66)**
Current year service costs	246	295	52	31	74	255	**953**
Interest costs	435	582	70	226	144	145	**1,602**
Past service costs							
– Unvested	–	4	–	–	9	1	**14**
– Vested	–	40	–	–	–	18	**58**
Termination benefits	77	–	(1)	–	–	26	**102**
Curtailments and settlements	(8)	(1)	–	(69)	(44)	(7)	**(129)**
Employee contributions	–	–	–	12	–	4	**16**
Actuarial (gains) and losses	2,434	925	136	52	115	39	**3,701**
Exchange rate translation	–	301	(12)	54	66	58	**467**
Benefits paid	(315)	(782)	(86)	(161)	(169)	(968)	**(2,481)**
Obligations at December 31, 2011	**12,012**	**14,360**	**1,765**	**4,369**	**3,577**	**4,275**	**40,358**
of which							
Funded defined-benefit plans	11,624	13,925	–	4,369	–	1,817	**31,735**

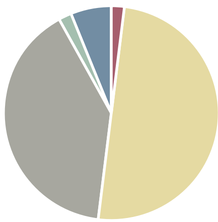
NOTES TO FINANCIAL STATEMENTS

Fair value of plan assets in funded plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Plan assets at January 1, 2010	**6,430**	**9,866**	**-**	**4,392**	**28**	**1,894**	**22,610**
Acquisitions, divestments and other changes	–	4	–	(1)	–	26	**29**
Expected return on plan assets	386	719	–	216	–	77	**1,398**
Actuarial gains and (losses)	262	373	–	208	–	18	**861**
Employer contributions	–	156	–	103	–	187	**446**
Employee contributions	–	–	–	21	–	12	**33**
Exchange rate translation	–	(574)	–	(378)	(2)	(166)	**(1,120)**
Benefits paid	–	(1,009)	–	(168)	(2)	(124)	**(1,303)**
Plan assets at December 31, 2010	**7,078**	**9,535**	**-**	**4,393**	**24**	**1,924**	**22,954**
Acquisitions, divestments and other changes	3	8	–	–	–	6	**17**
Expected return on plan assets	426	683	–	204	–	92	**1,405**
Actuarial gains and (losses)	(681)	(628)	–	81	–	(96)	**(1,324)**
Employer contributions	756	829	–	91	–	410	**2,086**
Employee contributions	–	–	–	12	–	7	**19**
Exchange rate translation	–	178	–	60	–	(18)	**220**
Benefits paid	(2)	(763)	–	(161)	–	(578)	**(1,504)**
Plan assets at December 31, 2011	**7,580**	**9,842**	**-**	**4,680**	**24**	**1,747**	**23,873**

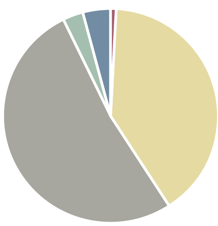
Net provisions for post-employment benefits	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Funded status at December 31, 2010	**(2,066)**	**(3,463)**	**(1,605)**	**167**	**(3,417)**	**(2,783)**	**(13,167)**
Unrecognized actuarial (gains) and losses	1,475	4,054	113	388	322	643	**6,995**
Unrecognized past service costs	–	(65)	380	–	(5)	–	**310**
Net provisions for post-employment benefits at December 31, 2010	**(591)**	**526**	**(1,112)**	**555**	**(3,100)**	**(2,140)**	**(5,862)**
of which reported as							
Prepaid pensions	–	900	–	555	110	83	**1,648**
Provisions for post-employment benefits	(591)	(374)	(1,112)	–	(3,210)	(2,223)	**(7,510)**
Funded status at December 31, 2011	**(4,432)**	**(4,518)**	**(1,765)**	**311**	**(3,553)**	**(2,528)**	**(16,485)**
Unrecognized actuarial (gains) and losses	4,569	5,509	333	341	434	753	**11,939**
Unrecognized past service costs	–	(54)	276	–	–	–	**222**
Net provisions for post-employment benefits at December 31, 2011	**137**	**937**	**(1,156)**	**652**	**(3,119)**	**(1,775)**	**(4,324)**
Whereof related to Assets held for sale	77	–	–	–	–	(13)	**64**[1]
Net provision for post-employment benefits excluding Assets held for sale	**60**	**937**	**(1,156)**	**652**	**(3,119)**	**(1,762)**	**(4,388)**
of which reported as							
Prepaid pensions	60	1,381	–	652	102	82	**2,277**
Provisions for post-employment benefits	–	(444)	(1,156)	–	(3,221)	(1,844)	**(6,665)**

1 Per December 31, 2011 pension obligation amounted to 1,394, plan assets amounted to 926 and unrecognized actuarial losses amounted to 532 in regards to Assets held for sale.

Plan assets by category 2010



Plan assets by category 2011



Actual return on plan assets amounted to 81 (2,259).

Actuarial gains and losses	2011	2010
Experience-based adjustments in obligations	(3,492)	293
Experience-based adjustments in plan assets	(1,324)	861
Effects of changes in actuarial assumptions	(209)	235
Actuarial gains and (losses), net	**(5,025)**	**1,389**

Volvo's pension foundation in Sweden was formed in 1996 to secure obligations relating to retirement pensions for salaried employees in Sweden in accordance with the ITP plan (a Swedish individual pension plan). Plan assets amounting to 2,456 were contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time. Since its formation, net contributions of 2,228, whereof 756 during 2011, have been made to the foundation. The plan assets in Volvo's Swedish pension foundation are invested in Swedish and foreign stocks and mutual funds, and in interest-bearing securities, in accordance with a distribution that is determined by the foundation's Board of Directors. At December 31, 2011, the fair value of the foundation's plan assets amounted to 7,554 (7,059), of which 31% (57) was invested in shares or mutual funds. At the same date, retirement pension obligations attributable to the ITP plan amounted to 11,624 (8,794).

Swedish companies can secure new pension obligations through balance-sheet provisions or pension-fund contributions. Furthermore, a credit insurance policy must be taken out for the value of the obligations. In addition to benefits relating to retirement pensions, the ITP plan also includes, for example, a collective family pension, which Volvo finances through an insurance policy with the Alecta insurance company. According to an interpretation from the Swedish Financial Reporting Board, this is a multi-employer defined-benefit plan. For fiscal year 2011, Volvo did not have access to information from Alecta that would have enabled this plan to be reported as a defined-benefit plan. Accordingly, the plan has been recognized as a defined-contribution plan. Alecta's funding ratio is 113% (146).

Volvo's subsidiaries in the United States mainly secure their pension obligations through transfer of funds to pension plans. At the end of 2011, the total value of pension obligations secured by pension plans of this type amounted to 13,925 (11,378). At the same point in time, the total value of the plan assets in these plans amounted to 9,842 (9,535), of which 54% (59) was invested in shares or mutual funds. The regulations for securing pension obligations stipulate certain minimum levels concerning the ratio between the value of the plan assets and the value of the obligations. During 2011, Volvo contributed 829 (156) to the American pension plans.

During 2011, Volvo has made extra contributions to the pension plans in Great Britain in the amount of 91 (103).

In 2012, Volvo estimates to transfer an amount of about SEK 1 billion to pension plans.

NOTE 21 OTHER PROVISIONS

ACCOUNTING POLICY

Provisions

Provisions are reported on balance when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions for residual value risks

Residual value risks are attributable to operating lease contracts or sales transactions combined with buy-back agreements or residual value guarantees. Residual value risks are the risks that Volvo in the future would have to dispose used products at a loss if the price development of these products is worse than what was expected when the contracts were entered. Provisions for residual value risks are made on a continuing basis based upon estimations of the used products' future net realizable values. The estimations of future net realizable values are made with consideration to current prices, expected future price development, expected inventory turnover period and expected direct and indirect selling expenses. If the residual value risks pertain to products that are reported as tangible assets in Volvo's balance sheet, these risks are reflected by depreciation or write-down of the carrying value of these assets. If the residual value risks pertain to products, which are not reported as assets in Volvo's balance sheet, these risks are reflected under the line item current provisions. See also note 7 Income.

Provision for product warranty

Estimated provision for product warranties are reported when the products are sold. The provision includes both contractual warranty and so called goodwill warranty and is determined based on historical statistics considering known quality improvements, costs for remedy of defaults e.t.c. Provision for campaigns in connection with specific quality problems are reported when the campaign is decided.

Provision for Restructuring costs

A provision for decided restructuring measures is reported when a detailed plan for the implementation of the measures is complete and when this plan is communicated to those who are affected. Restructuring costs are reported as a separate line item in the income statement if they relate to a considerable change of the Group structure. Other restructuring costs are included in Other operating income and expenses.

SOURCES OF UNCERTAINTY IN ESTIMATES

Residual value risks

In the course of its operations, Volvo is exposed to residual value risks through operating lease agreements and sales combined with repurchase agreements. Residual value commitments amount to SEK 14,349 (13,339) at December 31, 2011. Residual value risks are reflected in different ways in the Volvo consolidated financial statements depending on the extent to which the risk remains with Volvo.

In cases where significant risks pertaining to the product remain with Volvo, the products, primarily trucks, are generally recognized in the balance sheet as assets under operating leases. Depreciation expenses for these products are charged on a straight-line basis over the term of the commitment in amounts required to reduce the value of the product to its estimated net realizable value at the end of the commitment. The estimated net realizable value of the products at the end of the commitments is monitored individually on a continuing basis. A decline in prices for used trucks and construction equipment may negatively affect the consolidated operating income. High inventories in the truck industry and the construction equipment industry and low demand may have a negative impact on the prices of new and used trucks and construction equipment. In monitoring estimated net realizable value of each product under a residual value commitment, management makes consideration of current price-level of the used product model, value of options, mileage, condition, future price deterioration due to expected change of market conditions, alternative distribution channels, inventory lead-time, repair and reconditioning costs, handling costs and overhead costs in the used product divisions. Additional depreciations and estimated impairment losses are immediately charged to income.

The total risk exposure for assets under operating lease is reported as current and non-current residual value liabilities.

Read more in **Note 22.**

If the residual value risk commitment is not significant, independent from the sale transaction or in combination with a commitment from the customer to buy a new Volvo product in connection to a buy-back option, the asset is not recognized on balance. Instead, the risk exposure is reported as a residual value provision equivalent to the estimated residual value risk.

To the extent the residual value exposure does not meet the definition of a provision, the remaining residual value risk exposure is reported as a contingent liability.

Read more in **Note 24.**

Provision for product warranty

Warranty provisions are estimated with consideration of historical claims statistics, the warranty period, the average time-lag between faults occurring and claims to the company and anticipated changes in quality indexes. Estimated costs for product warranties are charged to cost of sales when the products are sold. Estimated warranty costs include contractual warranty and goodwill warranty (warranty cover in excess of contractual warranty or campaigns which is accepted as a matter of policy or normal practice in order to maintain a good business relation with the customer). Differences between actual warranty claims and the estimated claims generally affect the recognized expense and provisions in future periods. Refunds from suppliers, that decrease Volvo's warranty costs, are recognized to the extent these are considered to be certain. At December 31, 2011 warranty cost provisions amounted to 8,652 (7,841).

Legal proceedings

Volvo recognizes obligations in the Group accounts as provisions or other liabilities only in cases where Volvo has a present obligation from a past event, where a financial responsibility is probable and Volvo can make a reliable estimate of the size of the amount. In instances where these criteria are not met, a contingent liability may be disclosed in the notes to the accounts.

Volvo regularly reviews the development of significant outstanding legal disputes in which Group companies are parties, both civil law and tax disputes, in order to assess the need for provisions and contingent liabilities in the financial statements. Among the factors that Volvo considers in making decisions on provisions and contingent liabilities are the nature of the dispute, the amount claimed, the progress of the case, the opinions or views of legal counsels and other advisers, experience in similar cases, and any decision of Volvo's management as to how Volvo intends to handle the dispute. The actual outcome of a legal dispute may deviate from the expected outcome of the dispute. The difference between actual and expected outcome of a dispute might materially affect future financial statements, with an adverse impact upon the Group's results of operation, financial position and liquidity.

Read more about the Volvo Group's gross exposure to contingent liabilities in **Note 24.**

	Value in balance sheet 2010	Provisions	Reversals	Utilizations	Acquired and divested companies	Translation differences	Reclassification to assets held for sale	Other reclassifications	Value in balance sheet 2011	Of which due within 12 months	Of which due after 12 months
Warranties	7,841	7,718	(1,184)	(5,651)	(5)	31	(94)	(5)	8,652	5,532	3,120
Provisions in insurance operations	450	186	(49)	(101)	0	3	0	0	488	4	484
Restructuring measures	247	123	(17)	(152)	0	(1)	0	0	199	166	33
Provisions for residual value risks	859	167	(63)	(226)	1	(5)	0	8	741	290	451
Provisions for service contracts	444	202	(57)	(212)	0	(3)	0	6	380	182	198
Dealer bonus	1,651	3,401	(43)	(3,007)	0	3	0	29	2,033	1,892	141
Other provisions	2,978	2,779	(427)	(2,471)	(18)	(60)	(65)	(32)	2,686	1,467	1,219
Total	**14,470**	**14,576**	**(1,840)**	**(11,820)**	**(22)**	**(32)**	**(159)**	**6**	**15,179**	**9,533**	**5,646**

Long-term provisions as above is expected to be settled within 2 to 3 years.

NOTE 22 LIABILITIES

Non-current liabilities

The tables below show the Group's non-current liabilities in which the largest loans are listed by currency. The main part are issued by Volvo Treasury AB. Information on loan terms is from December 31, 2011. Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. For more information refer to Note 4 Goals and policies in financial risk management and Note 30 Financial Instruments.

Bond loans	Actual interest rate Dec 31, 2011, %	Effective interest rate Dec 31, 2011, %	2011	2010
EUR 2007–2011/2013-2017	2.01–9.92	2.03–9.92	16,591	20,384
SEK 2007–2011/2013–2017	2.82–5.84	2.85–5.97	15,904	12,553
USD 2009/2015	5.98	5.98	5,165	5,075
NOK	–	–	–	229
GBP 2009/2014	6.6	6.77	532	525
Total[1]			**38,192**	**38,767**

1 Of which loans raised to finance the credit portfolio of the customer financing operations totalled 24,501 (14,940).

Other non-current loans	Actual interest rate Dec 31, 2011, %	Effective interest rate Dec 31, 2011, %	2011	2010
USD 2008–2011/2013–2018	0.63–7.66	0.63–7.66	8,883	13,433
EUR 2004–2010/2013–2027	2.82–6.5	2.85–6.5	2,409	1,485
GBP 2011/2013–2014	2.45	2.47	925	337
SEK 2007–2011/2013–2017	2.9–4.22	2.93–4.22	5,457	2,942
CAD 2007–2011/2013–2016	1.81	1.82	1,439	2,928
MXN 2009/2014	7.43–8.96	7.68–9.34	1,470	2,186
JPY 2006–2011/2013–2017	0.59–2.1	0.59–2.1	13,132	12,405
CHF 2011/2013	1.07	1.07	736	–
BRL 2007–2011/2016–2019	6.33	6.58	5,081	5,348
AUD 2010–2011/2013	5.91–7.50	6.04–7.64	1,054	140
Other loans			5,509	1,731
Revaluation of outstanding derivatives to SEK			1,670	2,392
Total other non-current loans[1]			**47,765**	**45,327**
Total bond loans and other non-current loans			**85,957**	**84,094**
Deferred leasing income			2,000	1,778
Residual value liabilities			3,608	3,170
Accrued expenses service contracts			1,996	1,273
Other non-current financial liabilities			701	1,114
Other non-current liabilities			2,142	1,896
Total			**96,404**	**93,325**

1 Of which loans raised to finance the credit portfolio of the customer financing operations 24,517 (21,064). Volvo Treasury employs cross-currency interest swaps to be able to offer lending and borrowing in various currencies without increasing Volvo's risk. The table on page 87 presents Industrial operations financial net position, including pensions, listed by currency. Of non-current liabilities, 87,923 (86,184) pertains to financial instruments. Refer to note 30 Financial instruments.

Of the above loans, 516 (1,288) was secured.

Refer to Note 23 for an explanation of changes to assets pledged.

	Non-current loans mature as follows:
2013	28,228
2014	20,912
2015	11,356
2016	12,954
2017	11,800
2018 or later	707
Total	**85,957**

Refer to Note 15 for maturities of non-current customer financing receivables.

Most other non-current liabilities will mature within five years.

At year-end 2011, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 33.6 billion (35.3). These facilities consisted of stand-by facilities for loans with varying maturities through 2013 to 2016. A fee is normally charged for the unused portion of credit facilities and is recognized in profit or loss under other financial income and expenses.

Current liabilities

Balance sheet amounts for loans were as follows:

	2011	2010
Bank loans	12,639	12,261
Other loans	31,883	27,340
Total[1]	**44,522**	**39,601**

1 Of which loans raised to finance the credit portfolio of the customer financing operations amount to 31,844 (29,690) and financial derivatives at fair value 1,362 (458).

Bank loans include current maturities of non-current loans 5,803 (3,246). Other loans include current maturities of non-current loans, 17,681 (22,007), and commercial paper, 8,393 (1,416). Non-interest-bearing current liabilities accounted for 99,152 (84,457), or 69% (68) of the Group's total current liabilities.

Balance sheet amounts for other current liabilities were as follows:

	2011	2010
Advances from customers	3,642	3,416
Wages, salaries and withholding taxes	8,041	8,824
VAT liabilities	2,099	2,023
Accrued expenses and prepaid income	12,528	12,626
Deferred leasing income	1,683	1,640
Residual value liability	1,783	2,154
Other financial liabilities	367	242
Other liabilities	5,120	4,416
Total	**35,263**	**35,341**

Current liabilities also include trade payables of 56,788 (47,250), current tax liabilities of 2,391 (1,732) and non interest-bearing and interest-bearing liabilities held for sale, as recognized in Note 3. Secured bank loans at year-end 2011 totalled 127 (216). The corresponding amount for other current liabilities was 584 (1,442). Of current liabilities including trade payables 102,331 (87,494) pertains to financial instruments. Refer to note 30 Financial instruments.

» **Refer to Note 23** for an explanation of changes to assets pledged.

NOTE 23 ASSETS PLEDGED

	2011	2010
Property, plant and equipment – mortgages	128	168
Assets under operating leases	265	107
Receivables	1,333	2,964
Cash, loans and marketable securities	78	100
Other assets pledged	28	–
Total	**1,832**	**3,339**

At year-end, liabilities for which the above assets were pledged totalled 1,227 (2,946).

In 2010 an asset-backed securitization was completed. Under the terms of the transaction, USD 616 M of securities were issued tied to US-based loans with trucking and construction equipment assets as collaterals. During 2011 the loans have been amortized and the collaterals reduced.

NOTE 24 CONTINGENT LIABILITIES

ACCOUNTING POLICY

Contingent liabilities

A contingent liability is recognized for a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made.

	2011	2010
Credit guarantees issued for customers and others	8,970	3,709
Tax claims	521	490
Residual value guarantees	2,969	2,993
Other contingent liabilities	4,694	3,811
Total	**17,154**	**11,003**

Tax claims amounting to 521 (490) pertain to charges against the Volvo Group for which provisions are not considered necessary.

Other contingent liabilities include for example bid and performance clauses and legal proceedings.

The recognized amounts for contingent liabilities reflect the Volvo Group's risk exposure on a gross basis. The recognized amounts have thus not been reduced because of counter guarantees received or other collaterals in cases where a legal offsetting right does not exist. At December 31, 2011, the estimated value of counter guarantees received and other collaterals, for example the estimated net selling price of used products, amounted to 3,726 (3,893) and mainly pertains to credit guarantees and residual value guarantees.

» **For more** information regarding residual value guarantees, see **note 21.**

Legal proceedings

The former labor agreement between Mack Trucks, Inc. and the United Auto Workers Union (UAW) expired on September 30, 2007. Mack Trucks and UAW subsequently entered into a new 40-month Master Agreement. The agreement includes the establishment of an independent trust that will completely eliminate Mack's commitments for providing healthcare to retired employees. The trust was approved by the U.S. District Court for the Eastern District of Pennsylvania in September 2011. The Volvo Group will fund the trust with USD 525 M, whereof a significant part has been paid during the fourth quarter 2011. The remaining funding obligation is recognized as a financial liability and the remaining amortizations will be recognized as cash flow from financing activities.

In July 1999, Volvo Truck Corporation (VTC) and Volvo Construction Equipment (VCE) entered into a Consent Decree with the U.S. Environmental Protection Agency (EPA). The Consent Decree stipulated, among other provisions, that new stricter emission requirements for certain engines that would come into effect on January 1, 2006, should be applied by VTC and VCE from January 1, 2005. The Consent Decree was later transferred from VTC and VCE to Volvo Powertrain Corporation. During 2008, the EPA demanded stipulated penalties from Volvo Powertrain Corporation in the amount, including interest, of USD 72 M, alleging that the stricter standards under the Consent Decree should have been applied to engines manufactured by Volvo Penta during 2005. Volvo Powertrain disagrees with EPA's interpretation and is defending the case vigorously based on, among other grounds, the fact that the Volvo Penta engines were not subject to the Consent Decree. The dispute was referred to a U.S. court. The amount requested by the EPA is included in other contingent liabilities.

Nissan Diesel Thailand Co. Limited (the "NDT") on November 30, 2009 filed a claim at the Pathumthani Provincial Court of First Instance, Thailand, against AB Volvo and three of its employees, claiming damages in the sum of Baht 10.5 billion (equivalent to approximately SEK 2.3 billion). NDT was one of UD Trucks Corporation's (UDT), a wholly-owned subsidiary of AB Volvo, private dealers. NDT claims that AB Volvo's actions caused UDT to unlawfully terminate two agreements dated December 27, 2002 between UDT and NDT. In September 2011, a settlement was reached´, finally settling the submitted claims. The settlement had an insignificant impact on the consolidated operating income and financial position of the Volvo Group.

Volvo is subject to a number of investigations initiated by competition authorities. The Volvo Group is cooperating fully with the respective authority.

In September 2010, Volvo Trucks' and Renault Trucks' UK subsidiaries have, together with a number of other international truck companies, become the subject of an investigation initiated by the OFT (Office of Fair Trading), the British Competition Commission. Volvo Trucks' and Renault Trucks' British subsidiaries have received letters from the OFT as part of the investigation.

In January 2011, the Volvo Group and a number of other companies in the truck industry became part of an investigation by the European Commission regarding a possible violation of EU antitrust rules.

In April 2011, the Volvo Group's truck business in Korea and a number of other truck companies became the subject of an investigation by the Korean Fair Trade Commission.

In May 2011, Volvo Penta became part of an investigation by the European Commission regarding a possible violation of EU antitrust rules.

In August 2011, Volvo Penta became part of an investigation by the Swedish competition authority regarding a possible violation of antitrust rules. In December 2011, the Swedish Competition Authority closed the investigation, without further actions.

