# THE VOLVO GROUP
## ANNUAL REPORT 2012


VOLVO

## A Global Group



## Board of Directors' report



## Corporate Governance



## Financial information



# 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 and construction equipment 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. If all the Volvo buses in the world were to start at the same time, they would transport more than 10 million people. Our construction machines are used when building roads, houses, hospitals, airports, railroads, factories, offices, shopping centers and recreational facilities.

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

This report contains 'forward-looking statements'. Such statements reflect management's current expectations with respect to certain future events and potential financial performance. Although the Company believes that the expectations reflected in such forward looking statements are reasonable, no assurance can be given that such expectations will prove correct. Such statements are subject to risk and uncertainties and such future events and financial performance could differ materially from those set out in the forward looking statements as a result of, among other factors, (i) changes in economic, market and competitive conditions, (ii) success of business and operating initiatives, (iii) changes in the regulatory environment and other government actions, (iv) fluctuations in exchange rates and (v) business risk management. This report does not imply that the company has undertaken to revise these forward-looking statements, beyond what is required under the company's registration contract with OMX Nordic Exchange Stockholm if and when circumstances arise that will lead to changes compared to the date when these statements were provided. The Volvo Group's formal financial reports are presented on pages 56–73 and 89–173 in the printed version and has been audited by the company's auditors.

**VOLVO GROUP**

# Complete partner

The Volvo Group is one of the world's leading manufacturers of trucks, buses, construction equipment and marine and industrial engines. The Group also provides complete solutions for financing and service. The Volvo Group, which employs about 115,000 people, has production facilities in 18 countries and sells its products in more than 190 markets. In 2012 the Volvo Group's sales amounted to about SEK 304 billion. The Volvo Group is a publicly-held company headquartered in Göteborg, Sweden. Volvo shares are listed on OMX Nordic Exchange Stockholm.

# Strong positions

- One of the world's largest manufacturers of trucks.
- One of the largest within construction equipment.
- One of the world's largest manufacturers of heavy-duty diesel engines.
- Global market presence.

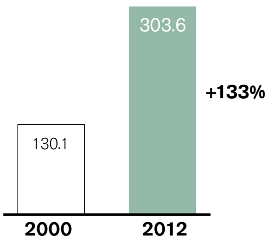
# Strong brands

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


# Global strength

Since the streamlining towards commercial vehicles was initiated more than ten years ago, the Volvo Group has significantly strengthened its positions outside the traditionally big markets of Western Europe and North America. Positions have been moved forward by acquisitions in primarily Asia and expansion of the distribution and service networks in for instance Eastern Europe and South America. In the year 2000, markets outside of Western Europe and North America accounted for 16% of Group sales. In 2012 that share had grown to 47%.

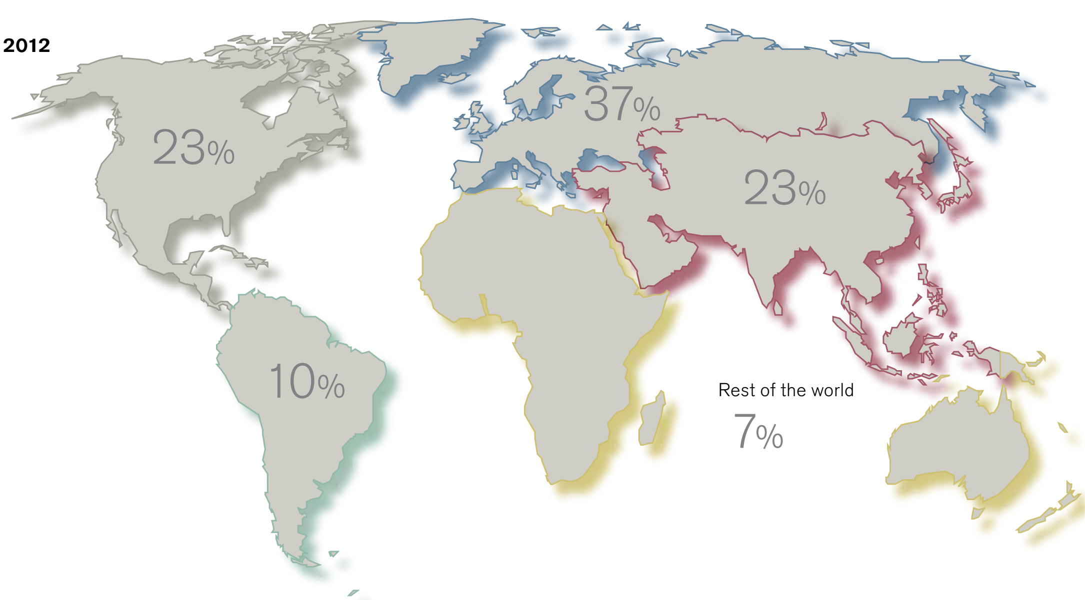
**Volvo Group net sales 2000–2012,** SEK bn




**Share of net sales**


* Volvo Aero was divested on October 1, 2012.