Given the nature of the ongoing investigations initiated by competition authorities, the Volvo Group cannot exclude that they may affect the Group's result and cash flow with an amount that may be material. However, as regards the investigations initiated in Europe, it is too early to assess whether and when such effect may occur and hence if and when it could be accounted for. The Volvo Group has therefore not reported any contingent liability or any provision for any of the investigations initiated in Europe. Concerning the investigation initiated in Korea a contingent liability has however been registered.

Global companies such as Volvo are occasionally involved in tax processes of varying scope and in various stages. Volvo regularly assesses these tax processes. When it is probable that additional taxes must be paid and the outcome can be reasonably estimated, the required provision is made.

Volvo is also involved in a number of other legal proceedings. Volvo does not believe that any liabilities related to such proceedings are likely to entail any risk, in the aggregate, of having a material effect on the financial position of the Volvo Group.

NOTE 25 TRANSACTIONS WITH RELATED PARTIES

The Volvo Group engages in transactions with some of its associated companies. The transactions consist mainly of sales of vehicles to dealers. Commercial terms and market prices apply for the supply of goods and services to/from associated companies.

	2011	2010
Sales to associated companies	1,296	1,082
Purchase from associated companies	60	50
Receivables from associated companies, Dec 31	186	174
Liabilities to associated companies, Dec 31	129	125

The Group's holdings of shares in associated companies are presented in Note 5, Shares and participations.

The Volvo Group also engages in transactions with Renault s.a.s. and its subsidiaries. Sales to and purchases from Renault s.a.s. amounted to 53 (52) and 2,321 (1,654). Receivables from and liabilities to Renault s.a.s. totalled 11 (15) and 372 (291), respectively, at December 31, 2011. Sales were mainly from Renault Trucks to Renault s.a.s. and comprised components and spare parts. Purchases were mainly made by Renault Trucks from Renault s.a.s. and primarily comprised light trucks. Renault Trucks has a license from Renault s.a.s. for the use of the trademark Renault.

Equipment of minor value was divested to a former member of Group management after valuation by an independent valuer.

NOTE 26 GOVERNMENT GRANTS

In 2011, government grants of 783 (472) were received, and 775 (413) was recognized in income statement. The amount includes tax credits of 545 (204) related to product development, which were primarily received in France and the US.

Other grants were mainly received from the Swedish government and the European Commission.

NOTE 27 PERSONNEL

ACCOUNTING POLICY

Share-based payments

Volvo applies IFRS2, Share-based payments for share-based incentive programs. IFRS 2 distinguishes between "cash-settled" and "equity-settled" payments. The Volvo program includes both a cash-settled and an equity-settled part. The fair value of the equity-settled payments is determined at the grant date, recognized as an expense during the vesting period and off-set in equity. The fair value is based on the share price reduced by dividends connected with the share during the vesting period. Additional social costs are reported as a liability, revalued at each balance sheet date in accordance with UFR 7, issued by the Swedish Financial Reporting Board. The cash-settled payment is revalued at each balance sheet date and is reported as an expense during the vesting period and as a short term liability. An assessment whether the terms for allotment will be fulfilled is made continuously. Based on such assessment, expense might be adjusted.

Remuneration policy decided at the Annual General Meeting in 2011

The Annual General Meeting of 2011 decided upon principles for remuneration and other employment terms for the members of Volvo's group management. The decided principles can be summarized as follows:

The guiding principle is that remuneration and other employment terms for company management, shall be competitive to ensure that Volvo can attract and retain skilled persons in group management. The fixed salary shall be competitive and shall reflect the individual's area of responsibility and performance.

In addition to the fixed salary a variable salary may be paid. The variable salary may for the CEO amount to a maximum of 75% of the fixed salary and for the other senior executives a maximum of 60% of the fixed salary. The variable salary shall be based on the fulfilment of improvement targets or certain financial targets for the Volvo Group and/or the organizational unit for which the executive is responsible. These targets are decided by the Board of AB Volvo and can be related, for example, to operating income and/or cash flow.

The Annual General Meeting can also decide on a share, or share-based, incentive program. At the Annual General Meeting 2011, as proposed by the Board of AB Volvo, it was decided to implement a long-term share-based incentive program consisting of three annual programs covering each of the financial years 2011, 2012 and 2013.

In addition to fixed and variable salary, normally other customary benefits, such as company car and company healthcare are provided. In individual cases, accommodation benefits and other benefits may be provided.

In addition to pension benefits provided by law and collective bargain agreements, the members of group management domiciled in Sweden can be offered a defined-contribution pension plan whereby the amount of the individual's pensions comprises the premium paid and any return. Members of group management resident outside Sweden, or resident in Sweden but having a material connection to or having been resident in a country other than Sweden, can be offered pension solutions that are competitive in the country where the members are, or have been, resident or to which the members have a material connection, however primarily defined-contribution pension solutions.

With regard to notice of termination of employment for members of group management domiciled in Sweden, the notification period is 12 months if the company terminates the employment and six months if the individual terminates the employment. In addition, the employee is entitled to a severance pay of 12 months' salary if the employment is terminated by the company. Members resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden can be offered notice periods for termination and severance payments that are competitive in the country where the members are or have been resident or to which the members have a material connection, however primarily arrangements that are similar to what is valid for members domiciled in Sweden.

The Board of AB Volvo may deviate from the remuneration policy if there are specific reasons to do so in an individual case. The Board has decided on one such deviation by approving that the variable salary for the President of Volvo Aero can exceed 60% of the fixed annual salary if certain conditions related to the potential divestment of Volvo Aero are met.

Fee paid to the Board of directors

According to a resolution adopted at the Annual General Meeting 2011, the fee to the Board of Directors appointed at the Annual General Meeting for the period until the close of the Annual General Meeting 2012 shall be paid as follows: The Chairman of the Board should be awarded SEK 1,800,000 and each of the other members SEK 600,000 with exception of the President and Chief Executive Officer of AB Volvo. In addition, SEK 300,000 should be awarded to the chairman of the audit committee and SEK 150,000 to each of the other members of the audit committee and SEK 100,000 to each of the members of the remuneration committee.

Terms of employment and remuneration to the CEO and Deputy CEO

As of August 31, 2011, Leif Johansson retired from the position as President and Chief Executive Officer (CEO) of AB Volvo and was replaced by Olof Persson from September 1, 2011. The President and CEO is entitled to a remuneration consisting of a fixed annual salary and a variable salary. The variable salary is based on operating income in relation to the same period last year and/or cash flow for six months moving periods up to a maximum of 75% of the fixed annual salary.

For the financial year 2011, Leif Johansson received a fixed salary of SEK 8,640,000 and a variable salary of SEK 5,913,000. The variable salary corresponded to 68% of the fixed salary. Other benefits, mainly pertaining to car and housing, amounted to SEK 329,621 in 2011. Olof Persson received for the period as President and CEO of AB Volvo during 2011 a fixed salary of SEK 3,840,000 and a variable salary of SEK 2,880,000. The variable salary corresponded to 75% of the fixed salary. Other benefits from September 1, 2011, mainly pertaining to car and housing, amounted to SEK 234,897.

During his period as Executive Vice President and Deputy CEO of AB Volvo from May 1 until August 31, 2011, Olof Persson received a fixed salary of SEK 2,245,000 and a variable salary of SEK 1,111,275. The variable salary corresponded to 50% of the fixed salary. For this period, other benefits, mainly pertaining to car and housing, amounted to SEK 60,830.

Leif Johansson was covered by the Volvo executive pension plans, Volvo Management Pension (VMP) and Volvo Executive Pension (VEP). Olof Persson is covered both by pension benefits provided under collective bargain agreements and by the VMP and VEP plans. The retirement benefit under the Volvo executive pension plans is a defined-contribution plan with refund protection. The disability pension is a defined-benefit plan. Contributions to VMP and VEP are not tax-deductible, the benefit from the insurance is not taxable to the company, but pension paid will be tax-deductible. The pensionable salary consists of the annual salary and a calculated variable salary component. The premium for the VMP is SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts and the premium for VEP is 10% of pensionable salary. There are no commitments other than the payment of the premiums. The disability pension for Olof Persson amounts to 50% of pensionable salary. The right to disability pension is conditional to employment and will cease upon termination of duty.

The President and CEO of AB Volvo is also covered by Volvo Företagspension, a defined contribution plan for additional retirement benefit. The premium is negotiated each year. For 2011 the premium amounted to SEK 512 a month.

Pension premiums 2011 for Leif Johansson amounted to SEK 3,317,621 and for Olof Persson, for the period as President and CEO and for the period as Executive Vice President and Deputy CEO, to SEK 1,943,988 and 559,811 respectively.

Olof Persson is also participating in the long-term share-based incentive program decided by the Annual General Meeting 2011. Based on ROE for 2011, Olof Persson will receive 97,109 shares during 2014/2015 related to 2011 if all program conditions are met (see further information under Long-term incentive program below). The amount of taxable benefit related to these shares is determined at the time of allotment.

Olof Persson has a six-month notice of termination on his own initiative and twelve months' notice of termination from AB Volvo. If terminated by the company within three years from entering the position as President and CEO, Olof Persson is entitled to a severance payment equivalent to twelve months' salary. Thereafter, he is not entitled to severance payments.

Remuneration to other senior executives

Fixed and variable salaries

Members of group management and a number of senior executives receive variable salaries in addition to fixed salaries. Variable salaries are in most cases based on the fulfillment of certain improvement targets or financial targets. The targets are decided by the Board of Directors in AB Volvo and can, for example, relate to operating income in relation to corresponding period previous year and/or cash flow for a six month rolling period. During 2011, a variable salary could amount to a maximum of 60% of the fixed annual salary.

For the financial year 2011, fixed salaries amounted to SEK 58,225,074 and variable salaries amounted to SEK 23,875,016 for members of group management excluding the CEO and the Deputy CEO. Group management comprised, in addition to the CEO and Deputy CEO, 16 members at the beginning of the year and 16 members at the end of the year. Other benefits, mainly pertaining to car and housing, amounted to SEK 7,243,479 in 2011. Group management, excluding the CEO and the Deputy CEO, will receive 576,965 shares during 2014/2015 related to 2011 under the long-term share-based incentive program if all program conditions are met (see further information under Long-term incentive program below).

Severance payments

The employment contracts for members of group management and certain other senior executives contain rules governing severance payments when the company terminates the employment. For members domiciled in Sweden, the rules provide that, when the company terminates the employment, an employee is entitled to severance payment equivalent to twelve months' salary. In certain older contracts, the payment could equal 24 months' salary depending on age at date of severance. In agreements concluded after the spring of 1993, severance pay is reduced, in the event the employee gains employment during the severance period, with an amount equal to 75% of the income from the new employment. In agreements concluded after the spring of 2004, severance pay is reduced by the full income from the new employment. With few exceptions, the severance payment is equal to twelve months' salary.

Members having a material connection to a country other than Sweden can be offered notice periods for termination and severance payments that are competitive in the country to which the members have a material connection.

Pensions

Members of group management and certain other senior executives are offered pensions that are competitive in the country in which the person is or have been domiciled or in the country to which the person is essentially connected.

Previous pension agreements for certain senior executives stipulated that early retirement could be obtained from the age of 60. Agreements for retirement at age 60 are no longer signed, and are instead replaced by a defined-contribution plan with pension premium payments at the longest to the age of 65 years. The premium constitutes 10% of the pensionable salary.

Earlier defined-benefit pension plans, which entitled the employee to 50% of the pensionable salary after normal retirement age, have in Sweden been replaced by a defined-contribution plan. The pension plan includes employees born before 1979 and is a complement to the collective agreement regarding occupational pension. The premium constitutes of SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts. The pensionable salary consists of the twelve times the current monthly salary and the average of the variable salary for the previous five years. Pension premiums amounted to SEK 29,143,321 for other members of group management in 2011.

Volvo Group's total costs for remuneration and benefits to senior executives

Costs for total remuneration and benefits to the members of group management in 2011 are pertaining to the following: fixed salary SEK 110 million (89); variable salary SEK 43 million (39); other benefits SEK 12 million (10) and pensions SEK 46 million (51). The cost related to the long-term share-based incentive program is reflected over the vesting period and amounted to SEK 26 million (0) for 2011. Total costs for members of group management include social fees on salaries and benefits, special pension tax and additional costs for other benefits. The remuneration model of the Volvo Group is to a main part designed to follow changes in the profitability of the Group.

Long-term incentive program

The Annual General Meeting held in 2011 approved a long-term share-based incentive program for up to 300 participants and comprising the years 2011 to 2013. The program consists of three annual programs for which the measurement periods are each of the respective financial years. A prerequisite for participation in the program is that the participants invest a portion of their salary in Volvo shares and retain these shares and continue to be employed by the Volvo Group for at least three years after the investment has been made. Under special circumstances, it is possible to make exceptions to the requirement of continued employment (so called "good leaver" situations).

The AB Volvo Board is, in the event of exceptional conditions, entitled to limit or omit allotment of performance shares. In addition, if the Annual General meeting of AB Volvo resolves that no dividend shall be paid to the shareholders for a specific financial year, no matching shares are alloted for the year in question. Shares are granted under the program during the respective financial year. At the end of the vesting period, the main rule is that the participants will be allotted one matching share per invested share and, assuming that the Volvo Group's ROE (return on equity) for the particular financial year amounts to at least 10 percent, a number of performance shares. Maximum allotment of performance shares corresponds to seven shares for the CEO, six shares for other members of group management and five shares for other participants in the program for each invested share, subject to ROE reaching 25 percent. ROE for 2011 was 23.1%, which means that number of performance shares reached about 90 percent of the maximum grant. Allotment of shares will be made through Volvo owned, earlier re-purchased, Volvo shares. Participants in certain countries will be offered a cash-based version of the incentive program. For participants in these countries, no investment is required by the participant and the program does not comprise an element of matching shares. Allotment of shares in this version is replaced by a cash allotment at the end of the vesting period. Other program conditions are similar between the programs.

Long term incentive program (share settled plan version)	Vesting year	**Beginning of the year**	Granted 2011	Cancelled/ forfeited 2011	Allotments during 2011	**End of the year**	Cost 2011 (SEK M)[1]
		Shares granted conditional under the plan but not yet alloted (in thousand shares)					
Year 2011 incentive program	2014/2015	**0**	**2,488**	**(11)**	**(1)**	**2,476**	69.8

1 The fair value of the payments is determined based on the share price at the grant date reduced by the discounted value of expected dividends connected with the share during the vesting period. The cost for the program is recognized over the vesting period. The cost includes social security cost.

The cost for the cash-based version of the incentive program amounted to SEK 4 million including social security cost during 2011.

A number of program participants that are leaving the company has been determined to be "good leavers" and are therefore entitled to accumulated allotment of shares. During 2011, 929 shares have been alloted to participants, and an additional 203,520 shares will be alloted to participants when the employees leave the company.

The total cost for the 2011 incentive program over the period 2011 to 2014 is estimated to SEK 273 million including social security cost. Actual cost will be impacted by changes in the share price.

Average number of employees	2011 Number of employees	2011 of which women, %	2010 Number of employees	2010 of which women, %
AB Volvo				
Sweden	171	49	198	51
Subsidiaries				
Sweden	24,793	20	23,313	20
Western Europe	24,241	17	23,515	17
Eastern Europe	6,220	21	5,768	22
North America	15,380	18	12,429	19
South America	6,080	14	5,264	14
Asia	22,915	11	21,205	10
Other countries	2,448	17	2,558	15
Group total	**102,248**	**18**	**94,250**	**17**

Board members[1] and other senior executives	2011 Number at year-end	2011 of which women, %	2010 Number at year-end	2010 of which women, %
AB Volvo				
Board members[1]	14	14	12	17
CEO and GEC	17	6	17	6
Volvo Group				
Board members[1]	898	13	929	12
Presidents and other senior executives	1,034	17	1,053	15

1 Excluding deputy Board members.

Wages, salaries and other remunerations SEK M	2011 Board and Presidents[1]	2011 of which variable salaries	2011 Other employees	2010 Board and Presidents[1]	2010 of which variable salaries	2010 Other employees
AB Volvo	31.5	9.9	199.2	26.2	8.0	184.6
Subsidiaries	770.9	175.5	36,036.9	1,005.0	104.8	32,647.4
Group total	**802.4**	**185.4**	**36,236.1**	**1,031.2**	**112.8**	**32,832.0**

Wages, salaries and other remunerations and social costs SEK M	2011 Wages, salaries remun.	2011 Social costs	2011 Pension costs	2010 Wages, salaries remun.	2010 Social costs	2010 Pension costs[4]
AB Volvo[2]	230.7	68.1	34.0	210.8	60.8	59.1
Subsidiaries	36,807.8	8,583.5	3,437.0	33,652.4	8,308.8	3,514.8
Group total[3]	**37,038.5**	**8,651.6**	**3,471.0**	**33,863.2**	**8,369.6**	**3,573.9**

1 Including current and former Board members, Presidents and Executive Vice Presidents.
2 The Parent Company's pension costs, pertaining to Board members and Presidents are disclosed in Note 3 in the Parent Company.
3 Of the Group's pension costs, 96.8 (146.6) pertain to Board members and Presidents, including current and former Board members, Presidents and Executive Vice Presidents. The Group's outstanding pension obligations to these individuals amount to 337.7 (334.4).
4 In certain countries, such as Sweden, part of social cost relate to pensions. In previous years, Volvo has reclassified such portion of social cost to pension cost for Swedish group companies. In the 2011 Annual Report, these pension related components of social cost has not been reclassified to pension cost, which makes for a better comparison with other Swedish companies. Pension cost for 2010 has been adjusted downwards with an amount of SEK 1,166 million compared to the 2010 Annual Report.

The cost for non-monetary benefits in the Group amounted to 1,876.8 (1,554.3) of which 68.8 (59.3) to Board members and Presidents.

The cost for non-monetary benefits in the Parent Company amounted to 9.6 (9.0) of which 1.9 (1.7) to Board members and Presidents.

NOTE 28 FEES TO THE AUDITORS

Fees to the auditors	2011	2010
PricewaterhouseCoopers		
– Audit fees	97	102
– Audit-related fees	4	6
– Tax advisory services	18	16
– Other fees	8	3
Total	**127**	**127**
Audit fees to others	1	1
Volvo Group Total	**128**	**128**

Audit involves examination of the Annual report, financial accounting and the administration by the Board and the President. Audit-related assignments mean quality assurance services required by enactment, articles of association, regulations or agreement. The amount includes the fee for the half-year review. Tax services include both tax consultancy and tax compliance services. All other tasks are defined as other.

NOTE 29 CASH-FLOW

ACCOUNTING POLICY

Cash-flow analysis

The cash-flow statement is prepared in accordance with IAS 7, Cash flow statement, indirect method. The cash-flow statements of foreign Group companies are translated at the average rate. Changes in Group structure, acquisitions and divestments, are recognized net, excluding cash and cash equivalents, in the item Acquisition and divestment of subsidiaries and other business units and are included in cash flow from Investing activities.

Cash and cash equivalents include cash, bank balances and parts of marketable securities, with date of maturity within three months at the time for investment. Marketable securities comprise interest-bearing securities, the majority of which with terms exceeding three months. However, these securities have high liquidity and can easily be converted to cash. In accordance with IAS 7, certain investment in marketable securities are excluded from the definition of cash and cash equivalents in the cash-flow statement if the date of maturity of such instruments is later than three months after the investment was made.

Other items not affecting cash amounted to:	2011	2010
Risk provisions and losses related to doubtful accounts receivable/customer-financing receivables	801	1,401
Capital gains/losses on the sale of subsidiaries and other business units	19	34
Unrealized exchange rate gains/losses on accounts receivable and payable	(249)	(44)
Provision for global profit sharing program	550	350
Fair value commercial derivatives	276	(220)
R&D tax credit	(283)	–
Write-down of assets held for sale	54	65
Reversal of write-down of assets held for sale	(60)	–
Other non-cash items	154	(25)
	1,262	**1,561**

Investments in shares and participations:	2011	2010
New issue of shares	(9)	(13)
Capital contribution	(15)	(31)
Acquisitions	(165)	(154)
Divestments	69	91
Other	1	1
	(119)	**(106)**

Acquired and divested subsidiaries and other business units:	2011	2010
Acquired subsidiaries and other business units	(1,528)	(214)
Divested subsidiaries and other business units	(62)	831
	(1,590)	**617**

Important increase/decrease in bond loans and other loans

In 2011, the Volvo Group reduced its borrowings as a consequence of a strong cash flow. In 2010, the Volvo Group reduced its borrowings as a consequence of a strong cash flow and lower demands of funding from the Customer Finance Operations.

NOTE 30 FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Recognition of financial assets and liabilities

Purchases and sales of financial assets and liabilities are recognized on the transaction date. A financial asset is derecognized in the balance sheet when all significant risks and benefits linked to the asset have been transferred to a third party. The same principles are applied for financial assets in the segment reporting of the Volvo Group.

The fair value of assets is determined based on valid market prices, when available. If market prices are unavailable, the fair value is determined for each asset using various measurement techniques. Transaction expenses are included in the asset's fair value, except in cases in which the change in value is recognized in profit and loss. The transaction costs that arise in conjunction with the assumption of financial liabilities are amortized over the term of the loan as a financial cost.

Embedded derivatives are detached from the related main contract, if applicable. Contracts containing embedded derivatives are valued at fair value in profit and loss if the contracts' inherent risk and other characteristics indicate a close relation to the embedded derivative.

Financial assets at fair value through profit and loss

All of Volvo's financial assets that are recognized at fair value in profit and loss are classified as held for trading. This includes derivatives to which Volvo has decided not to apply hedge accounting as well as derivates that are not part of an evidently effective hedge accounting policy pursuant to IAS 39. Gains and losses on these assets are recognized in profit and loss. Short-term investments that are recognized at fair value mainly comprise interest-bearing financial instruments and are recognized in Note 18. Derivatives used for hedging interest rate exposure in the customer financing portfolio are included in this category. Unrealized gains and losses from fluctuations in the fair values of the financial instruments are recognized in net financial items, since it is not practically possible to apply hedge accounting in accordance with IAS 39 due to the large number of contracts that the customer financing portfolio comprises. In applicable cases, when the requirements for hedge accounting are considered to be fulfilled, Volvo will hereafter consider the application of hedge accounting for these kinds of instruments. Volvo intends to hold these derivatives to maturity, which is why, over time, the market valuation will be offset as a consequence of the interest-rate fixing on borrowing and lending for the customer-finance operations, and thus not affect operating income or cash flow.

Refer to note 9 regarding derivatives used for hedging interest rate exposure in the customer financing portfolio recongniced in net financial items.

Financial instruments used for hedging currency risks arising from future firm commercial cash flows are also recognized under this category. Unrealized gains and losses from fluctuations in the fair values of the financial instruments related to a receivable or payable will be recognized in the operating income of the respective segments. All other unrealized gains and losses from fluctuations in the fair values of the financial instruments are reported in the operating income of the segment Group functions and other. When the financial instruments have been realized the income effect is reported within the respective segments.