**Share of net sales by market 2012**



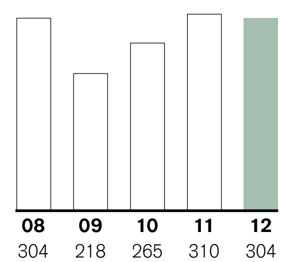
**THE VOLVO GROUP 2012**

# New strategy for the future

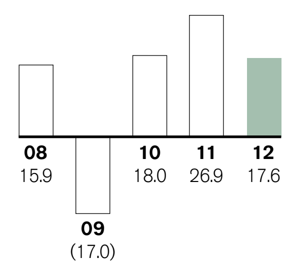
- Net sales declined by 2% to **SEK 303.6 billion (310.4).**
- Operating income amounted to **SEK 17.6 billion (26.9).**
- Operating margin decreased to 5.8% **(8.7).**
- Net debt in the Industrial Operations of **29.3%** of shareholders' equity.
- Proposed dividend of **SEK 3.00** per share (3.00).

- **New strategy** put in place.
- **Volvo Aero divested.**
- **Extensive product renewal** under way.
- New **Volvo FH** launched.
- In early 2013, an agreement to acquire **45% of Dongfeng Commercial Vehicles** in China was signed.

**Net sales, SEK bn**




**Operating income, SEK bn**




| Key ratios | 2012 | 2011 |
|---|---|---|
| Net sales Volvo Group, SEK M | **303,647** | 310,367 |
| Operating income Volvo Group, SEK M | **17,622** | 26,899 |
| Operating income Industrial Operations, SEK M | **16,130** | 25,930 |
| Operating income Customer Finance, SEK M | **1,492** | 969 |
| Operating margin Volvo Group, % | **5.8** | 8.7 |
| Income after financial items, SEK M | **15,355** | 24,929 |
| Income for the period, SEK M | **11,258** | 18,115 |
| Diluted earnings per share, SEK | **5.44** | 8.75 |
| Dividend per share, SEK | **3.00**[1] | 3.00 |
| Return on shareholders' equity, % | **12.9** | 23.1 |
| Number of permanent employees | **98,717** | 98,162 |
| Share of women, % | **17** | 18 |
| Share of women, Presidents and other senior executives, % | **19** | 17 |
| Employee Engagement Index, % | **76** | 76 |
| Energy consumption, MWh/SEK M | **8.5** | 8.1 |
| $CO_2$ emissions, tons/SEK M | **0.8** | 0.8 |
| Water consumption, $m^3$/SEK M | **24.9** | 26.2 |
| Share of direct material purchasing spend from CSR assessed suppliers, % | **66** | 60 |

1 According to the Board's proposal.

# CEO COMMENT
# A year of major changes

When I look back at 2012, I see a year when the Volvo Group experienced major changes. In rapid sequence, we implemented a major organizational change, we started work toward new strategic objectives, we sold Volvo Aero and we launched a very important product with the new Volvo FH truck. At the same time, it was a year when we faced some tough challenges.

**Financially strong**

The year started out strong, with increasing sales and improved profitability during the first half, but during the second half we were impacted by the decline in the global economy. During the autumn, demand fell in nearly all of our markets. From a full-year perspective, the truck markets in North America and Japan grew, Europe was slightly lower than in 2011 and Brazil saw a big decline.

For the Volvo Group, net sales in 2012 dropped to SEK 303.6 billion, compared with SEK 310.4 billion in 2011. Operating income amounted to SEK 17.6 billion (26.9) and the operating margin was 5.8% (8.7). A part of the explanation for the lower earnings is the measures we implemented in the Group to cope with the declining demand. We cut production but were not able to lower our costs at the speed of the drop in demand. At the same time, we worked hard to reduce inventories. This impacted Group earnings in the short-term, but enabled us to get inventories in balance by year-end. We also took restructuring charges for a number of important activities aimed at increasing long-term efficiency and profitability. Nonetheless, sales above SEK 300 billion and an operating margin close to 6% in relatively weak market conditions are proof of our products and services being appreciated by customers and also of the dedicated work of the Group's employees.

From a financial viewpoint we remain strong, with a net debt to equity ratio of 29% in the Industrial Operations, and for 2012 the Board of Directors proposes an ordinary dividend of SEK 3.00 per share. This is on the same level as last year and it would mean that the Volvo Group would distribute SEK 6.1 billion to its owners.

**Intensive phase of product renewal**

Overall, we maintained our market positions in most truck markets around the world, and Volvo CE strengthened its position as number one in China – the world's largest market for construction equipment. Volvo Buses made inroads into new customer segments thanks to hybrid buses at the forefront of the bus industry and Volvo Penta has a modern and competitive product range. But we do not stop there. To secure competitive future products for all our businesses, we are in a very intense phase of renewing and broadening the product portfolios.

In addition to the new Volvo FH, we are developing a completely new range for Renault Trucks which will be launched in 2013, a new series of trucks for the lower price segments in emerging markets and a new medium-duty engine range. We are also in the latter stages of development of engines for the Euro 6 emission legislation for trucks and buses and Tier 4f for construction equipment and Volvo Penta. All of these products will strengthen our position as a front-runner in our industries and contribute to taking us closer to our vision to be the world leader in sustainable transport solutions.

**Full focus on strategy**

2012 was the year when we laid a new foundation for the Group, and 2013 is the year when we are to start executing on our strategic objectives for 2015, which are clearly aimed at improving the Group's overall profitability. We have full focus on our strategy, and road maps have been developed for each of the 20 strategic objectives. The road maps have been further detailed and broken down into over 400 main activities that will be executed in order to improve profitability. Our strategy is described in detail in this report.

**Foundation in place**

- ☑ Revised Group vision
- ☑ New financial targets
- ☑ New incentive program aligned with financial targets
- ☑ New strategic objectives
- ☑ New organization
- ☑ New management teams
- ☑ New process-oriented workflow
- ☑ New corporate governance
- ☑ New brand positioning

The high activity level has been evident at the start of the 2013. The newly signed agreement with Dongfeng, which is pending approval by authorities, is a key event in the history of the Volvo Group. It will take us into the important Chinese truck market and when the transaction has been finalized the Volvo Group will become the world's largest manufacturer of heavy-duty trucks.

I would also like to extend my gratitude to all employees in the Group for all their efforts during 2012. In 2013 we continue with full speed ahead. We have an intense and exciting period ahead of us, and I am convinced that the Volvo Group will stand even stronger in the market when the economy turns upwards again.

Olof Persson
President and CEO

*"To secure competitive future products for all our businesses, we are in a very intense phase of renewing and broadening the product portfolios."*

## FUTURE TRANSPORT NEEDS
# Challenges create opportunities

The world is rapidly changing and it is crucial to keep up with the pace. 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. Here some of the more significant challenges and the actions being undertaken by the Volvo Group to meet these challenges and turn them into business opportunities are defined.

1

### Demographic changes and urbanization

In 2050, the world's 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 reach two-thirds. This trend leads to an increased need for transportation and better infrastructure. 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 city and traffic planning. Furthermore, traffic jams as well as pollution and noise need to be addressed, for instance by vehicles which are specially adapted for urban environments.

2

### Climate change and alternative fuels

Climate change comprises one of the most complex and difficult questions of our time, and the burning of fossil fuels such as oil is the single largest source of greenhouse-gas emissions. This means that increased fuel efficiency is of utmost importance, and it has also increased the interest in alternative, renewable-energy sources. The development of alternative fuels and electromobility differs widely in different regions depending on the natural resources available, which in turn drives the development of vehicles adapted for various types of energy sources. The move towards large-scale use of renewable energy is also dependent on political decisions and investment capacity to create the necessary infrastructure.