Loan receivables and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounts receivables are recognized initially at fair value, which normally corresponds to the nominal value. In the event that the payment terms exceed one year, the receivable is recognized at the discounted present value. After initial recognition, loans and receivables are measured at amortized cost in accordance with the effective interest method. Gains and losses are recognized in profit and loss when the loans or receivables are divested or impaired, as well as in pace with recognition of accrued interest.

Assessment of impairment requirement – loan receivables and other receivables

Volvo performs routine controls to ensure that the carrying amount of assets valued at amortized cost has not decreased, which would result in recognition of an impairment loss in profit and loss. Provisions for doubtful receivables are recognized on an ongoing basis following assessments of a possible change in the ability of customers to pay.

Impairment comprises the difference between the carrying amount and the current value of the estimated future payment flow attributable to the specific asset with consideration to the fair value of any collateral. Discounting of future cash flow is based on the effective interest rate used initially. Initially, the impairment requirement is evaluated for each respective asset. If, based on objective grounds, it cannot be determined that one or more assets are subject to an impairment loss, the assets are grouped in units based, for example, on similar credit risks to evaluate the impairment loss requirement collectively. Individually impaired assets or assets impaired during previous periods are not included when grouping assets for collective assessment. If the conditions that gave rise to the recognition of an impairment loss later prove to no longer be valid the impairment loss is reversed in profit and loss as long as the carrying amount does not exceed the amortized cost at the time of the reversal.

» **Refer to Notes 15 and 16** for more information regarding Volvo's loan receivables and accounts receivables.

Assets available for sale

This category includes assets available for sale and assets that have not been classified in any of the other categories. These assets are initially measured at fair value including transaction costs. Any change in value is recognized directly in other comprehensive income. The cumulative gain or loss recognized in other comprehensive income is reversed in profit and loss on the sale of the asset. Unrealized declines in value are recognized in other comprehensive income, unless the decline is significant or prolonged. Then the impairment is recognized in profit and loss. If the event that caused the impairment no longer exists, impairment can be reversed in profit and loss if it does not involve an equity instrument.

Earned or paid interest attributable to these assets is recognized in profit and loss as part of net financial items in accordance with the effective interest method. Dividends received attributable to these assets are recognized in profit and loss as Income from other investments.

Volvo recognizes shares and participations in listed companies at market value on the balance-sheet date, with the exception of investments classified as associated companies and joint ventures. Holdings in unlisted companies for which a market value is unavailable are recognized at acquisition cost. Volvo classifies these types of investments as assets available for sale.

Assessment of impairment – assets available for sale

If assets available for sale are impaired, the impaired amount is the difference between the asset's cost (adjusted for any accrued interest if applicable) and its fair value. However, if equity instruments, such as shares, are involved, a completed impairment is not reversed in profit and loss. On the other hand, impairments performed on debt instruments (interest-bearing instruments) are wholly or partly reversible in profit and loss, in those instances where an event, proven to have occurred after the impairment was performed, is identified and impacts the valuation of that asset.

» **Refer to Note 5** for Volvo's holdings of shares and participations in listed companies.

Hedge accounting

In accordance with IAS 39, derivatives used for the hedging of forecast electricity consumption have been recognized at fair value in the balance sheet. During 2011, Volvo applied hedge accounting for these financial instruments. Unrealized gains and losses from fluctuations in the fair value are debited or credited to a separate component in other comprehensive income to the extent the requirements for cash-flow hedge accounting are fulfilled. Accumulated changes in the value of the hedging instruments are recognized in profit and loss at the same time as the underlying hedged transaction affects the Group's earnings. In the table in Note 19, Shareholders' equity shows how the electricity consumption reserve has changed during the year. When cash-flow hedge accounting is applied for previously entered financial instruments utilized to hedge electricity consumption, Volvo tests for effectiveness. Hedging is considered to be effective when the forecast factors that impact the electricity price agree with forecasts of future electricity consumption and the designated hedging instruments. The hedging relationship is regularly tested up until its maturity date. If the identified relationships are no longer deemed effective, the price fluctuations on the hedging instrument from the last period the instrument was considered effective are recognized in the Group's operating income.

During 2011, Volvo has applied hedge accounting for financial instruments used to hedge interest and currency risks on loans only for cases when hedge accounting requirements are fulfilled. The changes in the fair value of the hedge instruments outstanding and the changes in the carrying amount of the loan are recognized in profit and loss. For cases where hedge accounting is not considered to be fulfilled, unrealized gains and losses up until the maturity date of the financial instrument will be recognized in net financial items in profit and loss.

During 2011, Volvo has applied hedge accounting for certain net investments in foreign operations. The ongoing result of such hedges is recognized as a separate item in shareholders' equity. In the event of a divestment, the accumulated result from the hedge is recognized in profit and loss.

» **Refer** to **page 125** for supplementary information on hedge accounting.

Information regarding carrying amounts and fair values

In the table below, carrying amounts are compared with fair values for all of the Volvo Group's financial instruments. Detailed descriptions of the policies applicable to financial hedging, hedge accounting and changes in policies during 2011 are described later in this Note and in Note 4, Goals and policies in financial risk management.

		December 31, 2011		December 31, 2010	
SEK M		Carrying value	Fair value	Carrying value	Fair value
Assets					
Financial assets at fair value through profit and loss[1]					
The Volvo Group's outstanding currency risk contracts – commercial exposure	Note 16	107	107	197	197
The Volvo Group's outstanding raw materials contracts	Note 16	68	68	168	168
The Volvo Group's outstanding interest and currency risk contracts – financial exposure	Note 16	4,482	4,482	3,863	3,863
Marketable securities	Note 18	6,862	6,862	9,767	9,767
		11,519	11,519	13,995	13,995
Loans receivable and other receivables					
Accounts receivable	Note 16	27,699	–	24,433	–
Customer financing receivables[2]	Note 15	78,699	–	72,688	–
Other interest-bearing receivables	Note 16	564	–	357	–
		106,962	–	97,478	–
Financial assets available for sale[1]					
Shares and participations for which:					
a market value can be calculated	Note 5	635	635	836	836
a market value can not be calculated	Note 5	1,239	–	1,262	–
		1,874	635	2,098	836
Cash and cash equivalents	Note 18	30,379	30,379	22,966	22,966
Liabilities	Note 22				
Financial liabilities at fair value through profit and loss[1]					
The Volvo Group's commodity contracts – commercial exposure		279	279	79	79
The Volvo Group's outstanding raw materials contract		134	134	41	41
The Volvo Group's outstanding interest risk contracts – financial exposure		4,323	4,323	4,487	4,487
		4,736	4,736	4,607	4,607
Financial liabilities valued at amortized cost					
Long term bond loans and other loans		85,571	90,174	82,679	88,304
Short term bank loans and other loans		43,159	41,884	39,142	39,379
		128,730	132,058	121,821	127,683
Trade Payables		56,788	–	47,250	–

1 IFRS 7 classifies financial instruments based on the degree that market values have been utilized when measuring fair value. All financial instruments measured at fair value held by Volvo are classified as level 2 with the exception of shares and participations, which are classified as level 1 for listed instruments and level 3 for unlisted instruments. Refer to Note 5 for more information regarding valuation principles. None of these individual shareholdings is of significant value for Volvo.

2 Volvo does not estimate the risk premium for the customer financing receivables and chooses therefore not to disclose fair value for this category.

Derecognition of financial assets

Financial assets that have been transferred are included in full or in part in the reported assets of the Volvo Group pursuant to the degree the risk and rewards related to the asset have been transferred to the recipient. In line with IAS 39, Financial Instruments, Recognition and Measurement, an evaluation is performed to establish whether, substantially, all the risks and rewards have been transferred to an external party. Where Volvo concludes this is not the case, the portion of the financial assets corresponding to Volvo's continuous involvement is recognized. At December 31, 2011, assets corresponding to Volvo's continuous involvement, primarily within customer financing operations, in an amount of SEK 0.6 billion (1.2) were recognized by Volvo.

Gains, losses, interest income and expenses related to financial instruments

The table below shows how gains and losses as well as interest income and expenses have affected income after financial items in the Volvo Group divided on the different categories of financial instruments.

Reported in operating income[1]	2011			2010		
SEK M	Gains/ losses	Interest income	Interest expenses	Gains/ losses	Interest income	Interest expenses
Financial assets and liabilities at fair value through profit and loss[2]						
Currency risk contracts-commercial exposure[3]	(91)	–	–	661	–	–
Loans receivable and other receivables						
Accounts receivables / trade payables	65	–	–	(239)	–	–
Customer financing receivables VFS	68	4,862	–	58	5,144	–
Financial assets available for sale						
Shares and participations for which a market value can be calculated	20	–	–	40	–	–
Shares and participations for which a market value cannot be calculated	25	–	–	10	–	–
Financial liabilities valued at amortized cost[4]	–	–	(2,456)	–	–	(2,830)
Effect on operating income	**87**	**4,862**	**(2,456)**	**530**	**5,144**	**(2,830)**

Reported in net financial items[5]						
Financial assets and liabilities at fair value through profit and loss						
Marketable securities	224	–	–	290	–	–
Interest and currency rate risk contracts- financial exposure[6]	(409)	–	–	(1,319)	–	–
Loans receivable and other receivables	–	3	–	–	7	–
Cash and Cash equivalents[7]	–	545	–	(274)	423	–
Financial liabilities valued at amortized cost[6]	771	–	(2,642)	1,560	–	(2,591)
Effect on net financial items	**586**	**548**	**(2,642)**	**257**	**430**	**(2,591)**

1 Information is provided regarding changes in provisions for doubtful receivables and customer financing in Notes 15 and 16, Accounts receivable and customer financing receivables, as well as in Note 8, Other financial income and expenses.
2 Accrued and realized interest is included in gains and losses related to Financial assets and liabilities at fair value through profit and loss.
3 Volvo uses forward contracts and currency options to hedge the value of future payment flows in foreign currency. Both unrealized and realized result on currency risk contracts are included in the table. Refer to Note 4, Goals and policies in financial risk management.
4 Interest expenses attributable to financial liabilities valued at amortized cost recognized in operating income include interest expenses for financing operational leasing activities, not classified as financial instruments.
5 In gains, losses, income and expenses related to financial instruments recognized in Net financial items, 569 (520) was recognized under other financial income and expenses. Refer to Note 9, Other financial income and expenses for further information. Interest expenses attributable to pensions, 191 (276) are not included in this table.
6 Gains and losses related to changes in foreign currency rates on currency rate risk contracts for financial exposure is neg 746 (neg 1,637) and 771 (1,560) for financial liabilities valued at amortized cost. Refer to Note 9, Other financial income and expenses for further information.
7 The net effect of gains and losses related to the devaluation in Venezuela 2010 was neg 274.

Below is a presentation of derivative instruments and options of financial and commercial receivables and liabilities.

Outstanding derivative instruments for dealing with currency and interest-rate risks related to financial assets and liabilities	Dec 31, 2011		Dec 31, 2010	
SEK M	Notional amount	Carrying value	Notional amount	Carrying value
Interest-rate swaps				
– receivable position	76,383	4,024	70,067	3,539
– payable position	68,046	(3,450)	65,576	(3,924)
Forwards and futures				
– receivable position	7,155	0	900	0
– payable position	6,908	0	400	0
Foreign exchange derivative contracts				
– receivable position	18,520	227	13,336	143
– payable position	33,005	(642)	25,192	(381)
Options purchased				
– receivable position	991	231	1,126	181
– payable position	104	0	0	0
Options written				
– receivable position	89	0	0	0
– payable position	978	(231)	976	(182)
Total		**159**		**(624)**

Outstanding forward contracts and options contracts for hedging of currency risk and interest risk of commercial receivables and liabilities	Dec 31, 2011		Dec 31, 2010	
SEK M	Notional amount	Carrying value	Notional amount	Carrying value
Foreign exchange derivative contracts				
– receivable position	2,444	54	6,418	188
– payable position	5,145	(200)	3,381	(75)
Options purchased				
– receivable position	3,521	53	558	9
– payable position	–	–	–	–
Options written				
– receivable position	–	–	–	–
– payable position	3,532	(79)	558	(4)
Subtotal		**(172)**		**118**
Raw materials derivative contracts				
– receivable position	(227)	68	579	168
– payable position	693	(134)	39	(41)
Total		**(238)**		**245**

Hedge accounting – supplementary information

Hedging of forecast electricity consumption
In 2011, Volvo recognized 4 (4) related to the ineffectiveness of the hedging of forecasted electricity.

Hedging of currency and interest rate risks on loans
Fair value of the hedge instruments outstanding amounts to 1,484 (1,168). The carrying amount of the loan related to hedge accounting amounts to a negative 1,285 (neg: 977). The changes in the fair value of the hedge instruments outstanding and the changes in the carrying amount of the loan are reported in profit and loss.

Hedging of net investments in foreign operations
A total of negative 205 (neg: 202) in shareholders' equity relating to hedging of net investments in foreign operations was recognized in 2010.

PARENT COMPANY AB VOLVO

Corporate registration number 556012-5790.
Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year.

Board of Directors' report

AB Volvo is Parent Company of the Volvo Group and its operations comprise the Group's head office with staff together with some corporate functions.

Income from investments in Group companies includes dividends amounting to 2,719 (8,145) and Group contributions, transfer price adjustments and royalties net of 6,086 (5,126). Dividends include 2,500 from Volvo Construction Equipment NV.

The carrying value of shares and participations in Group companies amounted to 59,460 (59,429), of which 58,934 (58,903) pertained to shares in wholly owned subsidiaries. The corresponding shareholders' equity in the subsidiaries (including equity in untaxed reserves but excluding minority interests) amounted to 99,139 (90,261).

Shares and participations in non-Group companies included 413 (170) in associated companies that are reported in accordance with the equity method in the consolidated accounts. The portion of shareholders' equity in associated companies accruing to AB Volvo totaled 413 (322). Shares and participations in non-Group companies include listed shares in Deutz AG with a carrying value of 299, corresponding to the quoted market price at year-end. In 2011 revaluation of the ownership has decreased the value by 159, recognized in equity and included in Other comprehensive income in the income statement.

Financial net debt amounted to 30,665 (30,376).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 42,163 corresponding to 55% of total assets. The comparable figure at year-end 2010 was 54%.

INCOME STATEMENT

SEK M		**2011**	2010
Net sales	Note 2	**721**	**564**
Cost of sales	Note 2	(721)	(564)
Gross income		**0**	**0**
Administrative expenses	Note 2, 3	(880)	(652)
Other operating income and expenses	Note 4	(146)	8
Income from investments in Group companies	Note 5	8,743	13,252
Income from investments in associated companies	Note 6	130	(94)
Income from other investments	Note 7	4	3
Operating income		**7,851**	**12,517**
Interest income and similar credits	Note 8	0	0
Interest expenses and similar charges	Note 8	(1,677)	(893)
Other financial income and expenses	Note 9	(96)	(65)
Income after financial items		**6,078**	**11,559**
Allocations	Note 10	0	0
Income taxes	Note 11	(597)	(1,231)
Income for the period		**5,481**	**10,328**

OTHER COMPREHENSIVE INCOME

Income for the period	**5,481**	**10,328**
Available-for-sale investments	(159)	172
Other comprehensive income, net of income taxes	**(159)**	**172**
Total comprehensive income for the period	**5,322**	**10,500**

BALANCE SHEET

SEK M		December 31, 2011	December 31, 2010
Assets			
Non-current assets			
Intangible assets	Note 12	88	103
Tangible assets	Note 12	80	16
Financial assets			
Shares and participations in Group companies	Note 13	59,460	59,429
Receivables from Group companies		38	0
Other shares and participations	Note 13	2,953	2,498
Deferred tax assets	Note 11	3,060	3,657
Total non-current assets		**65,679**	**65,703**
Current assets			
Current receivables			
Current receivables Group companies		10,843	12,226
Current tax receivables		0	0
Other current receivables	Note 14	501	261
Cash and bank accounts		0	0
Total current assets		**11,344**	**12,487**
Total assets		**77,023**	**78,190**
Shareholders' equity and liabilities			
Shareholders' equity			
Restricted equity			
Share capital (2,128,420,220 shares, quota value SEK 1,20)		2,554	2,554
Statutory reserve		7,337	7,337
Unrestricted equity			
Non-restricted reserves		224	383
Retained earnings		26,563	21,251
Income for the period		5,481	10,328
Total shareholders' equity		**42,159**	**41,853**
Untaxed reserves	Note 15	4	4
Provisions			
Provisions for pensions	Note 16	141	133
Other provisions	Note 17	42	1
Non-current liabilities	Note 18		
Liabilities to Group companies		7	7
Other non-current liabilities		11	10
Current liabilities			
Trade payables		164	78
Other liabilities to Group companies		34,260	35,835
Other current liabilities	Note 19	235	269
Total shareholders' equity and liabilities		**77,023**	**78,190**
Assets pledged		–	–
Contingent liabilities	Note 20	**270,346**	**250,606**

CASH-FLOW STATEMENT

SEK M		**2011**	2010
Operating activities			
Operating income		7,851	12,517
Depreciation and amortization		16	16
Other adjustments of operating income	Note 21	(404)	(20,543)
Total change in working capital whereof		(185)	142
Change in accounts receivable		*(171)*	*195*
Change in trade payables		*188*	*(7)*
Other changes in working capital		*(202)*	*(46)*
Interest and similar items received		0	0
Interest and similar items paid		(1,672)	(888)
Other financial items		(152)	(65)
Income taxes (paid)		–	(176)
Cash-flow from operating activities		**5,454**	**(8,997)**
Investing activities			
Investments in fixed assets		(65)	(11)
Shares and participations in Group companies, net	Note 21	(93)	(2,386)
Shares and participations in non-Group companies, net	Note 21	(508)	(63)
Cash-flow after net investments		**4,788**	**(11,457)**
Financing activities			
Increase in loans	Note 21	281	11,457
Dividend to AB Volvo's shareholders		(5,069)	–
Change in liquid funds		**0**	**0**
Liquid funds, January 1		**0**	**0**
Liquid funds, December 31		**0**	**0**

Liquid funds
Liquid funds include cash and bank balances.

CHANGES IN SHAREHOLDERS' EQUITY

SEK M	Restricted equity: Share capital	Restricted equity: Statutory reserve	Unrestricted equity: Share premium reserve	Unrestricted equity: Fair value reserve	Unrestricted equity: Retained earnings	Unrestricted equity: Total	Total shareholders' equity
Balance at December 31, 2009	**2,554**	**7,337**	**190**	**21**	**21,251**	**21,462**	**31,353**
Income for the period	–	–	–	–	10,328	10,328	10,328
Other comprehensive income							
Available-for-sale investments:							
Gain/(loss) at valuation to fair value	–	–	–	172	–	172	172
Other comprehensive income	–	–	–	172	–	172	172
Total income for the period	–	–	–	**172**	**10,328**	**10,500**	**10,500**
Balance at December 31, 2010	**2,554**	**7,337**	**190**	**193**	**31,579**	**31,962**	**41,853**
Income for the period	–	–	–	–	5,481	5,481	5,481
Other comprehensive income							
Available-for-sale investments:							
Gain/(loss) at valuation to fair value	–	–	–	(159)	–	(159)	(159)
Other comprehensive income	–	–	–	(159)	–	(159)	(159)
Total income for the period	–	–	–	**(159)**	**5,481**	**5,322**	**5,322**
Transactions with shareholders							
Cash dividend	–	–	–	–	(5,069)	(5,069)	(5,069)
Dividend to AB Volvo's shareholders	–	–	0	–	53	53	53
Transactions with shareholders	–	–	0	–	(5,016)	(5,016)	(5,016)
Balance at December 31, 2011	**2,554**	**7,337**	**190**	**34**	**32,044**	**32,268**	**42,159**

Further information regarding the share capital of the Parent Company is shown in Note 19 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2010.

NOTE 1 ACCOUNTING PRINCIPLES

The accounting principles applied by Volvo are described in note 1 to the consolidated financial statements.

The Parent Company also applies RFR 2 including the exception in the application of IAS 39 which concerns accounting and valuation of financial contracts of guarantee in favour of subsidiaries and associated companies.

The long term share-based incentive program adopted at the Annual General Meeting of 2011 is covered by IFRS 2 Share-based payments.

The Volvo Group has adopted IAS 19 Employee Benefits in its financial reporting. The Parent Company is still applying the principles of Far's Recommendation RedR4 "Accounting of pension liabilities and pension costs" as in previous years. Consequently there are differences between the Volvo Group and the Parent Company in the accounting for defined-benefit pension plans as well as in valuation of plan assets invested in the Volvo Pension Foundation.

The difference between depreciation according to plan and tax depreciation is reported as accumulated additional depreciation, which is included in untaxed reserves. In the consolidated balance sheet a split is made between deferred tax liability and equity.

Reporting of Group contributions is in accordance with the alternative rule in RFR 2. Group contributions are reported among Income from investments in Group companies.

NOTE 2 INTRA-GROUP TRANSACTIONS

Of the Parent Company's net sales, 620 (499) pertained to Group companies while purchases from Group companies amounted to 602 (449).

NOTE 3 ADMINISTRATIVE EXPENSES

Depreciation

Administrative expenses include depreciation of 16 (16) of which 0 (1) pertains to machinery and equipment, 1 (0) to buildings and 15 (15) to other intangible assets.

Fees to the auditors	2011	2010
PricewaterhouseCoopers		
– Audit fees	17	17
– Audit-related fees	1	1
– Tax advisory services	0	0
Total	**18**	**18**

See Note 28 for the Group for a description of the different categories of fees to the auditors.

Personnel

Wages, salaries and other remunerations amounted to 231 (211), social costs to 68 (61) and pension costs to 69 (81). Of the pension costs, 7 (6) pertained to Board members and Presidents. The Parent Company has outstanding pension obligations of 0 (–) to these individuals.

Part of social costs relate to pensions. In previous years, AB Volvo has reclassified such portion of social costs to pension costs. In the 2011 Annual Report, this part has not been reclassified to pension costs as an adaption to praxis. Pension costs for 2010 has been adjusted downwards with 23.

The number of employees at year-end was 181 (198). Information on the average number of employees, wages, salaries and other remunerations including incentive program as well as Board members and senior executives by gender is shown in note 27 to the consolidated financial statements.

NOTE 4 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses include expenses of 101 (–) due to damages from a settlement of a legal process. Further restructuring costs of 42 (–) and profit-sharing payments to employees of 3 (1) are included.

NOTE 5 INCOME FROM INVESTMENTS IN GROUP COMPANIES

Of the income reported, 2,719 (8,145) pertain to dividends from Group companies. Of the dividends, 2,500 (1,801) pertain to dividend from Volvo Construction Equipment NV, 156 (–) from Volvo East Asia Ltd. and 63 (–) from Volvo Norge AS. The shares in Volvo Italia SpA were written down by 60. Liquidation of Volvo Automotive Holding BV has resulted in a net loss of 2.

Group Contributions, transfer price adjustments and royalties total a net of 6,086 (5,126)

NOTE 6 INCOME FROM INVESTMENTS IN ASSOCIATED COMPANIES

Income from associated companies that are reported in the Group accounts in accordance with the equity method amounted to 106 (neg 94). Dividend of 24 (14) was received from VE Commercial Vehicles Ltd. The participations in Blue Chip Jet I HB and Blue Chip Jet II HB have effected the income with 5 (8) and 101 (neg 116) respectively.

NOTE 7 INCOME FROM OTHER INVESTMENTS

A dividend of 4 (2) reveived from Eicher Motors Ltd. is included in Income from other investments.

NOTE 8 INTEREST INCOME AND EXPENSES

Interest income and similar credits amounting to 0 (0) included interest in the amount of 0 (0) from subsidiaries, and interest expenses and similar charges totalling 1,677 (893) included interest of 1,672 (888) to subsidiaries.

NOTE 9 OTHER FINANCIAL INCOME AND EXPENSES

Other financial income and expenses include guarantee commissions from subsidiaries, cost for credit facilities, costs for credit rating and costs of having Volvo shares registered.

NOTE 10 ALLOCATIONS

Allocation to additional depreciation has been made during the year with 0 (0).

NOTES TO FINANCIAL STATEMENTS

NOTE 11 INCOME TAXES

	2011	2010
Current taxes	–	(176)
Deferred taxes	(597)	(1,055)
Total income taxes	**(597)**	**(1,231)**

Current taxes relate to prior periods.

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

Deferred taxes related to change in tax-loss carryforwards amount to an expense of 602 (1,063) and to changes in other temporary differences to 5 (8).

The table below shows the principal reasons for the difference between the corporate income tax of 26.3% and the tax for the period.

	2011	2010
Income before taxes	6,078	11,559
Income tax according to applicable tax rate	(1,598)	(3,040)
Capital gains/losses	0	0
Non-taxable dividends	723	2,146
Non-taxable revaluations of shareholdings	(16)	(8)
Other non-deductible expenses	(6)	(156)
Other non-taxable income	300	3
Adjustment of current taxes for prior periods	–	(176)
Income taxes for the period	**(597)**	**(1,231)**

Specification of deferred tax assets	2011	2010
Tax-loss carryforwards	2,885	3,487
Valuation allowance for doubtful receivables	1	1
Provision for post-employment benefits	163	169
Other deductible temporary differences	11	–
Deferred tax assets	**3,060**	**3,657**

NOTE 12 INTANGIBLE AND TANGIBLE ASSETS

Acquisition cost	Value in balance sheet 2010	Investments	Sales/scrapping	Value in balance sheet 2011
Rights	52	–	–	52
Other intangible assets	138	–	–	138
Total intangible assets	**190**	**–**	**–**	**190**
Buildings	6	21	–	27
Land and land improvements	3	11	–	14
Machinery and equipment	46	1	0	47
Construction in progress	–	32	–	32
Total tangible assets	**55**	**65**	**0**	**120**

Accumulated depreciation	Value in balance sheet 2010[1]	Depreciation[2]	Sales/scrapping	Value in balance sheet 2011	Net carrying value in balance sheet 2011[3]
Rights	52	–	–	52	0
Other intangible assets	35	15	–	50	88
Total intangible assets	**87**	**15**	**–**	**102**	**88**
Buildings	2	1	–	3	24
Land and land improvements	0	0	–	0	14
Machinery and equipment	37	0	0	37	10
Construction in progress	–	–	–	–	32
Total tangible assets	**39**	**1**	**0**	**40**	**80**

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

Capital expenditures in intangible and tangible assets amounted to – (22) and 65 (1) respectively. Capital expenditures approved but not yet implemented at year-end 2011 amounted to 1 (0).

NOTE 13 INVESTMENTS IN SHARES AND PARTICIPATIONS

Holdings of shares and participations are specified in AB Volvo's holding of shares. Changes in holdings of shares and participations are shown below.

	Group companies		Non-Group companies	
	2011	2010	2011	2010
Balance sheet, December 31, previous year	59,429	57,062	2,498	2,363
Acquisitions/New issue of shares	94	–	508	87
Divestments	(3)	(3,493)	–	0
Shareholder contributions	–	5,879	–	–
Write-downs/participations in partnerships	(60)	(19)	106	(124)
Revaluation of shares in listed companies	–	–	(159)	172
Balance sheet, December 31	**59,460**	**59,429**	**2,953**	**2,498**

Shares and participations in Group companies
During 2011 AB Volvo acquired total shares in VFS Latvia SIA to a value of 9. Shares were also acquired in Volvo Lastvagnar AB, Volvo Bussar AB and AB Volvo Penta by total 85 from Volvo Italia SpA. AB Volvo consequently has got 100% hold in these companies.

Write-down was made at year-end of the holding of shares in Volvo Italia SpA with 60.

Volvo Automotive Holding BV with the book value of 3 has been liquidated.

During 2010 AB Volvo transferred the company´s holding of preference shares in UD Trucks Corporation, with the book value of 3,493, as shareholders' contribution to Volvo Group Japan Corporation. Shareholders' contribution was also made to Kommersiella Fordon Europa AB with 1,801.

Shares and participations in non-Group companies
During 2011 AB Volvo aquired 49% of the hold in CPAC Systems AB from Volvo Technology Transfer AB by 367. A capital contribution of 137 (76) was given to Blue Chip Jet II HB. The book value of the participations in the partnerships Blue Chip Jet I HB and Blue Chip Jet II HB increased during the year by a net of 106 (neg 113).

The revaluation of AB Volvo's ownership in the listed company Deutz AG has decreased the value by 159, recognized in other comprehensive income (previous year increase by 172).

Other shares and participations include the direct and indirect holdings of Volvo Eicher Commercial Vehicles Ltd. (VECV) for total amount of 1,848. In the consolidated accounts of the Volvo group, VECV is reported as a joint venture and consolidated according to the proportionate method. The indirect ownership is an effect of the acquisition of 8.1% of Eicher Motors Ltd., which is the other venturer of VECV. These shares are not separately valued as they form a part of the indirect ownership in VECV.

NOTE 14 OTHER CURRENT RECEIVABLES

	2011	2010
Accounts receivable	46	3
Prepaid expenses and accrued income	268	226
Other receivables	187	32
Total	**501**	**261**

The valuation allowance for doubtful receivables amounted to 3 (4) at the end of the year.

NOTE 15 UNTAXED RESERVES

The composition of untaxed reserves	Value in balance sheet 2011	Value in balance sheet 2010
Accumulated additional depreciation		
Land	3	3
Machinery and equipment	1	1
Total	**4**	**4**

NOTES TO FINANCIAL STATEMENTS

NOTE 16 PROVISIONS FOR PENSIONS

Provisions for pensions and similar benefits correspond to the actuarially calculated value of obligations not insured with third parties or secured through transfers of funds to pension foundations. The amount of pensions falling due within one year is included. AB Volvo has insured the pension obligations with third parties. Of the amount reported, 8 (0) pertains to contractual obligations within the framework of the PRI (Pension Registration Institute) system.

The Volvo Pension Foundation was formed in 1996. Plan assets amounting to 224 were contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time. Since its formation, net contributions of 25 have been made to the foundation.

AB Volvo's pension costs amounted to 69 (81).

In previous years, part of social costs has been reclassified to pension costs. In the 2011 Annual Report, this part has not been reclassified to pension costs as an adaption to praxis. Pension costs for 2010 has been adjusted downwards with 23.

The accumulated benefit obligation of all AB Volvo's pension obligations at year-end 2011 amounted to 646, which has been secured in part through provisions in the balance sheet and through transfer of funds to pension foundations. Net asset value in the Pension Foundation, marked to market, accrued to AB Volvo was 9 lower than the corresponding pension obligations. A provision was recorded to cover this deficit.

NOTE 17 OTHER PROVISIONS

Other provisions include provisions for restructuring measures of 42 (–).

NOTE 18 NON-CURRENT LIABILITIES

Non-current debt matures as follows:	
2013	11
2016 or later	7
Total	**18**

NOTE 19 OTHER CURRENT LIABILITIES

	2011	2010
Wages, salaries and withholding taxes	70	94
Other liabilities	19	2
Accrued expenses and prepaid income	146	173
Total	**235**	**269**

No collateral is provided for current liabilities.

NOTE 20 CONTINGENT LIABILITIES

Of the contingent liabilities amounting to 270,346 (250,606), 270,336 (250,597) pertained to Group companies.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 261,576 (243,089), of which guarantees on behalf of Group companies totalled 261,576 (243,089).

At the end of each year, the utilized portion amounted to 125,123 (108,562), including 125,113 (108,476) pertaining to Group companies.

NOTE 21 CASH-FLOW

Other adjustments of operating income	2011	2010
Revaluation of shareholdings	(46)	116
Group contributions and transfer price adjustments, current year	(7,110)	(6,673)
Settlements of previous year's Group contributions and transfer price adjustments	6,673	(14,016)
Other	79	30
Total	**(404)**	**(20,543)**

Further information is provided in Notes 5, 6 and 7.

Shares and participations in Group companies, net	2011	2010
Investments	(94)	(2,386)
Disposals	1	–
Net investments in shares and participations in Group companies	**(93)**	**(2,386)**

Investments and sales of shares in Group companies are shown in Note 13.

Shares and participations in non-Group companies, net	2011	2010
Investments	(508)	(78)
Disposals	–	15
Net investments in shares and participations in non-Group companies	**(508)**	**(63)**

Investments and sales of shares in non-Group companies are presented in Note 13.

Increase in loans

Increase in loans is related to the company's liability in the group account at Volvo Treasury AB. The liability has increased by 281 (11,457).

AB VOLVO'S HOLDING OF SHARES

AB Volvo's holding of shares and participations in non-Group companies[1]	Registration number	Percentage holding[2]	Dec 31, 2011 Carrying value, SEK M	Dec 31, 2010 Carrying value, SEK M
Deutz AG, Germany	–	7	299	458
Blue Chip Jet II HB, Sweden	969717-2105	50	413	170
Other investments			25	22
Total carrying value, non-Group companies			**737**	**650**

1 AB Volvo's holdings of shares and participations include the direct and indirect holdings of VE Commercial Vehicles (VECV). AB Volvo's direct holdings in VECV amount to SEK 1,848 M. In the consolidated accounts of the Volvo group, VECV is reported as a joint venture, consolidated according to the proportionate method, and accordingly included in the table for Group companies below.
2 Percentage figures refer to share capital as well as voting rights.

AB Volvo's holding of shares and participations in major Group companies	Registration number	Percentage holding	Dec 31, 2011 Carrying value, SEK M	Dec 31, 2010 Carrying value, SEK M
Volvo Lastvagnar AB, Sweden	556013-9700	100	8,711	8,678
Volvo Truck Center Sweden AB, Sweden	556072-7777	100	–	–
Volvo Finland AB, Finland	–	100	–	–
Volvo Group Belgium NV, Belgium	–	100	–	–
Volvo Group UKLtd, Great Britain	–	100	–	–
Volvo India Ltd, India	–	100	–	–
Volvo Holding Sverige AB, Sweden	556539-9853	100	7,634	7,634
BRS Ltd, Great Britain	–	100	–	–
Volvo Construction Equipment North America, Canada	–	100	–	–
Volvo Polska Sp. O.O., Poland	–	100	–	–
Volvo (Southern Africa) Pty Ltd, South Africa	–	100	–	–
Volvo do Brasil Veiculos Ltda, Brazil	–	100	–	–
Banco Volvo (Brasil) SA, Brazil	–	100	–	–
Volvo Group Canada Inc., Canada	–	100	–	–
Prévost Car Inc, Canada	–	100	–	–
Volvo Group Australia Pty Ltd, Australia	–	100	–	–
Volvo Group Automotive Ticaret, Ltd, Sirketi, Turkey[1]	–	100	–	–
Volvo Holding France SA, France	–	100	–	–
Volvo Trucks France s.a.s., France	–	100	–	–
Volvo Compact Equipment s.a.s., France	–	100	–	–
Volvo CE Europe s.a.s., France	–	100	–	–
VFS Finance France s.a.s., France	–	100	–	–
VFS Location France s.a.s., France	–	100	–	–

NOTES TO FINANCIAL STATEMENTS

AB Volvo's holding of shares and participations in major Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2011 Carrying value, SEK M	Dec 31, 2010 Carrying value, SEK M
Renault Trucks s.a.s., France	–	100	–	–
Renault Trucks Deutschland GmbH, Germany	–	100	–	–
Renault Trucks Polska SP Z OO, Poland	–	100	–	–
Renault Trucks, España, Spain	–	100	–	–
Renault Trucks Italia Spa, Italy	–	100	–	–
Volvo Group Japan Co, Japan	–	100	6,379	6,379
UD Trucks Corporation, Japan	–	100	–	–
DRD Co., Ltd, Japan	–	100	–	–
UD Trucks Japan Co, Japan	–	100	–	–
UD Trucks South Africa (Pty) Ltd., South Africa	–	100	–	–
Volvo Bussar AB, Sweden	556197-3826	100	1,917	1,882
Volvo Construction Equipment NV, The Netherlands	–	100	2,582	2,582
Volvo Construction Equipment AB, Sweden	556021-9338	100	–	–
Volvo Maskin AS, Norway	–	100	–	–
Volvo Construction Equipment Europe GmbH, Germany	–	100	–	–
ABG Algemeinen Baumaschinen GmbH, Germany	–	100	–	–
AB Volvo Penta, Sweden	556034-1330	100	438	421
Volvo Aero AB, Sweden	556029-0347	100	2,885	2,885
Volvo Aero Norge AS, Norway	–	100	–	–
VNA Holding Inc., USA	–	100	2,491	2,491
Volvo Group North America Inc., USA	–	100	–	–
Arrow Truck Sales, Inc., USA	–	100	–	–
Mack Trucks Inc., USA	–	100	–	–
Volvo Construction Equipment North America Inc., USA	–	100	–	–
Volvo Penta of The Americas Inc., USA	–	100	–	–
Volvo Commercial Finance LLC The Americas, USA	–	100	–	–
VFS US LLC, USA	–	100	–	–

AB Volvo's holding of shares and participations in major Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2011 Carrying value, SEK M	Dec 31, 2010 Carrying value, SEK M
Volvo Financial Services AB, Sweden	556000-5406	100	1,945	1,945
VFS International AB, Sweden	556316-6064	100	–	–
VFS Nordic AB, Sweden	556579-1778	100	–	–
VFS Financial Services BV, The Netherlands	–	100	–	–
VFS Financial Services Belgium NV, Belgium	–	100	–	–
VFS Financial Services (UK) Ltd, Great Britain	–	100	–	–
VFS Deutschland GmbH, Germany	–	100	–	–
VFS Financial Services Spain EFC, SA, Spain	–	100	–	–
Volvo Finance (Suisse) SA, Switzerland	–	100	–	–
VFS Vostok, Russia	–	100	–	–
VFS Romania, Romania	–	100	–	–
VFS Canada Inc, Canada	–	100	–	–
VE Commercial Vehicles, Ltd, India[2, 7]	–	50	–	–
Volvo Treasury AB, Sweden	556135-4449	100	13,044	13,044
Sotrof AB, Sweden	556519-4494	100	1,388	1,388
Volvo Group Real Estate AB, Sweden	556006-8313	100	–	–
Volvo Korea Holding AB, Sweden	556531-8572	100	2,655	2,655
Volvo Group Korea Co Ltd, South Korea	–	100	–	–
Volvo China Investment Co Ltd, China	–	100	1,096	1,096
Shanghai Sunwin Bus Co, China[2]	–	50	–	–
Shandong Lingong Construction Machinery, China	–	70	–	–
Volvo Automotive Finance (China) Ltd, China	–	100	491	491
Volvo Group UK Ltd, Great Britain[3]	–	100	413	413
Volvo Holding Mexico, Mexico	–	100	531	531
Volvo Technology Transfer AB, Sweden	556542-4370	100	361	361
Volvo Powertrain AB, Sweden	556000-0753	100	498	498
Volvo Information Technology AB, Sweden	556103-2698	100	663	663
Volvo Parts AB, Sweden	556365-9746	100	200	200
Volvo Group Insurance Försäkrings AB, Sweden	516401-8037	100	182	182
Volvo Business Services AB, Sweden	556029-5197	100	107	107
Volvo Danmark Holding AS, Denmark	–	100	104	104
VFS Servizi Financiari Spa, Italy[4]	–	100	79	79
Kommersiella Fordon Europa AB, Sweden	556049-3388	100	1,890	1,890
Volvo Norge AS, Norway	–	100	56	56
Volvo Malaysia Sdn, Malaysia	–	100	48	48
ZAO Volvo Vostok, Russia[5]	–	100	34	34
Volvo Italia Spa, Italy	–	100	496	556
Volvo Logistics AB, Sweden	556197-9732	100	85	85
Rossareds Fastighets AB, Sweden	556009-1190	100	26	26
Alviva AB, Sweden	556622-8820	100	5	5
Volvo East Asia (Pte) Ltd, Singapore	–	100	9	9
Volvo Automotive Holding BV, The Netherlands	–	100	–	3
Volvo Information Technology GB Ltd, Great Britain	–	100	3	3
VFS Latvia SIA, Latvia	–	100	9	–
Other holdings			5	5
Total carrying value Group companies[6]			**59,460**	**59,429**

1 Total holding by Volvo Holding Sverige and Volvo Lastvagnar is 100%.
2 Joint venture, reported in accordance with the proportionate consolidation method in Volvo's consolidated accounts.
3 Total holding by Volvo Lastvagnar AB and AB Volvo is 100%.
4 Total holding by Volvo Italia and AB Volvo is 100%.
5 Total holding by AB Volvo and Volvo Trucks Region Central Europe is 100%.
6 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 99,139 (90,261).
7 AB Volvo's holdings of shares and participations include the direct and indirect holdings of VE Commercial Vehicles (VECV). AB Volvo's direct holdings in VECV amount to 1,848. In the consolidated accounts of the Volvo Group, VECV is reported as a joint venture, consolidated according to the proportionate method, and accordingly included in the table for group companies above.

PROPOSED REMUNERATION POLICY

The proposal by the Board of Directors of AB Volvo to be adopted by the Annual General Meeting April 4, 2012.

This Policy concerns the remuneration and other terms of employment for the Volvo Group Executive Team. The members of the Volvo Group Executive Team, including the President and any possible Deputy President, are in the following referred to as the "Executives".

This Policy will be valid for employment agreements entered into after the approval of the Policy by the Annual General Meeting and for changes made to existing employment agreements thereafter.

1. Guiding principles for remuneration and other terms of employment

The guiding principle is that the remuneration and the other terms of employment for the Executives shall be competitive in order to ensure that the Volvo Group can attract and retain competent Executives.

The annual report 2011 sets out details on the total remuneration and benefits awarded to the Executives during 2011.

2. The principles for fixed salaries

The Executive's fixed salary shall be competitive and based on the individual Executive's responsibilities and performance.

3. The principal terms of variable salary and incentive schemes, including the relation between fixed and variable components of the remuneration and the linkage between performance and remuneration

The Executives may receive variable salaries in addition to fixed salaries. The variable salary may, as regards the President, amount to a maximum of 75% of the fixed annual salary and, as regards the other Executives, a maximum of 60% of the fixed annual salary.

The variable salary may be based on inter alia the performance of the entire Volvo Group or the performance of a certain part of the Group where the Executive is employed. The performance will be related to the fulfilment of various improvement targets or the attainment of certain financial objectives. Such targets will be set by the Board and may relate to inter alia operating income, operating margin or cash flow. The Board may under certain conditions decide to reclaim variable salary already paid or to cancel or limit variable salary to be paid to the Executives.

The Annual General Meeting 2011 decided to adopt a share-based incentive program for senior executives in the Volvo Group relating to the financial years 2011, 2012 and 2013. Therefore, the Board has decided not to propose any share-based incentive program to the Annual General Meeting to be held in April 2012.

4. The principal terms of non-monetary benefits, pension, notice of termination and severance pay

4.1 Non-monetary benefits

The Executives will be entitled to customary non-monetary benefits such as company cars and company health care. In addition thereto in individual cases company housing and other benefits may also be offered.

4.2 Pension

In addition to pension benefits which the Executives are entitled to according to law and collective bargaining agreements, Executives resident in Sweden may be offered two different defined-contribution plans with annual premiums. For the first plan the annual premiums amount to SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts and for the second plan the annual premiums amount to 10% of pensionable salary. In the two defined-contribution plans, the pension earned will correspond to the sum of paid-in premiums and possible return without any guaranteed level of pension received by the employee. Further no definite retirement date is set in the two plans but premiums will be paid for the employee until his or her 65th birthday.

Executives resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden may be offered pension benefits that are competitive in the country where the Executives are or have been resident or to which the Executives have a material connection, preferably defined-contribution plans.

4.3 Notice of termination and severance pay

For Executives resident in Sweden, the termination period from the Company will be 12 months and 6 months from the Executive. In addition thereto, the Executive, provided that termination has been made by the Company, will be entitled to 12 months' severance pay.

Executives resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden may be offered notice periods for termination and severance payment that are competitive in the country where the Executives are or have been resident or to which the Executives have a material connection, preferably solutions comparable to the solutions applied to Executives resident in Sweden.

5. The Board's preparation and decision-making on issues concerning remuneration and other terms of employment for the Volvo Group Executive Team

The Remuneration Committee is responsible for (i) preparing the Board's decisions on issues concerning principles for remuneration, remunerations and other terms of employment for Executives, (ii) monitoring and evaluating programs for variable remuneration, both ongoing and those that have ended during the year, for Executives, (iii) monitoring and evaluating the application of this Policy, and (iv) monitoring and evaluating current remuneration structures and levels in the Company.

The Remuneration Committee prepares and the Board decides on (i) terms of employment and remuneration of the President and the Deputy President, if any, and (ii) principles for remuneration (incl. pension and severance pay) for the Group Executive Team. The Remuneration Committee shall approve proposals on remuneration of the members of the Volvo Group Executive Team.

The Remuneration Committee is further responsible for the review and recommendation to the Board of share and share-price related incentive programs to be decided upon by the Annual General Meeting.

6. Authority to decide on deviations from this Policy

The Board of Directors may deviate from this Policy if there are specific reasons to do so in an individual case.

7. Information on earlier decisions on remuneration that has not become due for payment at the time of the Annual General Meeting's consideration of this Policy

The decisions already taken on remuneration to the Executives that has not become due for payment at the time of the Annual General Meeting 2012 fall within the frames of this policy, except that some of the Executives have a right to receive 24 months' severance pay provided they are above 50 years of age and that some of the Executives are entitled to defined-benefit pension plans stipulating pension payments starting from the age of 65 with the possibility to receive part of the pension payment from the age of 60.

8. Deviations from current Policy

The Board of Directors was authorized to deviate from the Policy of Remuneration to Senior Executives adopted by the Annual General Meeting of AB Volvo held in 2011 according to section 6 of said Policy. The Board has resolved on one such deviation, by approving that the variable salary for the President of Volvo Aero may exceed 60% of the fixed annual salary if certain parameters in relation to the potential divestment of Volvo Aero are fulfilled. The reason for the deviation is that there is a strong interest in securing the continued efforts of the President of Volvo Aero in the possible divestment thereof, for the purpose of concluding a transaction on the best possible terms for AB Volvo and its shareholders.

The policy concerning remuneration and other terms of employment for the Group Executive Team decided at the Annual General Meeting 2011 is provided in Note 27 Personnel.

PROPOSED DISPOSITION OF UNAPPROPRIATED EARNINGS

AB Volvo	SEK
Retained earnings	26,787,875,659.22
Income for the period 2010	5,480,540,903.23
Total retained earnings	**32,268,416,562.45**

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

	SEK
To the shareholders, a dividend of SEK 3.00 per share	6,082,283,862.00[1]
To be carried forward	26,186,132,700.45
Total	**32,268,416,562.45**

The record date for determining who is entitled to receive dividends is proposed to be Wednesday April 11, 2012.

In view of the Board of Directors' proposal to the Annual General Meeting to be held April 4, 2012 to decide on the distribution of a dividend of SEK 3.00 per share, the Board hereby makes the following statement in accordance with Chapter 18, Section 4 of the Swedish Companies Act.

The Board of Directors concludes that the Company's restricted equity is fully covered after the proposed dividend. The Board further concludes that the proposed dividend is justifiable in view of the parameters set out in Chapter 17, Section 3, second and third paragraphs of the Swedish Companies Act. In connection herewith, the Board wishes to point out the following.

The proposed dividend reduces the Company's solvency from 54.7 per cent to 50.9 per cent and the Group's solvency from 24.3 per cent to 22.9 per cent, calculated as per year end 2011. The Board of Directors considers this solvency to be satisfactory with regard to the business in which the Group is active.

According to the Board of Directors' opinion, the proposed dividend will not affect the Company's or the Group's ability to fulfil their payment obligations and the Company and the Group are well prepared to handle both changes in the liquidity and unexpected events.

The Board of Directors is of the opinion that the Company and the Group have capacity to assume future business risks as well as to bear contingent losses. The proposed dividend is not expected to adversely affect the Company's and the Group's ability to make further commercially justified investments in accordance with the Board of Directors' plans.

In addition to what has been stated above, the Board of Directors has considered other known circumstances which may be of importance for the Company's and the Group's financial position. In doing so, no circumstance has appeared that does not justify the proposed dividend.

If the Annual General Meeting resolves in accordance with the Board of Directors' proposal, SEK 26,186,132,700.45 will remain of the Company's non-restricted equity, calculated as per year end 2011.

The Board of Directors has the view that the Company's and the Group's shareholders' equity will, after the proposed dividend, be sufficient in relation to the nature, scope and risks of the business.

Had the assets and liabilities not been estimated at their market value pursuant to Chapter 4, Section 14 a of the Swedish Annual Accounts Act, the company's shareholders' equity would have been SEK 34,680,896.00 less.

1 The total dividend amount is based on the number of outstanding shares as of February 23, 2012, i.e. 2,027,427,954 shares. The total dividend amount may change before the record date for determining who is entitled to receive dividends due to transfer of treasury shares to participants in the company's long-term, share-based incentive program.

The Board of Directors and the President certify that the annual financial report has been prepared in accordance with generally accepted accounting principles and that the consolidated accounts have been prepared in accordance with the international set of accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards, and give a true and fair view of the position and profit or loss of the Company and the Group, and that the management report for the Company and for the Group gives a fair review of the development and performance of the business, position and profit or loss of the Company and the Group, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Göteborg, February 23, 2012

Louis Schweitzer
Board Chairman

Peter Bijur
Board member

Jean-Baptiste Duzan
Board member

Hanne de Mora
Board member

Anders Nyrén
Board member

Olof Persson
President, CEO and
Board member

Ravi Venkatesan
Board member

Lars Westerberg
Board member

Ying Yeh
Board member

Peteris Lauberts
Board member

Mikael Sällström
Board member

Berth Thulin
Board member

Our audit report was issued on February 23, 2012

PricewaterhouseCoopers AB

Göran Tidström
Authorized Public Accountant
Lead Auditor

Johan Rippe
Authorized Public Accountant

AUDIT REPORT FOR AB VOLVO

To the annual meeting of the shareholders of AB Volvo, corporate identity number 556012-5790

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of AB Volvo for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 46–139.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the Parent Company and the Group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of AB Volvo for the year 2011.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President are liable to the company. We also examined whether any member of the Board of Directors or the President have, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Göteborg February 23, 2012

PricewaterhouseCoopers AB

Göran Tidström	Johan Rippe
Authorized Public Accountant	Authorized Public Accountant
Lead Auditor	

ELEVEN-YEAR SUMMARY

The eleven-year summary presents each year in accordance with the Generally Accepted Accounting Practice (GAAP) for that year. Earlier years are not restated when new accounting standards are applied. The years 2001–2003 are accounted for in accordance with Swedish GAAP for the respective year. As from 2004 the reporting is based on IFRS. The transition to IFRS is described in Note 3 in the 2005 and 2006 Annual Reports. As from January 1, 2007, the benefits from the synergies created in the business units are transferred back to the product areas. Also, as from January 1, 2007, the responsibility for the Group's treasury operations and real estate has been transferred from Volvo Financial Services, which, as from January 1, 2007, only are consolidated in accordance with the purchase method. Comparison figures for 2006 have been recalculated.

Consolidated income statements

SEK M	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Net sales	**310,367**	**264,749**	**218,361**	**303,667**	**285,405**	**258,835**	**240,559**	**211,076**	**183,291**	**186,198**	**189,280**
Cost of sales	(235,104)	(201,797)	(186,167)	(237,578)	(219,600)	(199,054)	(186,662)	(164,170)	(146,879)	(151,569)	(155,592)
Gross income	**75,263**	**62,952**	**32,194**	**66,089**	**65,805**	**59,781**	**53,897**	**46,906**	**36,412**	**34,629**	**33,688**
Research and development expenses	(13,276)	(12,970)	(13,193)	(14,348)	(11,059)	(8,354)	(7,557)	(7,614)	(6,829)	(5,869)	(5,391)
Selling expenses	(26,001)	(24,149)	(25,334)	(27,129)	(26,068)	(21,213)	(20,778)	(19,369)	(16,866)	(16,604)	(15,766)
Administrative expenses	(7,132)	(5,666)	(5,863)	(6,940)	(7,133)	(6,551)	(6,301)	(5,483)	(5,467)	(5,658)	(6,709)
Other operating income and expenses	(1,649)	(2,023)	(4,798)	(1,915)	163	(3,466)	(588)	(618)	(1,367)	(4,152)	(4,096)
Income (loss) from investments in associated companies	(81)	(86)	(14)	25	430	61	(557)	27	200	182	50
Income from other investments	(225)	(58)	(6)	69	93	141	37	830	(3,579)	309	1,410
Restructuring costs	–	–	–	–	–	–	–	–	–	–	(3,862)
Operating income (loss)	**26,899**	**18,000**	**(17,013)**	**15,851**	**22,231**	**20,399**	**18,153**	**14,679**	**2,504**	**2,837**	**(676)**
Interest income and similar credits	608	442	390	1,171	952	666	654	821	1,096	1,217	1,275
Interest expenses and similar charges	(2,875)	(3,142)	(3,559)	(1,935)	(1,122)	(585)	(972)	(1,254)	(1,888)	(1,840)	(2,274)
Other financial income and expenses	297	213	(392)	(1,077)	(504)	(181)	181	(1,210)	(55)	(201)	(191)
Income (loss) after financial items	**24,929**	**15,514**	**(20,573)**	**14,010**	**21,557**	**20,299**	**18,016**	**13,036**	**1,657**	**2,013**	**(1,866)**
Income taxes	(6,814)	(4,302)	5,889	(3,994)	(6,529)	(3,981)	(4,908)	(3,129)	(1,334)	(590)	326
Income (loss) for the period	**18,115**	**11,212**	**(14,685)**	**10,016**	**15,028**	**16,318**	**13,108**	**9,907**	**323**	**1,423**	**(1,540)**
Attributable to											
Equity holders of the Parent Company	17,751	10,866	(14,718)	9,942	14,932	16,268	13,054	9,867	298	1,393	(1,467)
Minority interest	364	346	33	74	96	50	54	40	25	30	(73)
	18,115	**11,212**	**(14,685)**	**10,016**	**15,028**	**16,318**	**13,108**	**9,907**	**323**	**1,423**	**(1,540)**

Consolidated income statements Industrial Operations

SEK M	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Net sales	**303,589**	**257,375**	**208,487**	**294,932**	**276,795**	**249,020**	**231,191**	**202,171**	**174,768**	**177,080**	**180,615**
Cost of sales	(231,516)	(197,480)	(179,578)	(232,247)	(214,160)	(192,400)	(180,823)	(158,453)	(141,256)	(145,453)	(149,477)
Gross income	**72,073**	**59,895**	**28,909**	**62,685**	**62,635**	**56,620**	**50,368**	**43,718**	**33,512**	**31,627**	**31,138**
Research and development expenses	(13,276)	(12,970)	(13,193)	(14,348)	(11,059)	(8,354)	(7,557)	(7,614)	(6,829)	(5,869)	(5,391)
Selling expenses	(24,383)	(22,649)	(23,752)	(25,597)	(24,671)	(19,999)	(19,616)	(18,317)	(15,891)	(15,393)	(14,663)
Administrative expenses	(7,105)	(5,640)	(5,838)	(6,921)	(7,092)	(6,481)	(6,147)	(5,310)	(5,259)	(5,464)	(6,474)
Other operating income and expenses	(1,045)	(659)	(2,432)	(1,457)	249	(3,275)	(397)	7	(540)	(2,989)	(3,071)
Income from Volvo Financial Services	–	–	–	–	–	–	2,033	1,365	926	490	325
Income (loss) from investments in associated companies	(82)	(86)	(15)	23	428	61	(568)	2	166	126	(86)
Income from other investments	(225)	(57)	(13)	69	93	141	37	828	(3,581)	309	1,408
Restructuring costs	–	–	–	–	–	–	–	–	–	–	(3,862)
Operating income (loss)	**25,957**	**17,834**	**(16,333)**	**14,454**	**20,583**	**18,713**	**18,153**	**14,679**	**2,504**	**2,837**	**(676)**

ELEVEN-YEAR SUMMARY

Consolidated balance sheets											
SEK M	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Intangible assets	39,507	40,714	41,628	43,958	36,508	19,117	20,421	17,612	16,756	17,045	17,525
Property, plant and equipment	54,540	54,242	55,280	57,270	47,210	34,379	35,068	31,151	30,640	30,799	33,234
Assets under operating leases	23,922	19,647	20,388	25,429	22,502	20,501	20,839	19,534	21,201	23,525	27,101
Shares and participations	1,874	2,098	2,044	1,953	2,219	6,890	751	2,003	22,206	27,492	27,798
Inventories	44,599	39,837	37,727	55,045	43,645	34,211	33,937	28,598	26,459	28,305	31,075
Customer-financing receivables	78,699	72,688	81,977	98,489	78,847	64,742	64,466	51,193	46,002	46,998	48,784
Interest-bearing receivables	3,638	2,757	3,044	5,101	4,530	4,116	1,897	3,384	6,632	5,490	8,079
Other receivables	59,877	53,154	50,575	61,560	55,152	42,567	42,881	35,747	32,621	33,990	39,946
Non-current assets held for sale	9,348	136	1,692	–	–	805	–	–	–	–	–
Cash and cash equivalents	37,241	32,733	37,910	23,614	31,034	31,099	36,947	34,746	28,735	25,578	27,383
Assets	**353,244**	**318,007**	**332,265**	**372,419**	**321,647**	**258,427**	**257,207**	**223,968**	**231,252**	**239,222**	**260,925**
Shareholders' equity[1]	85,681	74,121	67,034	84,640	82,781	87,188	78,760	70,155	72,636	78,525	85,576
Provision for post-employment benefits	6,665	7,510	8,051	11,705	9,774	8,692	11,986	14,703	15,288	16,236	14,647
Other provisions	20,815	18,992	19,485	29,076	27,084	20,970	18,556	14,993	15,048	16,721	18,427
Interest-bearing liabilities	130,479	123,695	156,852	145,727	108,318	66,957	74,885	61,807	74,092	72,437	81,568
Liabilities associated with assets held for sale	4,716	135	272	–	–	280	–	–	–	–	–
Other liabilities	104,888	93,554	80,571	101,271	93,690	74,340	73,020	62,310	54,188	55,303	60,707
Shareholders' equity and liabilities	**353,244**	**318,007**	**332,265**	**372,419**	**321,647**	**258,427**	**257,207**	**223,968**	**231,252**	**239,222**	**260,925**
[1]of which minority interests	1,100	1,011	629	630	579	284	260	229	216	247	391
Assets pledged	1,832	3,339	958	1,380	1,556	1,960	3,255	3,046	3,809	3,610	3,737
Contingent liabilities	17,154	11,003	9,607	9,427	8,153	7,726	7,850	9,189	9,611	9,334	10,441

Consolidated balance sheets, Industrial Operations

SEK M	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Intangible assets	39,385	40,613	41,532	43,909	36,441	19,054	20,348	17,570	16,662	16,919	17,366
Property, plant and equipment	54,446	54,169	55,208	57,185	47,132	30,493	31,330	27,260	27,248	27,789	30,370
Assets under operating leases	16,749	13,217	13,539	16,967	13,850	11,822	10,260	8,477	8,976	11,155	15,020
Shares and participations	1,871	2,080	2,025	1,935	2,189	16,565	10,357	10,116	30,022	34,750	35,145
Inventories	43,828	38,956	35,765	54,084	43,264	33,893	33,583	28,291	25,848	27,564	30,557
Customer-financing receivables	1,702	1,428	1,367	975	1,233	1,193	1,377	230	118	99	114
Interest-bearing receivables	6,734	11,153	8,010	6,056	13,701	13,214	7,691	12,127	9,413	8,495	12,426
Other receivables	59,062	52,358	49,008	60,586	55,970	43,335	43,992	36,535	33,079	34,256	38,815
Non-current assets held for sale	9,348	136	1,692	–	–	805	–	–	–	–	–
Cash and cash equivalents	35,951	31,491	37,404	22,575	30,026	29,907	36,047	34,628	28,102	24,154	24,874
Assets	**269,076**	**245,602**	**245,550**	**264,272**	**243,806**	**200,281**	**194,985**	**175,234**	**179,468**	**185,181**	**204,687**
Shareholders' equity	76,682	66,101	58,485	75,046	75,129	87,188	78,760	70,155	72,636	78,525	85,576
Provision for post-employment benefits	6,635	7,478	8,021	11,677	9,746	8,661	11,966	14,677	15,264	16,218	14,632
Other provisions	19,101	17,240	17,456	27,015	25,372	19,385	17,164	14,115	12,792	13,893	14,085
Interest-bearing liabilities	55,394	59,857	78,890	46,749	38,286	9,779	13,097	13,968	24,677	22,494	29,710
Liabilities associated with assets held for sale	4,716	135	272	–	–	280	–	–	–	–	–
Other liabilities	106,548	94,791	82,426	103,785	95,273	74,988	73,998	62,319	54,099	54,051	60,684
Shareholders' equity and liabilities	**269,076**	**245,602**	**245,550**	**264,272**	**243,806**	**200,281**	**194,985**	**175,234**	**179,468**	**185,181**	**204,687**

ELEVEN-YEAR SUMMARY

Consolidated cash-flow statements											
SEK bn	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Operating income (loss)	26.9	18.0	(17.0)	15.9	22.2	20.4	18.2	14.7	2.5	2.8	(0.7)
Depreciation and amortization	13.9	13.8	15.2	13.5	12.5	12.4	9.9	10.0	10.2	10.8	10.0
Other non-cash items	1.3	1.6	4.4	(0.2)	(0.5)	0.7	0.4	(0.1)	4.9	2.0	0.5
Change in working capital	(15.1)	4.8	16.9	(23.3)	(9.9)	(7.7)	(4.7)	(1.4)	0.4	1.0	6.4
Customer financing receivables, net	–	–	–	–	–	–	(7.8)	(7.4)	(4.3)	(5.7)	(3.7)
Financial items and income tax	(7.3)	(5.5)	(4.6)	(5.2)	(5.9)	(4.3)	(2.0)	(0.5)	(0.9)	(1.3)	(2.1)
Cash-flow from operating activities	**19.7**	**32.7**	**14.9**	**0.7**	**18.4**	**21.5**	**14.0**	**15.3**	**12.8**	**9.6**	**10.4**
Investments in fixed assets	(12.6)	(10.4)	(10.5)	(12.7)	(10.1)	(10.0)	(10.3)	(7.4)	(6.0)	(6.7)	(8.1)
Investments in leasing assets	(7.4)	(4.8)	(4.2)	(5.4)	(4.8)	(4.6)	(4.5)	(4.4)	(5.3)	(5.2)	(5.8)
Disposals of fixed assets and leasing assets	3.3	3.1	3.8	2.9	2.9	3.2	2.6	2.4	2.9	3.2	2.6
Shares and participations, net	(0.1)	(0.1)	0.0	0.0	0.4	(5.8)	0.3	15.1	(0.1)	(0.1)	3.9
Acquired and divested subsidiaries and other business units, net	(1.6)	0.6	0.2	(1.3)	(15.0)	0.5	0.7	(0.1)	0.0	(0.2)	13.0
Interest-bearing receivables including marketable securities	2.6	6.8	(8.9)	10.9	3.6	7.7	(1.3)	(6.4)	(2.0)	(1.5)	(3.7)
Cash-flow after net investments	**3.9**	**27.9**	**(4.7)**	**(4.9)**	**(4.6)**	**12.5**	**1.5**	**14.5**	**2.3**	**(0.9)**	**12.3**
Change in loans, net	8.7	(25.7)	12.6	18.2	28.7	(2.6)	3.6	(8.8)	1.9	(0.1)	6.2
Repurchase of own shares	-	–	0.0	–	–	–	(1.8)	(2.5)	–	–	(8.3)
Dividend to AB Volvo's shareholders	(5.1)	0.0	(4.1)	(11.1)	(20.3)	(6.8)	(5.1)	(3.4)	(3.4)	(3.4)	(3.4)
Cash payment to minority	0.0	(0.1)	–	–	–	–	–	–	–	–	–
Other	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Change in cash and cash equivalents excluding translation differences	**7.5**	**2.1**	**3.7**	**2.2**	**3.8**	**3.1**	**(1.8)**	**(0.2)**	**0.9**	**(4.3)**	**6.9**
Translation differences on cash and cash equivalents	(0.1)	(0.4)	(0.2)	1.0	0.0	(0.5)	1.1	(0.2)	(0.6)	(0.7)	0.6
Change in cash and cash equivalents	**7.4**	**1.7**	**3.5**	**3.2**	**3.8**	**2.6**	**(0.7)**	**(0.4)**	**0.3**	**(5.0)**	**7.5**

Operating cash-flow Industrial Operations											
SEK bn	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Operating income	26.0	17.8	(16.3)	14.5	20.6	18.7	16.1	13.3	1.6	2.3	(1.0)
Depreciation and amortization	11.4	11.4	12.4	11.8	10.3	9.8	7.3	7.1	7.2	7.8	7.0
Other items not affecting cash	0.6	0.1	2.3	(0.7)	(0.4)	0.2	0.2	(0.6)	4.1	1.0	0.0
Change in working capital	(4.2)	4.6	4.7	(10.9)	(0.1)	(3.1)	(5.6)	(1.4)	0.7	0.4	6.8
Financial items and income taxes	(6.9)	(5.1)	(4.7)	(5.0)	(6.0)	(3.7)	(1.9)	(0.2)	(0.7)	(1.1)	(2.3)
Cash-flow from operating activities	**26.9**	**28.8**	**(1.6)**	**9.7**	**24.4**	**21.9**	**16.1**	**18.2**	**12.9**	**10.4**	**10.5**
Investments in fixed assets	(12.6)	(10.3)	(10.3)	(12.6)	(10.1)	(9.7)	(9.9)	(7.2)	(5.8)	(6.3)	(7.7)
Investments in leasing assets	(1.4)	(0.3)	(0.2)	(0.4)	(0.2)	(0.5)	(0.3)	(0.3)	(0.1)	(0.1)	(0.5)
Disposals of fixed assets and leasing assets	1.2	0.8	0.7	0.6	1.1	0.9	0.9	0.7	0.6	1.1	1.1
Operating cash-flow	**14.1**	**19.0**	**(11.4)**	**(2.7)**	**15.2**	**12.6**	**6.8**	**11.4**	**7.6**	**5.1**	**3.4**

Exports from Sweden											
SEK M	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Volvo Group, total	91,065	72,688	41,829	96,571	88,606	80,517	71,133	62,653	49,300	52,730	50,394

Key ratios	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Gross margin, %[1]	23.7	23.3	13.9	21.3	22.6	22.7	21.8	21.6	19.2	17.9	17.2
Research and development expenses as percentage of net sales[1]	4.4	5.0	6.3	4.9	4.0	3.4	3.3	3.8	3.9	3.3	3.0
Selling expenses as percentage of net sales[1]	8.0	8.8	11.4	8.7	8.9	8.0	8.5	9.1	9.1	8.7	8.1
Administration expenses as percentage of net sales[1]	2.3	2.2	2.8	2.3	2.6	2.6	2.7	2.6	3.0	3.1	3.6
Return on shareholders' equity, %	23.1	16.0	(19.7)	12.1	18.1	19.6	17.8	13.9	0.4	1.7	neg
Interest coverage, times[1]	9.6	5.9	(4.7)	8.8	20.7	26.1	16.7	11.0	1.9	2.2	neg
Self-financing ratio, %	118	270	137	5	153	189	116	163	152	110	92
Self-financing ratio Industrial Operations, %	210	294	(16)	78	265	235	173	268	243	196	148
Financial position, Industrial Operations, SEK M	(19,346)	(24,691)	(41,489)	(29,795)	(4,305)	23,076	18,675	18,110	(2,426)	(6,063)	(7,042)
Net financial position as percentage of shareholders' equity, Industrial Operations	(25.2)	(37.4)	(70.9)	(39.7)	(5.7)	29.2	23.7	25.8	(3.3)	(7.7)	(8.2)
Shareholders' equity as percentage of total assets	24.3	23.3	20.2	22.7	25.7	33.7	30.6	31.3	31.4	32.8	32.8
Shareholders' equity as percentage of total assets, Industrial Operations	28.5	26.9	23.8	28.4	30.8	40.6	40.4	40.0	40.5	42.4	41.8
Shareholders' equity excluding minority interest as percentage of total assets	23.9	23.0	20.0	22.6	25.6	33.6	30.5	31.2	31.3	32.7	32.6

1 Pertains to the Industrial Operations. For periods up to and including 2006, Volvo Financial Services is included and consolidated according to the equity method.

ELEVEN-YEAR SUMMARY

Volvo share statistics

Data per share (adjusted for issues and splits)[1]	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Basic earnings, SEK[1]	8.75	5.36	(7.26)	4.90	7.37	8.03	6.44	4.72	0.14	0.66	(0.70)
Cash dividend, SEK	3.00[10]	2.50	0	2.00	5.50	10.00[9]	3.35	2.50	1.60	1.60	1.60
Share price at year-end, SEK (B share)	75.30	118.50	61.45	42.90	108.50	90.70	74.90	52.70	43.70	28.40	35.20
Direct return, % (B share)[2]	4.0	2.1	–	4.7	5.1	11.0	4.5	4.7	10.5[8]	5.6	4.5
Effective return, % (B share)[3]	(34)	97	43	(59)	25.7	39.8	48.5	25.5	71.2	(14.8)	17.6
Price/earnings ratio (B share)[4]	8.6	22.1	neg	8.8	14.7	11.3	11.6	11.2	310	43	neg
EBIT multiple[5]	5.1	12.0	neg	3.6	9.7	10.3	9.3	9.2	14	23	25
Payout ratio, %[6]	34	47	–	41	75	62	52	53	1,143	242	neg
Shareholders' equity, SEK[7]	42	36	33	41	41	43	38.80	34	34.60	37.40	40.60
Return on shareholders' equity	23.1	16.0	neg	12.1	18.1	19.6	17.8	13.9	0.4	1.7	neg

1 Basic earnings per share is calculated as income for the period divided by average number of shares outstanding. Reporting according to IFRS from 2004.
2 Proposed dividend in SEK per share divided by share price at year-end.
3 Share price at year-end, including proposed dividend during the year, divided by share price at beginning of the year, (2000 includes premium in connection with repurchase, 2003 includes distribution of shares in Ainax, 2006 includes a share split 6:1 in which the sixth share was redeemed by AB Volvo for an amount of SEK 5.00 per share).
4 Share price at year-end divided by basic earnings per share.
5 Market value at year-end minus net financial position and minority interests divided by operating income excluding restructuring costs and revaluation of shares.
6 Cash dividend divided by basic earnings per share.
7 Shareholders' equity for shareholders in AB Volvo divided by number of shares outstanding at year-end.
8 Including distribution of shares in Ainax equal to SEK 3.01 (share-split adjusted) per Volvo share in 2004.
9 Including extra payment of SEK 5 through redemption of shares.
10 Proposed by the Board of Directors.

Other share data	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Number of shareholders at year-end	251,715	240,043	233,311	220,192	197,519	183,735	195,442	202,300	208,500	211,000	214,000
Number of Series A shares outstanding at year-end, million	643	657	657	657	657	131.4	131.4	131.5	131.7	131.7	131.7
Number of Series B shares outstanding at year-end, million	1,385	1,371	1,371	1,371	1,369	273.4	273.1	278.6	287.8	287.8	287.8
Average number of shares outstanding, million	2,027	2,027	2,027	2,027	2,025	404.7	405.2	418.5	419.4	419.4	422.4
Number of Series A shares traded in Stockholm during the year, million	130.5	203.2	147.0	308.0	172.3	56.4	39.3	42.0	31.4	27.3	40.3
Number of Series B shares traded in Stockholm during the year, million	2,944.1	2,272.4	2,713.9	3,130.0	2,712.4	617.0	518.7	498.0	404.8	349.4	344.4
Number of shares traded in ADR, NASDAQ during the year, million	–	–	–	–	113.5	14.1	19.8	24.0	10.4	11.0	15.0

The largest shareholders in AB Volvo, December 31, 2011[1]	Number of shares	% of total votes	Share capital, %
Renault s.a.s.	138,604,945	17.7	6.8
Industrivärden	122,811,457	15.6	6.1
Violet Partners LP	43,727,400	5.6	2.2
SHB[2]	36,405,612	4.7	1.8
AMF Insurance & Funds	61,051,900	3.9	3.0
Alecta (pension funds)	87,650,000	3.8	4.3
AFA Insurance	26,024,563	3.3	1.3
Swedbank Robur Funds	81,098,942	2.7	4.0
Norwegian Government	63,945,595	2.4	3.2
SEB Funds/Trygg Life Insurance	44,469,536	2.1	2.2
Total	**705,789,950**	**61.8**	**34.8**

1 Based on the number of outstanding shares.
2 Comprises shares held by SHB, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen.

Distribution of shares, December 31, 2011[1]	Number of shareholders	% of total votes[1]	Share of capital, %[1]
1–1,000 shares	190,646	2.8	2.4
1,001–10,000 shares	56,088	7.6	5.5
10,001–100,000 shares	4,434	5.0	3.1
100,001–	547	84.6	89.0
Total	**251,715**	**100.0**	**100.0**

1 Based on all registered shares.

AB Volvo held 4.7% of the Company's shares on December 31, 2011.

Business area statistics

Net sales[1]												
SEK M		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Trucks	Europe	85,173	69,606	65,874	109,914	108,651	93,282	79,706	77,431	70,101	67,830	66,367
	North America	37,120	26,901	21,563	26,588	27,255	50,605	46,129	35,154	28,151	33,721	33,630
	South America	26,822	21,680	12,490	14,680	11,483	9,213	7,657	5,223	3,464	3,277	3,993
	Asia	37,551	35,231	26,943	37,515	26,593	8,975	13,551	12,378	9,206	5,919	4,659
	Other markets	14,037	13,887	12,069	14,538	13,910	9,190	8,353	6,693	6,047	8,005	7,919
	Total	**200,703**	**167,305**	**138,940**	**203,235**	**187,892**	**171,265**	**155,396**	**136,879**	**116,969**	**118,752**	**116,568**
Buses	Europe	7,009	6,242	7,707	7,321	7,767	7,924	7,142	6,948	6,534	7,104	6,636
	North America	7,541	7,200	5,673	5,355	4,630	4,910	4,247	2,960	2,984	3,838	6,847
	South America	2,721	1,737	1,235	1,571	1,623	1,537	2,641	521	329	366	757
	Asia	3,027	3,299	2,749	2,094	1,802	2,003	1,612	1,632	1,447	2,022	1,839
	Other markets	1,991	2,038	1,101	971	786	897	947	661	684	705	596
	Total	**22,289**	**20,516**	**18,465**	**17,312**	**16,608**	**17,271**	**16,589**	**12,722**	**11,978**	**14,035**	**16,675**
Construction Equipment	Europe	19,052	16,138	12,987	25,192	25,294	20,326	15,524	13,453	12,348	10,837	10,667
	North America	7,862	6,267	5,475	10,159	11,170	11,280	10,337	8,601	5,428	5,667	6,145
	South America	4,177	4,130	2,578	2,913	2,155	1,358	1,238	922	636	709	847
	Asia	30,151	24,352	12,957	13,738	12,179	6,903	5,717	4,961	3,707	3,048	2,773
	Other markets	3,745	2,923	1,661	4,077	2,835	2,264	2,000	1,423	1,035	751	703
	Total	**64,987**	**53,810**	**35,658**	**56,079**	**53,633**	**42,131**	**34,816**	**29,360**	**23,154**	**21,012**	**21,135**
Volvo Penta	Europe	4,546	4,507	4,390	6,554	6,798	6,111	5,102	4,907	4,189	3,945	3,827
	North America	1,386	1,500	1,100	1,947	2,674	2,815	2,832	2,500	2,109	2,261	2,175
	South America	342	335	284	364	274	221	208	142	146	127	213
	Asia	2,245	2,008	2,054	2,082	1,624	1,359	1,427	1,324	947	1,141	988
	Other markets	340	366	331	486	349	268	207	184	205	195	177
	Total	**8,859**	**8,716**	**8,159**	**11,433**	**11,719**	**10,774**	**9,776**	**9,057**	**7,596**	**7,669**	**7,380**
Volvo Aero	Europe	3,036	3,768	3,942	3,497	3,462	3,798	3,406	3,179	4,000	3,450	4,875
	North America	3,304	3,599	3,508	3,534	3,723	3,815	3,612	3,127	3,301	4,573	5,841
	South America	8	27	34	58	127	173	168	138	152	177	187
	Asia	108	233	205	234	234	356	284	400	428	497	708
	Other markets	53	81	114	125	100	91	68	81	149	140	173
	Total	**6,509**	**7,708**	**7,803**	**7,448**	**7,646**	**8,233**	**7,538**	**6,925**	**8,030**	**8,837**	**11,784**
	Other and eliminations	242	(680)	(538)	(575)	(703)	(654)	7,076	7,228	7,041	6,775	7,073
Net sales Industrial Operations		**303,589**	**257,375**	**208,487**	**294,932**	**276,795**	**249,020**	**231,191**	**202,171**	**174,768**	**177,080**	**180,615**
Customer Finance	Europe	4,663	4,733	7,127	7,099	4,484	4,388	4,797	6,613	6,078	5,997	5,674
	North America	2,326	2,605	3,004	369	2,467	2,569	2,036	2,432	2,542	3,344	3,216
	South America	1,131	1,156	1,070	791	620	608	570	396	358	403	451
	Asia	571	435	435	158	87	45	101	90	65	49	24
	Other markets	192	101	75	68	47	38	45	67	110	132	130
	Total	**8,883**	**9,031**	**11,711**	**8,485**	**7,705**	**7,648**	**7,549**	**9,598**	**9,153**	**9,925**	**9,495**
	Eliminations	(2,104)	(1,658)	(1,836)	250	905	2,167	1,819	(693)	(630)	(807)	(830)
Volvo Group total		**310,367**	**264,749**	**218,361**	**303,667**	**285,405**	**258,835**	**240,559**	**211,076**	**183,291**	**186,198**	**189,280**

1 Net sales 2001 have been restated in accordance with new organization effective from 2002.

As of January 1, 2007, the results from the synergies created in the business units are transferred back to the various business areas. Comparison figures for 2006 have been restated.

ELEVEN-YEAR SUMMARY

Operating income

SEK M	2011	2010	2009	2008	2007	2006[1]	2005	2004[2]	2003[3]	2002	2001[4]
Trucks	18,260	10,112	(10,805)	12,167	15,193	13,116	11,717	8,992	3,951	1,189	(2,066)
Buses	1,036	780	(350)	(76)	231	745	470	158	(790)	(94)	(916)
Construction Equipment	6,653	6,180	(4,005)	1,808	4,218	4,072	2,752	1,898	908	406	527
Volvo Penta	781	578	(230)	928	1,173	1,105	943	940	695	647	658
Volvo Aero	336	286	50	359	529	359	836	403	(44)	5	653
Customer Finance	942	167	(680)	1,397	1,649	1,686	2,033	1,365	926	490	325
Other	(1,109)	(102)	(994)	(731)	(762)	(684)	(598)	923	(3,142)	194	143
Operating income (loss) Volvo Group	**26,899**	**18,000**	**(17,013)**	**15,851**	**22,231**	**20,399**	**18,153**	**14,679**	**2,504**	**2,837**	**(676)**

As of January 1, 2007, the benefits from the synergies created in the business units are transferred back to the various business areas. Comparison figures for 2006 have been restated.

1 Operating income in 2006 includes adjustment of goodwill of neg 1,712, reported in Trucks.

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

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

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

Operating margin

%	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Trucks	9.1	6.0	(7.8)	6.0	8.1	7.7	7.5	6.6	3.4	1.0	(1.8)
Construction Equipment	10.2	11.5	(11.2)	3.2	7.9	9.7	7.9	6.5	3.9	1.9	2.5
Buses	4.6	3.8	(1.9)	(0.4)	1.4	4.3	2.8	1.2	(6.6)	(0.7)	(5.5)
Volvo Penta	8.8	6.6	(2.8)	8.1	10.0	10.3	9.6	10.4	9.1	8.4	8.9
Volvo Aero	5.2	3.7	0.6	4.8	6.9	4.4	11.1	5.8	(0.5)	0.1	5.5
Volvo Group Industrial Operations	**8.6**	**6.9**	**(7.8)**	**5.2**	**7.8**	**7.9**	**7.9**	**7.3**	**1.4**	**1.6**	**(0.4)**

Number of employees at year-end

Number[1, 2]	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Trucks	62,315	57,796	56,505	64,280	64,390	49,900	50,240	49,450	46,900	43,470	44,180
Buses	8,529	8,685	9,541	8,930	9,290	7,760	7,710	7,700	6,680	6,660	6,230
Construction Equipment	18,422	16,648	16,126	19,810	19,710	11,050	10,290	9,930	9,280	8,410	7,780
Volvo Penta	2,549	2,353	2,928	2,940	3,000	1,650	1,560	1,580	1,440	1,410	1,370
Volvo Aero	3,179	3,120	3,278	3,510	3,550	3,510	3,460	3,350	3,440	3,660	4,040
Financial Services	1,323	1,235	1,234	1,290	1,150	1,010	1,070	1,100	1,060	1,060	1,080
Other	1,845	572	596	620	610	8,310	7,530	7,970	6,940	6,490	6,240
Volvo Group, total	**98,162**	**90,409**	**90,208**	**101,380**	**101,700**	**83,190**	**81,860**	**81,080**	**75,740**	**71,160**	**70,920**

1 As of 2007, employees in business units are allocated to the business areas.

2 As of 2009 regular employees are shown, previously temporary employees were also included.

Environmental performance of Volvo production plants, Industrial operations

Absolute values related to net sales	2011	2010	2009	2008
Energy consumption (GWh; MWh/SEK M)	2,471; 8.1	2,315; 9.0	1,888; 9.1	2,530; 8.6
CO_2 emissions (1,000 tons; tons/SEK M)	255; 0.8	279; 1.1	213; 1.0	291; 1.0
Water consumption (1,000 m^3; m^3/SEK M)	7,970; 26.2	7,519; 29.2	6,637; 31.8	8,205; 27.8
NO_x emissions (tons; kilos/SEK M)	474; 1.6	719; 2.8	322; 1.5	800; 2.7
Solvent emissions (tons; kilos/SEK M)	2,554; 8.4	2,294; 8.9	1,435; 6.9	1,945; 6.6
Sulphur dioxide emissions (tons; kilos/SEK M)	34; 0.1	33; 0.1	38; 0.2	64; 0.2
Hazardous waste (tons; kg/SEK M)	25,943; 85.5	22,730; 88	17,558; 84	27,675; 94
Net sales, SEK bn	303.6	257.4	208.5	294.9

1 Excluding UD Trucks and Ingersoll Rand Road Development.

Employees

Number[1]	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Sweden	24,663	23,073	22,763	28,190	28,660	27,830	27,070	28,530	26,380	25,420	24,350
Europe, excluding Sweden	30,458	29,239	29,793	32,940	32,780	30,070	29,650	28,930	29,120	27,130	27,800
North America	15,427	12,844	12,640	14,200	15,750	14,820	15,140	14,620	12,270	12,440	12,670
South America	5,234	4,322	4,257	4,380	4,640	3,890	3,690	3,110	2,640	2,020	2,090
Asia	19,924	18,535	18,416	19,090	17,150	4,420	4,210	4,130	3,710	2,590	2,550
Other markets	2,456	2,396	2,339	2,580	2,720	2,160	2,100	1,760	1,620	1,560	1,460
Volvo Group total	**98,162**	**90,409**	**90,208**	**101,380**	**101,700**	**83,190**	**81,860**	**81,080**	**75,740**	**71,160**	**70,920**

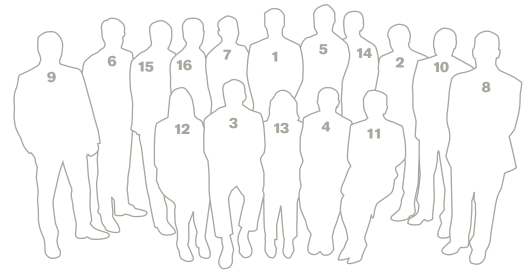
1 As of 2009 regular employees are shown, previously temporary employees were also included.

Delivered units

Number	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Heavy-duty trucks (>16 tons)	179,779	123,522	82,675	179,962	172,322	179,089	172,242	152,300	120,920	120,200	117,180
Medium-duty trucks (7–15.9 tons)	34,631	30,657	21,653	30,817	27,933	14,695	18,643	18,800	15,870	16,220	17,310
Light trucks (<7 tons)	23,982	25,811	23,354	40,372	36,101	26,147	23,494	22,120	19,200	20,710	20,820
Total trucks	**238,391**	**179,989**	**127,681**	**251,151**	**236,356**	**219,931**	**214,379**	**193,220**	**155,990**	**157,130**	**155,310**

Number		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Trucks	Total Europe	95,113	65,503	49,145	121,847	128,070	114,417	103,622	102,670	92,080	96,290	98,040
	Western Europe	75,728	56,215	43,919	95,969	100,106	97,074	91,087	90,750	82,670	87,490	90,460
	Eastern Europe	19,385	9,288	5,226	25,878	27,964	17,343	12,535	11,920	9,410	8,800	7,580
	North America	42,613	24,282	17,574	30,146	33,280	70,499	64,974	49,270	34,760	36,510	34,650
	South America	29,274	21,483	12,587	18,092	15,264	11,646	11,248	9,190	5,980	5,360	5,790
	Asia	56,165	53,833	34,800	60,725	39,916	12,817	25,706	24,880	16,290	9,140	6,600
	Other markets	15,226	14,888	13,575	20,341	19,826	10,552	8,829	7,210	6,880	9,830	10,230
	Total	**238,391**	**179,989**	**127,681**	**251,151**	**236,356**	**219,931**	**214,379**	**193,220**	**155,990**	**157,130**	**155,310**
Buses	Total Europe	2,695	2,395	3,164	3,313	3,748	3,570	3,723	3,417	3,087	3,413	3,115
	Western Europe	2,601	2,336	2,896	3,140	3,377	3,081	3,385	3,073	2,782	3,076	2,899
	Eastern Europe	94	59	268	173	371	489	338	344	305	337	216
	North America	3,014	2,092	1,539	1,884	1,547	1,741	1,546	1,388	1,553	1,945	3,128
	South America	2,620	1,174	690	995	1,318	1,236	2,297	624	369	495	1,009
	Asia	3,417	3,477	3,839	3,033	2,757	3,349	2,554	2,341	2,227	2,639	2,209
	Other markets	1,040	1,091	625	712	546	464	555	462	581	567	492
	Total	**12,786**	**10,229**	**9,857**	**9,937**	**9,916**	**10,360**	**10,675**	**8,232**	**7,817**	**9,059**	**9,953**

2007[1]	2006	2005	2004	2003	2002	2001
2,426; 9.6	2,612; 10.5	2,683; 11.6	2,695; 13.3	2,607; 14.9	2,564; 14.5	2,586; 14.3
242; 1.0	282; 11.4	292; 1.3	293; 1.5	298; 1.7	307; 1.7	316; 1.7
7,067; 27.9	7,596; 30.6	7,419; 32.1	8,495; 42.2	8,687; 49.1	9,202; 52.0	9,187; 50.9
542; 2.1	606; 2.4	672; 2.9	645; 3.2	570; 3.3	726; 4.1	730; 4.0
1,979; 7.8	2,048; 8.3	1,960; 8.5	2,085; 10.3	1,965; 11.2	1,896; 10.7	1,816; 10.1
58; 0.2	69; 0.3	209; 0.9	184; 0.9	200; 1.1	173; 1.0	308; 1.7
27,120; 107	26,987; 108.8	23,590; 102	24,675; 122.1	21,613; 124	20,531; 116	20,306; 112
253.2	248.1	231.2	202.1	174.8	177.1	180.6



GROUP MANAGEMENT

Changes in the Group Executive Team

Olof Persson assumed the position as deputy President of AB Volvo and deputy CEO of the Volvo Group on May 1, 2011. He was previously President of Volvo Construction Equipment since 2008. Patrick Olney was appointed new President of Volvo Construction Equipment and he assumed his position on May 1, 2011, when he also became a member of the Group Executive Team.

On September 1, 2011, Olof Persson succeeded Leif Johansson as President of AB Volvo and CEO of the Volvo Group.

In conjunction with the introduction of the new organization on January 1, 2012, the following changes were made to Volvo's Group Executive Team:

Staffan Jufors, President of Volvo Trucks, retired and thus resigned from the Group Executive Team.

Stefano Chmielewski, former President of Renault Trucks, Göran Gummeson, President of Volvo Penta, Satoru Takeuchi, President of UD Trucks, Martin Weissburg, President of Volvo Financial Services and Staffan Zackrisson, President of Volvo Aero, are not included in the Group Executive Team as of January 1, 2012.

Stefan Johnsson resigned from his position as a director of the Group Executive Team responsible for HR matters and several business units

Dennis Slagle, former President of North American Trucks and Mack Trucks, assumed a newly established position as Executive Vice President Group Trucks Sales & Marketing Americas, remaining a member of the Group Executive Team.

Peter Karlsten, former President of Volvo Powertrain and Senior Vice President Technology of the Volvo Group, assumed a newly established position as Executive Vice President Group Trucks Sales & Marketing EMEA, remaining a member of the Group Executive Team.

Joachim Rosenberg, formerly responsible for Volvo Group Asia Truck Operations, assumed a newly established position as Executive Vice President Group Trucks Sales & Marketing APAC, and became a member of the Group Executive Team.

Pär Östberg, formerly responsible for Trucks Asia, assumed a newly established position as Executive Vice President Truck Joint Ventures, remaining a member of the Group Executive Team.

Torbjörn Holmström, former President of Volvo 3P, assumed a newly established position as Executive Vice President Group Trucks Technology, and became a member of the Group Executive Team.

Mikael Bratt, former CFO of the Volvo Group, assumed a newly established position as Executive Vice President Group Trucks Operations, remaining a member of the Group Executive Team.

Håkan Karlsson, former President of Volvo Buses, assumed a newly established position as Executive Vice President Business Areas, remaining a member of the Group Executive Team.

Anders Osberg, former President of Volvo Treasury, assumed a newly established position as Executive Vice President Finance & Business Support and succeeded Mikael Bratt as CFO of the Volvo Group, with responsibility for among other things Volvo Financial Services and Volvo IT. He also became a member of the Group Executive Team.

Magnus Carlander, former President of Volvo IT, assumed a newly established position as Executive Vice President Corporate Process & IT, and became a member of the Group Executive Team.

Karin Falk, former President of Volvo Group Non-Automotive Purchasing, assumed a newly established position as Executive Vice President Corporate Strategy, and became a member of the Group Executive Team.

Kerstin Renard, former Senior Vice President Human Resources for the Volvo Group under Stefan Johnsson, assumed a newly established position as Executive Vice President Corporate Human Resources, and became a member of the Group Executive Team.

Eva Persson, Executive Vice President Corporate Legal & Compliance and General Counsel, Per Löjdquist, Executive Vice President Corporate Communication, Patrick Olney, Executive Vice President Volvo Construction Equipment and Jan-Eric Sundgren, Executive Vice President Public & Environmental Affairs, remain in the Group Executive Team and retain their current areas of responsibility materially unchanged.

Group Management

1. Olof Persson
President and CEO

Born 1964. B. Sc. in Business Administration and Economics. President of AB Volvo and Chief Executive Officer of the Volvo Group since September 1, 2011. President of Volvo Construction Equipment 2008–2011. President of Volvo Aero 2006–2008. With Volvo since 2006. Member of the Volvo Board since September 1, 2011. **Holdings in Volvo, own and related parties:** 56,344 Series B shares.

2. Dennis Slagle
Executive Vice President
Group Trucks Sales & Marketing Americas

Born 1954. B. Sc. President and CEO of North American Trucks 2009–2011. President and CEO of Mack Trucks, Inc. 2008–2009. President and CEO of Volvo Construction Equipment North America 2003–2008. Member of the Group Executive Team since 2008. With Volvo since 2000. **Board member:** West Virginia Wesleyan College Board of Trustees. **Holdings in Volvo, own and related parties:** 15,271 Series B shares.

3. Peter Karlsten
Executive Vice President
Group Trucks Sales & Marketing EMEA

Born 1957. M. Sc. Electrical Engineering. President of Volvo Powertrain 2007–2011. Senior Vice President Technology for the Volvo Group 2007–2011. Head of Volvo's North American truck operations 2003–2007. Head of Volvo Trucks in Brazil 2001–2003. Member of the Group Executive Team since 2007. With Volvo since 2001. **Holdings in Volvo, own and related parties:** 99,195 shares, including 98,979 Series B shares.

4. Joachim Rosenberg
Executive Vice President
Group Trucks Sales & Marketing APAC

Born 1970. M. Sc. Industrial Engineering and Management, M. Sc. Financial Economics, M. Sc. Business and Economics. Has held various senior positions in the Volvo Group, most recently as President of Volvo Group Asia Truck Operations 2007–2011. Vice President Volvo Group Alliance Office 2007. Vice President Volvo Powertrain 2005–2007. Member of the Group Executive Team since 2012. With Volvo since 2005. **Holdings in Volvo, own and related parties:** 8,224 Series B shares.

5. Mikael Bratt
Executive Vice President Group Trucks Operations

Born 1967. Has held various senior positions in the financial areas in the Volvo Group, most recently as Senior Vice President and CFO 2008–2011. Prior to that Vice President and Head of Corporate Finance at AB Volvo. Member of the Group Executive Team since 2008. With Volvo since 1988. **Holdings in Volvo, own and related parties:** 78,884 shares, including 77,992 Series B shares.

6. Torbjörn Holmström
Executive Vice President Group Trucks Technology

Born 1955. M. Sc. Mechanical Engineering. President of Volvo 3P 2003–2011. Prior to that he has held various senior positions at Volvo Powertrain. Member of the Group Executive Team since 2012. With Volvo since 1979. **Holdings in Volvo, own and related parties:** 36,343 Series B shares.

7. Pär Östberg
Executive Vice President Truck Joint Ventures

Born 1962. Master of Business Administration. Has held various senior positions in the Volvo Group, most recently as Senior Vice President and President Trucks Asia 2008–2011. CFO of the Volvo Group 2005–2008. Senior Vice President and CFO of Renault Trucks 2004–2005. Member of the Group Executive Team since 2005. With Volvo since 1990. **Holdings in Volvo, own and related parties:** 7,768 shares, including 7,608 Series B shares.

8. Patrick Olney
Executive Vice President
Volvo Construction Equipment

Born 1968. B. Sc. Business Administration. Head of Volvo Construction Equipment since May 1, 2011. Prior to that he has held various senior positions at Volvo Construction Equipment, most recently as Vice President and Head of Operations. Member of the Group Executive Team since 2011. With Volvo since 2001. **Holdings in Volvo, own and related parties:** 6,586 Series B shares.

9. Håkan Karlsson
Executive Vice President Business Areas

Born 1961. M. Sc. Engineering. President and CEO Volvo Buses 2003–2011. President of Volvo Logistics 2000–2003. Member of the Group Executive Team since 2003. With Volvo since 1986. **Holdings in Volvo, own and related parties:** 41,340 shares, including 39,849 Series B shares.

10. Anders Osberg
Executive Vice President
Finance and Business Support and CFO

Born 1961. B. Sc. Has held various positions within Volvo Group Finance and Volvo Treasury, most recently as President of Volvo Treasury Group 2000–2011. Member of the Group Executive Team since 2012. With Volvo 1985–1988 and since 1992. **Board member:** The Swedish Association of Corporate Treasurers. **Holdings in Volvo, own and related parties:** 13,001 Series B shares.

11. Eva Persson
Executive Vice President Corporate Legal & Compliance and General Counsel

Born 1953. Master of Laws. Responsible within the Group for legal matters and General Counsel of the Volvo Group since 1997. Vice President, Head of Corporate Legal of AB Volvo 1993–1997. Member of the Group Executive Team since 1997. With Volvo since 1988. Secretary to the Volvo Board since 1997. **Board member:** Handelsbanken Region Väst and Norsk Hydro ASA. **Holdings in Volvo, own and related parties:** 60,036 shares, including 58,560 Series B shares.

12. Kerstin Renard
Executive Vice President
Corporate Human Resources

Born 1961. B. Sc. Sociology. Senior Vice President Human Resources for the Volvo Group 2007–2011. Prior to that Senior Vice President Human Resources & Communications at Volvo Powertrain 2005–2006. Member of the Group Executive Team since 2012. With Volvo since 2005. **Holdings in Volvo, own and related parties:** 9,710 shares, including 9,550 Series B shares.

13. Karin Falk
Executive Vice President Corporate Strategy

Born 1965. B. Sc. Business Administration. Has held various positions within the Volvo Group, most recently as President of Volvo Group NAP (Non-Automotive Purchasing) 2008–2011. Member of the Group Executive Team since 2012. With Volvo 1988–1999 and since 2008. **Holdings in Volvo, own and related parties:** 4,002 shares, including 1,762 Series B shares.

14. Per Löjdquist
Executive Vice President
Corporate Communication

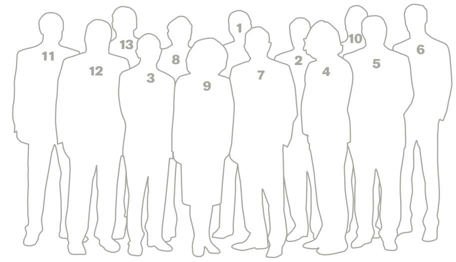
Born 1949. Responsible within the Volvo Group for corporate communications since 1997. Member of the Group Executive Team since 1997. With Volvo since 1973. **Holdings in Volvo, own and related parties:** 118,236 shares, including 101,456 Series B shares.

15. Jan-Eric Sundgren
Executive Vice President
Public & Environmental Affairs

Born 1951. M. Sc. Engineering, PhD in solid state Physics, Professor in materials science. Responsible within the Volvo Group for public & environmental affairs since 2006. Member of the Group Executive Team since 2006. With Volvo since 2006. **Chairman:** SP Technical Research Institute of Sweden AB. **Board member:** Hogia AB. Member of the Royal Swedish Academy of Engineering Sciences. **Holdings in Volvo, own and related parties:** 28,939 shares, including 28,879 Series B shares.

16. Magnus Carlander
Executive Vice President Corporate Process & IT

Born 1955. Master Mechanical Engineering. Has held various senior positions in the Volvo Group, most recently as President of Volvo IT 2008–2011. Member of the Group Executive Team since 2012. With Volvo since 1985. **Holdings in Volvo, own and related parties:** 48,116 shares, including 48,056 Series B shares.



BOARD OF DIRECTORS AND AUDITORS

Board members elected by the Annual General meeting

1. Louis Schweitzer
Chairman of the Board
Chairman of the Remuneration Committee

Born 1942. Bachelor of Laws. **Board Chairman:** Astra-Zeneca Plc. **Board member:** BNP-Paribas, L'Oréal and Véolia. Member of the Volvo Board since 2001. Chairman of the Board since January 15, 2010. **Holdings in Volvo, own and related parties:** 40,000 Series B shares.

Principal work experience: Official at French Budget Department; Chief of Staff of Mr Laurent Fabius (Minister of Budget, then Minister for Industry and Research, and Prime Minister), Chairman of the French High Authority against Discrimination and for Equality, HALDE (2005–2010); numerous positions with Renault S.A. (Chief Financial Officer and Executive Vice President Finance and Planning, Chief Operating Officer, Chairman and Chief Executive Officer).

2. Peter Bijur
Member of the Audit Committee

Born 1942. MBA Marketing, BA Political Science. **Board member:** Gulfmark Offshore Inc. Member of the Volvo Board since 2006. **Holdings in Volvo, own and related parties:** 3,000 Series B shares.

Principal work experience: Numerous positions with Texaco Inc, retired as Chairman and Chief Executive Officer in 2001.

3. Jean-Baptiste Duzan
Member of the Audit Committee

Born 1946. Graduate of the Ecole Polytechnique. Senior Advisor Lazard Frères. **Board member:** Nissan Motor Co. Ltd. Member of the Volvo Board since 2009. **Holdings in Volvo, own and related parties:** 1,000 Series B shares.

Principal work experience: Began his career at Citibank. Has held various positions within Renault since 1982 – director of financial services at Renault V.I.; director of financial operations; project director for the car model Safrane; Senior Vice President, Purchasing, and joined the Renault Management Committee. He was also named Chairman and Managing Director, Renault Nissan Purchasing Organization.

4. Hanne de Mora

Born 1960. BA in Economics from HEC in Lausanne, MBA from IESE in Barcelona. **Board Chairman:** a-connect (group) ag. **Board member:** Sandvik AB, IMD Foundation Board. Member of the Volvo Board since 2010. **Holdings in Volvo, own and related parties:** 3,000 Series B shares.

Principal work experience: Credit Analyst Den Norske Creditbank in Luxemburg 1984, various positions within brand management and controlling within Procter & Gamble 1986–1989, Partner McKinsey & Company, Inc. 1989–2002, one of the founders and owners, also Chairman of the Board, of the management company a-connect (group) ag since 2002.

5. Anders Nyrén
Member of the Remuneration Committee

Born 1954. Graduate of the Stockholm School of Economics, MBA at UCLA. President and Chief Executive Officer of AB Industrivärden. **Board Chairman:** Sandvik AB. **Vice Chairman:** Svenska Handelsbanken. **Board member:** AB Industrivärden, Ernströmgruppen AB, SSAB, Svenska Cellulosa Aktiebolaget SCA, Telefonaktiebolaget LM Ericsson, Stockholm School of Economics and SSE Association. Member of the Volvo Board since 2009 **Holdings in Volvo, own and related parties:** 5,200 Series B shares.

Principal work experience: Has worked for AB Wilhelm Becker. He has held various positions within STC –

Controller, Executive Vice President and CFO, and President of STC Venture AB; President and Chief Executive Officer at OM International AB; Executive Vice President and CFO at Securum; Director with executive responsibility for Markets and Corporate Finance at Nordbanken; Executive Vice President and CFO at Skanska.

6. Olof Persson

Born 1964. B. Sc. in Business Administration and Economics. President of AB Volvo and Chief Executive Officer of the Volvo Group since September 1, 2011. Member of the Volvo Board since September 1, 2011. **Holdings in Volvo, own and related parties:** 56,344 Series B Shares.

Principal work experience: Began his career at ABB; has held a number of executive positions at AdTranz and Bombardier; President of Mainline and Metros Division in Bombardier; President of Volvo Aero; President of Volvo Construction Equipment.

7. Ravi Venkatesan

Born 1963. MBA, Harvard Business School, and M.Sc. Industrial Engineering, Purdue University. **Board member:** Infosys Ltd., Advisory Board of Bunge Inc., Non Profit Advisory Board Harvard Business School. Member of the Volvo Board since 2008. **Holdings in Volvo, own and related parties:** 700 Series B shares.

Principal work experience: Several leading positions within the American engine manufacturer Cummins. Chairman of Microsoft India and responsible for Microsoft's marketing, operational and business development efforts in India.

8. Lars Westerberg
Chairman of the Audit Committee

Born 1948. M.Sc. Engineering, Bachelor Business Administration. **Board Chairman:** Husqvarna AB. **Board member:** SSAB, Sandvik AB and Stena AB. Member of the Volvo Board since 2007. **Holdings in Volvo, own and related parties:** 60,000 Series A shares.

Principal work experience: President and CEO of Gränges AB, ESAB AB and Autoliv Inc.

9. Ying Yeh
Member of the Remuneration Committee

Born 1948. BA, Literature & International Relations. **Board member:** ABB Ltd. Member of the Volvo Board since 2006. **Holdings in Volvo, own and related parties:** None.

Principal work experience: Journalist NBC, New York. Numerous positions with the U.S. Government Foreign Service in Burma, Hong Kong, Taiwan and Beijing. Various positions with Eastman Kodak in China, latest as President and Chairman, North Asia Region. Chairman of Nalco Greater China.

Board members and deputies appointed by employee organisations

10. Mikael Sällström

Employee representative, ordinary member. Born 1959. With Volvo 1980–1999 and since 2009. Member of the Volvo Board since 2009. **Holdings in Volvo, own and related parties:** None.

11. Berth Thulin

Employee representative, ordinary member. Born 1951. With Volvo since 1975. Deputy member of the Volvo Board 1999–2009, member since 2009. **Holdings in Volvo, own and related parties:** 1,425 Series B shares.

12. Peteris Lauberts

Employee representative, ordinary member. Born 1948. With Volvo since 1999. Deputy member of the Volvo Board 2010–2011, member since November 30, 2011. **Holdings in Volvo, own and related parties:** 216 Series A shares.

13. Lars Ask

Employee representative, deputy member. Born 1959. With Volvo since 1982. Deputy member of the Volvo Board since 2009. **Holdings in Volvo, own and related parties:** 406 shares, including 250 Series B shares.

Mats Henning

Employee representative, deputy member. Born 1961. With Volvo since 1982. Deputy member of the Volvo Board since November 30, 2011 **Holdings in Volvo, own and related parties:** 250 Series B shares.

Changes in the Board

Board members elected by the Annual General Meeting
Leif Johansson, CEO of the Volvo Group until and including August 31, 2011, resigned from the Board at the same time and was replaced as Board member by Olof Persson from September 1, 2011, who then also assumed the position as CEO.

Board members and deputies appointed by employee organisations
As of November 30, 2011 Martin Linder left the Board and was replaced by Peteris Lauberts, former deputy member of the Board. Mats Henning was appointed new deputy as of the same date.

Secretary to the Board

Eva Persson

Born 1953. Master of Laws. Executive Vice President Corporate Legal & Compliance and General Counsel of the Volvo Group. Secretary to the Volvo Board since 1997. **Holdings in Volvo, own and related parties:** 60,036 shares, including 58,560 Series B shares.

Auditors

PricewaterhouseCoopers AB

Göran Tidström

Authorized Public Accountant.
Lead Auditor.

Auditor since 2006.

Other assignments: Auditor of Meda AB. President of IFAC (International Federation of Accountants).

Born 1946.

Johan Rippe

Authorized Public Accountant.

Auditor since 2010.

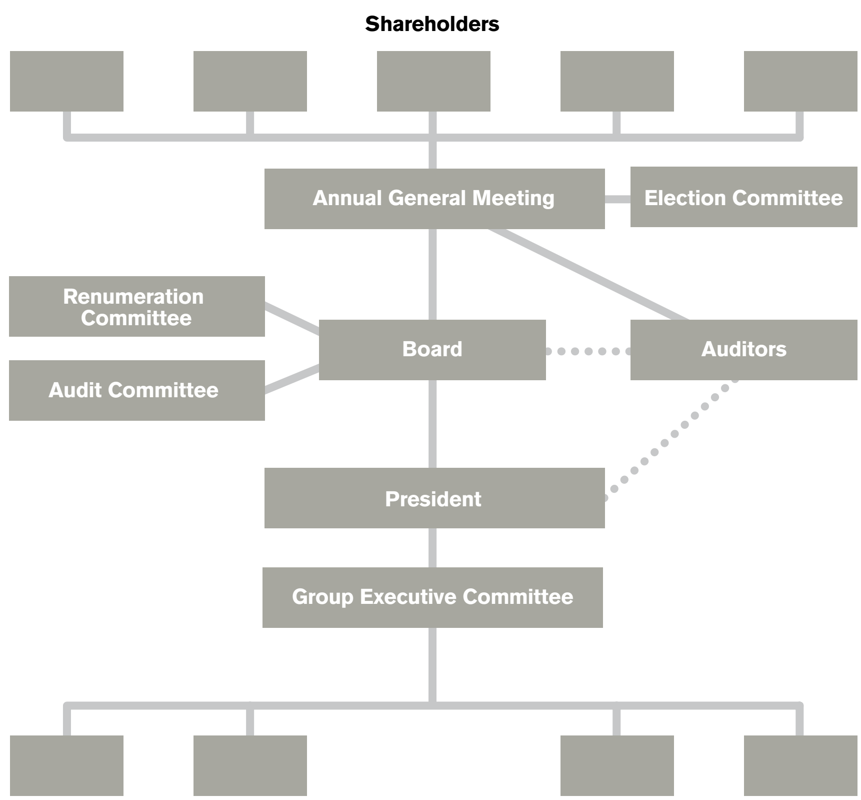
Other assignments: Auditor of Getinge AB and Elanders AB.

Born 1968.

CORPORATE GOVERNANCE REPORT

In March 2011, the Board of Directors resolved to appoint as of September 1, 2011, when Leif Johansson resigned after almost 15 years as CEO, Olof Persson as the new President and CEO of Volvo. During the year the Board of Directors also resolved to introduce new financial targets for the Volvo Group. Based on the uncertainty in the macroeconomic trend, the Board focused during 2011 particularly on continuously adapting the company's activities to the prevailing demand.

The Volvo Group Corporate Governance Model



Corporate bodies in corporate governance

The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the Annual General Meeting, the shareholders exercise their voting rights with regard, for example, to the composition of the Board of Directors of AB Volvo and election of external auditors and as otherwise stipulated in the Companies Act. Information concerning the largest shareholders in AB Volvo as of December 31, 2011, including information on shareholders, whose shareholdings in the company represent at least one tenth of the votes for all shares in the company, is provided in the Board of Director's report for Volvo on page 53.

The notice for Annual General Meetings (and for Extraordinary General Meetings if any) is made through advertisement in the Post- and Inrikes Tidningar (Swedish Official Gazette) and on the company's website. Announcement that the notice has been published is advertised in *Dagens Nyheter* and *Göteborgs-Posten*.

An Election Committee, appointed by the Annual General Meeting of AB Volvo, proposes Board members, Board Chairman and external auditors. The Board is responsible for the Group's long-term development and strategy, for regularly controlling and evaluating the company's operations and for the other duties set forth in the Companies Act. In addition, the Board appoints the President of AB Volvo, who is also the Chief Executive Officer (CEO). The duties of the Board are partly exercised through its Audit Committee and its Remuneration Committee. The CEO is in charge of the daily management of the Group in accordance with guidelines and instructions provided by the Board.

On January 1, 2012, the Volvo Group introduced a new organization, which was presented on October 4, 2011, and which among other things aims at the coordination of products and brands in the Group's Trucks operations. In the new organization, the CEO leads the operations the operations of the Group partly through the Group Executive Team, as previously, but also through the newly established Group Trucks Executive Management Team. In addition, the CEO conducts regular follow-ups with the heads of other business areas, Group functions and corporate functions.

The Group Executive Team comprises those who report directly to the CEO. The Group Executive Team has 16 members including the CEO. The Group Executive Team meetings, which are headed by the CEO, address Group-wide issues and issues affecting individual business areas, Group functions or corporate functions. The Group Trucks Executive Management Team comprises, in addition to the CEO, mostly members of the Group Executive Team. Members of the Group Executive Team further have positions in management teams and decision-making bodies for other business areas and Group functions. These bodies will effect control and follow-ups of financial development, strategies and targets as well as make decisions regarding, for example, investments.

Swedish Code of Corporate Governance

Volvo applies the Swedish Code of Corporate Governance (the Code), which is available at www.bolagsstyrning.se.

Between January 1, 2011 and December 31, 2011, Volvo did not deviate from any of the regulations set forth in the Code.

This Corporate Governance Report has been prepared in accordance with the Annual Accounts Act and the Code.

Election Committee

The Election Committee is the shareholders' body responsible for submitting to the Annual General Meeting the names of candidates to serve as Chairman at the Meeting and Chairman and other members of the Board, as well as proposing fees and other compensations to be paid to the Board members. In the years in which Volvo elects auditors, the Election Committee presents proposals for the election of auditors and proposals for fees to be paid to the auditors based on the preparations carried out by Volvo's Audit Committee. In addition, the Election Committee, in accordance with prevailing instructions for Volvo's Election Committee, presents proposals for members of the Election Committee for the following year.

In accordance with the aforementioned instructions, the Election Committee shall meet as often as required for the Committee to be able to fulfill its duties.

The Election Committee's proposal shall be presented to Volvo in sufficient time to be included in the notice to attend the Annual General Meeting and to be published on Volvo's website at the same time. In conjunction with the notice to attend the Annual General Meeting being published, the Election Committee shall, among other duties, comment on whether those persons who are proposed to be elected as Board members are to be considered as independent in relation to the company and company management as well as to major shareholders in the company and further to comment on their material assignments and holding of shares in Volvo. Moreover, the Committee shall report on how it conducted its work.

In accordance with existing instructions, the Annual General Meeting shall select five members to serve on the Election Committee, of whom four shall represent the largest shareholders in the company, in terms of the number of votes, who have expressed their willingness to participate. In addition, one of the members shall be the Chairman of the AB Volvo Board. Additionally, the Election Committee can offer other larger shareholders to appoint one representative as a member of the Election Committee. If such an offer is made, it should be directed in turn to the largest shareholder in terms of voting rights not already being represented on the Election Committee. The number of members on the Election Committee, however, may not exceed seven.

In accordance with its instructions, Volvo's 2011 Annual General Meeting resolved to appoint the following individuals as members of the Election Committee: Volvo's Chairman Louis Schweitzer, Jean-Baptiste Duzan, representing Renault s.a.s., Carl-Olof By, representing AB Industrivärden, Håkan Sandberg, representing Svenska Handelsbanken, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa, and Oktogonen, and Lars Förberg, representing Violet Partners LP. The Election Committee appointed Carl-Olof By as Chairman.

The Board

During the period January 1, 2011 – December 31, 2011, AB Volvo's Board of Directors consisted of nine members elected by the Annual General Meeting. In addition, the Board had three members and two deputy members appointed by employee organizations.

Leif Johansson, who was Volvo's CEO until September 1, 2011, was also a Board member until September 1, 2011, when he was replaced on the Board by Olof Persson who also assumed the position of CEO.

During 2011, six regular meetings, one statutory meeting and five extraordinary meetings were held.

The Board has adopted work procedures for its activities that contain rules pertaining to the distribution of work between the Board members, the number of Board meetings, matters to be handled at regular meetings of the Board and duties incumbent on the Chairman. In accordance with these procedures, the Board's Chairman shall organize and guide the Board's work, be responsible for contacts with the owners regarding ownership matters and provide the owners' viewpoints to the Board, ensure that the Board receives adequate information and decision documents for its work and ensure compliance with the Board's decisions. In addition, the work procedures contain directives concerning the tasks of the Audit Committee and the Remuneration Committee respectively. The Board has also issued written instructions specifying how financial information should be reported to the Board, as well as defining the distribution of duties between the Board and the President.

The Board's composition and attendance at meetings January 1, 2011 to December 31, 2011

	Board	Audit Committee	Remuneration Committee
Peter Bijur	12	8	
Jean-Baptiste Duzan	12	8	
Leif Johansson[1]	7		
Olof Persson[2]	4		
Hane de Mora	12		
Anders Nyrén	12		4
Louis Schweitzer	12		4
Ravi Venkatesan	12		
Lars Westerberg	12	8	
Ying Yeh	11		3
Martin Linder[3], employee representative	10		
Mikael Sällström, employee representative	11		
Berth Thulin, employee representative	12		
Peteris Lauberts[4], employee representative	1		
Total number of meetings	**12**	**8**	**4**

1 Left the Board on August 31, 2011.
2 Was elected member of the Board as of September 1, 2011.
3 Left the Board on November 30, 2011.
4 Joined the Board as member as of November 30, 2011, previously deputy.

The Annual General Meeting resolves on the fees to be paid to the Board members elected by the shareholders. The Annual General Meeting held on April 6, 2011, approved fee payments to the Board, for the time until the end of the next Annual General Meeting, as follows: Chairman of the Board should receive a fee of SEK 1,800,000 and each of the remaining members should receive a fee of SEK 600,000, with the exception of the President. In addition, the Chairman of the Audit Committee should receive SEK 300,000, the other members of the Audit Committee SEK 150,000 each and the members of the Remuneration Committee SEK 100,000 each.

In March 2011, the Board announced that it had resolved to appoint Olof Persson as the new President and CEO for Volvo as of September 1, 2011, to replace Leif Johansson when he would be stepping down. Olof Persson was previously the President of Volvo Construction Equipment since 2008. Prior to that, he was the President of Volvo Aero. The Board also resolved in September 2011 to introduce new financial targets for the Volvo Group to apply as of 2012, with the aim of annually measuring growth and profitability among the Group's various operations and making comparisons with a number of selected competitors. As a result of the uncertainty about the macroeconomic trend, the Board specifically focused on monitoring the business environment in order to continuously adapt the company's activities to the prevailing demand. The Board also focused on the trend for the Group's operations and visited several of the Group's facilities in the US in 2011, meeting management and customers.

The Board also reviewed the financial positions of AB Volvo and the Volvo Group on a regular basis and acted in order to ensure that there are efficient systems with regard to follow-up and control of the business and financial position of the Volvo Group. In connection therewith, the Audit Committee was responsible for preparing the Board's work to assure the quality of the Group's financial reporting by reviewing the interim reports, the Annual Report and consolidated accounting. In connection therewith, the Board met with the company's auditors during 2011. The Board continuously evaluates the performance of the CEO.

During 2011, following preparation in the Remuneration Committee, the Board evaluated Volvo's systems for variable remuneration to senior executives, where the performance targets were based on operating income and operating rolling cash flow for executives in the industrial operation. For executives in the customer-financing operation, the performance targets were related to operating income and return on equity. The Board has concluded that the outcome for 2011 has been satisfactory and consequently found that the existing system was well-functioning. Irrespective of this, the Board came to the conclusion that in future, the operating margin would be a better measure of the performance of the industrial operation than operating income. In view of the new financial targets for the Group presented by the Board in September 2011, the Board also believes that the new financial target pertaining to competitive comparison of operating margins should be reflected in the performance targets for variable remuneration for 2012, pertaining to executives in the industrial operation. According to the Board, the operating cash flow is still relevant as a measure of the performance of the industrial operation. The Board has also found that for the customer financing operation performance targets based on return on equity and operating income are still relevant.

Based on the above mentioned evaluation of the variable-remuneration systems, the Board resolved to introduce partly amended performance targets for variable remuneration to senior executives to apply for 2012 pertaining to most of the industrial operation. The new performance targets are based on the following parameters; (i) six months' operating rolling cash flow, (ii) operating margin compared to last year and (iii) profitability measured on operating margin compared with competitors. For the customer financing operation, the Board resolved that the performance targets for variable remuneration will continue to focus on return on equity and operating income.

The Board's work is mainly performed within the framework of formal Board meetings and through meetings in the respective committees of the Board. In addition, the Chairman of the Board maintains regular contact with the CEO in order to discuss on-going business and to ensure that the decisions taken by the Board are executed. An account of each Board member's age, principal education, professional experience, assignments in the Company, other important board memberships, their own and related parties' ownership of shares in Volvo as of February 23, 2012, and the year they were elected on the Volvo Board, is presented in the section Board of Directors and auditors on page 153.

During 2011, the Board performed its yearly evaluation of the Board's work. The Chairman has informed the Election Committee on the result of the evaluation.

Independence requirements

The Board of Directors of AB Volvo must meet independence requirements pursuant to the Code. The Audit Committee must also meet independence requirements pursuant to the Code and the Swedish Companies Act. Below is a short description of the independence requirements. The independence requirements mainly state that only one person from the company's management may be a member of the Board, that a majority of the Board members elected by the General Meeting shall be independent of the company and the company management and that at least two of the Board members elected by the General Meeting who are independent of the company and the company's management shall also be independent of the company's major shareholders. In addition, the Code stipulates that a majority of the members in the Audit Committee shall be independent of the company and the company management, and that at least one of the members who is independent of the company and the company management shall also be independent of the company's major shareholders. According to the Swedish Companies Act, the members of the Audit Committee may not be employees of the company and at least one member of the Audit Committee shall be independent of the company, company management and the company's largest shareholders and have accounting or auditing expertise. With regard to the Remuneration Committee, the Code sets the requirement that members of the Remuneration Committee, with the exception of the Board Chairman if a member of the Remuneration Committee, shall be independent of the company and company management.

Prior to the Annual General Meeting 2011, considering the above requirements regarding the Board's independence, the Election Committee reported the following understanding concerning the Board members who were elected at the Annual General Meeting in 2011:

Peter Bijur, Hanne De Mora, Louis Schweitzer, Ravi Venkatesan, Lars Westerberg and Ying Yeh were all considered independent of the company and company management as well as of the company's major shareholders.

Leif Johansson, as Volvo's CEO, was considered independent of the company's major shareholders but not of the company and company management. Olof Persson, who at the 2011 Annual General Meeting, was the President of Volvo Construction Equipment and who was elected a member of the Board as from September 1, 2011, when he also was to assume the position as Volvo's CEO, was deemed independent of the company's major shareholders but was not deemed independent in relation to the company and the company management, due to his position in the Volvo Group.

Jean-Baptiste Duzan was considered independent in relation to the company and company management. However, in his capacity as an advisor to the CEO of Renault S.A., he was deemed to have such a relation to Renault s.a.s. that he could not be considered independent thereof. Since Renault s.a.s., prior to the 2011 Annual General Meeting, controlled more than 10 percent of the votes in the company, Jean-Baptiste Duzan was not considered independent in relation to one of the company's major shareholders.

Anders Nyrén was deemed independent in relation to the company and company management. However, due to his capacity as CEO of AB Industrivärden, he was not deemed independent thereof. Since AB Industrivärden, prior to the 2011 Annual General Meeting, controlled more than 10 percent of the votes in the company, Anders Nyrén was not considered independent in relation to one of the company's major shareholders.

The Election Committee must also meet independence requirements pursuant to the Code. According to the Code, most of the members of the Election Committee are to be independent of the company and the company management. At least one member of the Election Committee is to be independent of the company's largest shareholder in terms of votes or any group of shareholders that act in concert in the governance of the company. Neither the CEO nor other members of the executive management are to be members of the Election Committee. If Board members are included in the Election Committee, they may not constitute a majority of the Election Committee's members. The Chairman of the Board of the company or, any other Board member may not be the Chairman of the Election Committee. If more than one Board member is included in the Election Committee, not more than one of them may be dependent in relation to the company's largest shareholders. All members of the Election Committee have been considered to be independent of the company and the company management. All members of the Election Committee except Jean-Baptiste Duzan have, prior to being appointed, been considered to be independent of Volvo's largest shareholder in terms of votes. This conclusion is based on the facts that Renault s.a.s. is Volvo's largest shareholder in terms of votes and that Jean-Baptiste Duzan represents Renault s.a.s. in the Election Committee.

Audit Committee

In December 2002, the Board established an Audit Committee primarily for the purpose of overseeing the accounting and financial reporting processes and the audit of the financial statements.

The Audit Committee is responsible for preparing the Board's work to assure the quality of the Group's financial reporting by reviewing the interim reports, the Annual Report and consolidated accounting. In addition, the Audit Committee's task is to establish guidelines specifying what other services, beyond auditing, the company may procure from the company's auditors and to provide guidelines for transactions with companies and persons closely associated with Volvo. The Audit Committee also has the task of reviewing and overseeing the impartiality and independence of the company's auditor. The Audit Committee is also responsible for evaluating the internal and external auditors' work, providing the Election Committee with the results of the evaluation of the external auditors and to assist in preparing proposals for the election of auditors. Finally, the Audit Committee shall evaluate the quality, relevance and efficiency of the Group's system for internal control over financial reporting, and with respect to the internal audit and risk management.

At the statutory Board meeting following the 2011 Annual General Meeting, Lars Westerberg, Peter Bijur and Jean-Baptiste Duzan were appointed members of the Audit Committee. Lars Westerberg was appointed Chairman of the Audit Committee.

The Audit Committee met with the external auditors and Head of Internal Audit at the meetings of the Audit Committee. The Audit Committee has also met separately with the external auditors and the Head of Internal Audit without the presence of the company management. The Audit Committee and the external auditors have, among other tasks, discussed the external audit plan and risk management. The Audit Committee held eight meetings during 2011.

Remuneration Committee

In April 2003, the Board established a Remuneration Committee for the purpose of preparing and deciding on issues relating to remuneration to senior executives in the Group. The duties of the Committee include presenting recommendations for resolution by the Board regarding the terms and conditions of employment and remuneration for the President of AB Volvo, principles for remuneration, including pensions and severance payments, for other members of the Group Executive Team, and principles for variable salary systems, share-based incentive programs, pensions and severance payment for other senior executives in the Group. In addition, the Remuneration Committee shall approve proposals on remuneration of the other members of the Group Executive Team in accordance with the principles established by the Board.

The Remuneration Committee shall monitor and evaluate ongoing programs and programs concluded during the year covering variable remuneration for the Group Executive Team, application of the guidelines for remuneration to senior executives on which the Annual General Meeting shall resolve and the current remuneration structures and levels in the Group. The Board shall, not later than two weeks prior to the Annual General Meeting, submit a report on the results of the Remuneration Committee's evaluation on the company's website.

If the Remuneration Committee commissions external suppliers for its work, it must ensure that there are no conflicts of interest in relation to other assignments this supplier may have for the Group or the Group Executive Team.

At the statutory meeting of the Board following the 2011 Annual General Meeting, Louis Schweitzer, Anders Nyrén and Ying Yeh were appointed members of the Remuneration Committee. Louis Schweitzer was named Chairman of the Remuneration Committee. The Remuneration Committee held four meetings during 2011.

Group Executive Team

An account of their respective age, principal education, Board memberships, their own and related parties' ownership of shares in Volvo as of February 23, 2012, and year of joining Volvo for the CEO and each member of the Group Executive Team is presented in the Group Management section on page 151.

External auditing

Volvo's auditors are elected by the Annual General Meeting. The current auditor is PricewaterhouseCoopers AB (PwC), which was elected at the 2010 Annual General Meeting for a period of four years. Göran Tidström and Johan Rippe from PwC, are responsible for the audit of Volvo. Göran Tidström is the Auditor in Charge. Göran Tidström has announced that he will resign as Auditor in Charge at the Annual General Meeting 2012. He will be replaced by Peter Clemedtson, partner of PwC.

The external auditors discuss the external audit plan and risk management with the Audit Committee. The auditors review the interim report for the period January 1 to June 30 and the Annual Report and the consolidated accounting. The auditors also express an opinion whether this Corporate Governance Report was prepared or not and in such respect whether certain information therein coincides with the Annual Report and consolidated accounting. The auditors' report their findings with regard to the annual report, consolidated accounting and the Corporate Governance Report through the audit reports and a separate opinion regarding the Corporate Governance Report, which they present to the Annual General Meeting. In addition, the auditors' report detailed findings from their reviews to the Audit Committee twice a year and once a year to the full Board of Directors.

When PwC is retained to provide services other than the audit, it is done in accordance with rules decided by the Audit Committee pertaining to pre-approval of the nature of the services and the fees.

Disclosure Committee

A Disclosure Committee was established in 2004. The Committee contributes to ensuring that Volvo fulfills its obligations according to applicable legislation as well as to listing rules to timely disclose to the financial market all share price sensitive information.

The Committee comprises the heads of the departments Corporate Finance, Internal Audit, Investor Relations, Corporate Legal, Business Control and Financial Reporting. Chairman of the Disclosure Committee is the Executive Vice President responsible for Corporate Communication.

Outstanding share and share-price related incentive programs

An account of outstanding share and share-price related incentive programs is provided in Note 27 Personnel in the Group's notes.

Report on the key aspects of the company's and Group's system for internal controls and risk management in conjunction with financial reporting

The Board is responsible for the internal controls according to the Swedish Companies Act and the Code. The purpose of this report is to provide shareholders and other interested parties an understanding of how internal control is organized at Volvo with regard to financial reporting. The report has been prepared in accordance with the Annual Accounts Act. Consequently the report is limited to internal control over financial reporting.

Introduction

Volvo primarily applies internal control principles introduced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO principles consist of five interrelated components. The components are: control environment, risk assessment, control activities, information and communication and follow-up.

Volvo has a specific function for internal control. The objective of the Internal Control function is to provide support for management groups within business areas and Group functions, that allows them to continuously provide solid and improved internal controls relating to financial reporting. Work that is conducted through this function is based primarily on a methodology, which aim is to ensure compliance with directives and policies, as well as to create good conditions for specific control activities in key processes related to financial reporting. The Audit Committee is informed of the result of the work performed by the Internal Control function within Volvo with regard to risks, control activities and follow-up on the financial reporting.

Volvo also has an Internal Audit function with the primary task of independently monitoring that companies in the Group follow the principles and rules that are stated in the Group's directives, policies and instructions for financial reporting. The head of the Internal Audit function reports directly to the CEO, and in the new organization to the Group's General Counsel and the Board's Audit Committee.

Control environment

Fundamental to Volvo's control environment is the business culture that is established within the Group and in which managers and employees operate. Volvo works actively on communications and training regarding the company's basic values as described in The Volvo Way, an internal document concerning Volvo's business culture, and the Group's Code of Conduct, to ensure that good morals, ethics and integrity permeate the organization.

The foundation of the internal control process relating to the financial reporting is built up around the Group's directives, policies and instructions, as well as the responsibility and authority structure that has been adapted to the Group's organization to create and maintain a satisfactory control environment. The principles for internal controls and directives and policies for the financial reporting are contained in Volvo Financial Policies & Procedures (FPP), an internal document comprising all important instructions, rules and principles.

Risk assessment

Risks relating to financial reporting are evaluated and monitored by the Board through the Audit Committee inter alia through identifying what types of risks that typically could be considered as material and where they would typically occur. The annual evaluation of internal control activities conducted by the Internal Control and Internal Audit functions, are based on a risk-based model. The evaluation of the risk that errors will appear in the financial reporting is based on a number of criteria. Complex accounting principles can, for example, mean that the financial reporting risks being inaccurate for those posts that are covered by such principles. Valuation of a particular asset or liability according to various evaluation criteria can also constitute a risk. The same is true for complex and/or changing business circumstances.

Control activities

In addition to the Board of AB Volvo and its Audit Committee, the management groups and other decision-making bodies in the business areas, Group functions and Group companies constitute the overall supervisory body.

Several control activities are applied in the ongoing business processes to ensure that potential errors or deviations in the financial reporting are prevented, discovered and corrected. Control activities range from review of outcome results in management group meetings to specific reconciliation of accounts and analysis of the ongoing processes for financial reporting. Responsibility for ensuring that control activities in the financial processes are appropriate and in accordance with the Group's policies and instructions are compiled in the Group's shared service center. Within the framework for the financial reporting, they are also responsible for ensuring that authority structures are designed so that one person cannot perform an activity and then perform the control of the same activity. Control activities within IT security and maintenance are a key part of Volvo's internal control over financial reporting.

Information and communication

Policies and instructions relating to the financial reporting are updated and communicated on a regular basis from management to all affected employees. In addition, there are a number of committees and networks within Volvo that serve as forums for information and discussions regarding issues relating to the financial reporting and application of internal rules. Included in these committees and networks are representatives from the business areas and the Group's staff units who are responsible for financial reporting. Work in these committees and networks is aimed, among other things, at ensuring a uniform application of the Group's policies, principles and instructions for the financial reporting and at identifying and communicating shortcomings and areas of improvement in the processes for financial reporting.

Follow-up

Ongoing responsibility for follow-up rests with the business areas' management groups and accounting and controller functions. In addition, the Internal Audit and the Internal Control functions conduct review and follow-up activities in accordance with what is described in the introduction of this report. More specifically, the Internal Control function runs and coordinates evaluation activities through the "Volvo Group Internal Control program", which gives a systematic way of evaluating the quality and effectiveness of the internal control over financial reporting on a yearly basis. A yearly evaluation plan is settled and presented to the Audit Committee. This evaluation program comprises three main areas:

1. *Control policies and guidelines:* Self-assessment procedure carried out by management teams at business area and Group function levels as well as local company level. Main areas evaluated are the adherence to the Group's financial directives and policies found in FPP along with The Volvo Way and the Group's Code of Conduct.
2. *Process controls at transaction levels:* Processes related to the financial reporting are evaluated by testing of specific routines and controls based upon the Group's framework for internal control over financial reporting, VICS – "Volvo Internal Control Standards". The framework focus on the financial reporting areas deemed to have a relatively higher risk for potential errors because e.g. complex accounting principles, complex or changed business operations etc.
3. *General IT controls:* Processes for maintenance, development and access management of financial applications are evaluated by testing of routines and controls.

The results of the evaluation activities are reported to the Group management and the Audit Committee.

Göteborg, February 23, 2012

AB Volvo (publ)

Board of Directors

Auditor's report on the Corporate Governance Report

To the annual meeting of the shareholders in AB Volvo, corporate identity number 556012-5790

It is the Board of Directors who is responsible for the Corporate Governance Report for the year 2011 on pages 150–159 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance Report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance Report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts

Göteborg, February 23, 2012

PricewaterhouseCoopers AB

Göran Tidström Authorized Public Accountant Lead Auditor	Johan Rippe Authorized Public Accountant

Definitions

Basic earnings per share
Income for the period attributable to shareholders of the Parent Company divided by the weighted average number of shares outstanding during the period.

Capital expenditures
Capital expenditures include investments in property, plant and equipment, intangible assets and assets under operating leases. Investments in fixed assets included in the Group's cash-flow statement include only capital expenditures that have reduced the Group's liquid funds during the year.

Cash-flow
Combined changes in the Group's liquid funds during the fiscal year. Changes in liquid funds are specified with reference to changes in operations, operating activities, changes depending on investments in equipment, fixed assets etc. and financing activities such as changes in loans and investments.

Diluted earnings per share
Diluted earnings per share is calculated as income for the period attributable to the Parent Company's shareholders divided by the average number of shares outstanding plus the average number of shares that would be issued as an effect of ongoing share-based incentive programs and employee stock option programs.

EBITDA
EBITDA is the operating income before depreciation and amortization of tangible and intangible assets. This key figure is calculated by adding back depreciation and amortization on the operating income of the Industrial operations.

Equity ratio
Shareholders' equity divided by total assets.

Interest coverage
Operating income plus interest income and similar credits divided by interest expense and similar charges.

Joint ventures
Companies over which the Company has joint control together with one or more external parties.

Net financial position
Cash and cash equivalents, marketable securities and interest-bearing short- and long-term receivables reduced by short- and long-term interest-bearing liabilities and provisions for post-employment benefits.

Operating margin
Operating income divided by net sales.

Penetration rate
Share of unit sales financed by Volvo Financial Services in relation to total number units sold by the Volvo Group in markets where financial services are offered.

Return on shareholders' equity
Income for the period divided by average shareholders' equity.

Self-financing ratio
Cash-flow from operating activities (see Cash-flow statement) divided by net investments in fixed assets and leasing assets as defined in the cash-flow statement.

Annual General Meeting, April 4, 2012

The Annual General Meeting of AB Volvo will be held in Göteborg in Lisebergshallen (entrance from Örgrytevägen) Wednesday, April 4, 2012, at 3:00 p.m. Doors to meeting hall open at 1.30 p.m.

Notice

Those who wish to participate must be recorded as shareholders in the share register maintained by Euroclear Sweden AB on March 29, 2012 and give notice of intention to attend, not later than March 29, 2012, preferably before 12:00:

- by telephone, +46 8 402 90 76, beginning February 29, 2012
- by mail addressed to AB Volvo (publ), "AGM", P.O. Box 7481, SE-103 98 Stockholm, Sweden
- on AB Volvo's website www.volvogroup.com

When giving notice, shareholders should state their:

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

Shareholders who have trustee-registered shares should, in good time prior to March 29, 2012, request owner-registration, which could be temporary, at the bank or broker holding the shares.

Volvo's Election Committee

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

Carl-Olof By	Chairman of the Election Committee, AB Industrivärden
Jean-Baptiste Duzan	Renault s.a.s.
Lars Förberg	Violet Partner LP
Håkan Sandberg	Handelsbanken SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund and Oktogonen
Louis Schweitzer	Chairman of the AB Volvo Board

Among other duties, the Election Committee is responsible for submitting to the Annual General Meeting proposals for candidates to serve as members of the Board of Directors and Chairman of the Board and proposal for auditors if applicable. The Committee also proposes the amount of the fees to be paid to the holders of these positions.

Preliminary publication dates

Report for the first three months 2012	April 26, 2012
Report for the first six months 2012	July 24, 2012
Report for the first nine months 2012	October 24, 2012
Report on 2012 operations	February, 2013
Annual Report 2012	March, 2013

The reports are available on www.volvogroup.com on date of publication and are also sent electronically to shareholders who have advised Volvo that they wish to receive financial information.

Historical and current time series reflecting the Volvo Group's market information and share data are published regularly on www.volvogroup.com.

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