## EXAMPLES OF OUR SOLUTIONS

**Efficient transport with BRT systems**
Bus Rapid Transit (BRT) is a public transport system with dedicated bus lanes, high service frequency and simplicity of boarding and alighting. It is fast, comfortable, safe and reliable. Furthermore, the investment cost is lower than alternatives such as public transport by rail and subway and the environmental impact is decreased when compared with individual travel by car. The concept was developed in the Brazilian city of Curitiba and many cities worldwide view BRT as a promising solution for public transport. Volvo Buses is a world-leading supplier of buses to modern BRT systems such as in Mexico City in the photo.

**Fuel efficiency and new drivelines**
The Volvo Group constantly strives to reduce the negative impact that our products have on the environment. This naturally entails increasing fuel efficiency. The Volvo Group estimates the fuel-saving potential for a standard truck will be 15% in 2020 compared with fuel consumption in 2005. We are also investing considerable resources in the development of alternative drivelines, for example hybrid solutions and drivelines optimized for renewable fuels, such as Methane Diesel and DME (dimethyl ether).

# Building the future...

## 3

### Shortage of natural resources and raw material

Population growth, a rapidly growing middle class and increased purchasing power leads to larger numbers of people increasing their consumption. Mankind is utilizing an increasing amount of land, water and other resources. More efficient use of resources is required and the recovery of a greater proportion of material is becoming increasingly important to secure future access to material.

## 4

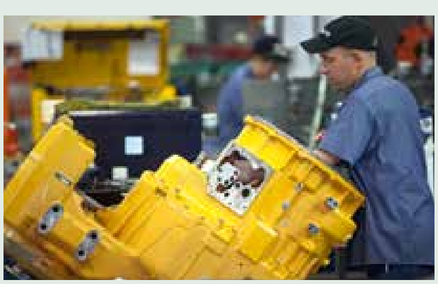
### Safety and security

Traffic and road safety is becoming increasingly important as demands on transportation increases. The subject is a high priority for governments and institutions the world over. In the future, the focus on safety in a broader sense will continue to increase. This will impact the security 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 some developed countries while interest has grown in some emerging markets. The need, however, for competent employees with these types of specialist skills will increase as the products and services are becoming increasingly sophisticated.



**Recyclable products**
The Volvo Group's products are largely recyclable, since by weight they consist of almost 85% metal, mostly iron, steel and aluminum. The additional materials are mainly plastic, rubber and material from electronics components. There are disassembly stations where trucks, buses and construction machines can be disassembled for re-use of some product parts and recycling of others. The photo shows remanufacturing within Volvo Construction Equipment Reman.

**Smart vehicles**
90% of all traffic accidents arise from the human factor. Smart vehicles with active safety systems that communicate with other vehicles and the surrounding infrastructure enable the driver to be liberated from monotonous tasks and instead create the possibility for the driver to focus his or her attention where it is really needed. With advanced technology for detection, electronic surveillance of transportation and electronic document management, drivers, vehicles and cargo can be better protected against crime.

**An attractive employer**
The Volvo Group's success hinges on having motivated and engaged employees, who are willing to take an active part in the Group's development and future. Therefore, The Group invests in the development, health and wellbeing of its employees. The Volvo Group also strives for a company culture in which employees are encouraged to develop and seek out new challenges in their careers.

# Long-term growth

First up and then down again. The transportation industry is cyclical with swings up and down in the short term. Then add emission standards, political decisions and expectations about the future, all of which impact customers' decisions to purchase now or wait until later. However, in the longer term, the industry's growth is closely linked to an increasing need for transports as economies grow.

### Closely linked to the GDP development

The Volvo Group is one part of the transport industry that connects production with consumption. We are what you might call the life blood. Demand for transport capacity and thus for 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. Increased global wealth means that there is a long-term need to build roads, airports, railways, factories, offices, shopping centers, as well as housing and recreational facilities. In the short term, demand is affected by a number of factors including fuel prices, the implementation of new emission regulations, interest rates, etc.

The registration of new trucks on a particular market often follows the same pattern as economic growth in the region.

– The transport industry is largely in tune with the overall economic development, but demand for our products is also governed very largely by expectations about the future, says Johan Adler, Head of Economic Research in the Volvo Group.

This is one of the explanations why many North American haulage companies chose to postpone their investment decisions in the autumn of 2012. Even if there was business to be done and goods to transport, with both the presidential election and federal budget negotiations around the corner, customers decided it was better to be safe than sorry and therefore postponed their purchases.

### Markets move at different paces

The transportation industry is directly linked to economic developments, but the global economies do not move at the same pace. Countries that are heavily dependent on exports, such as Sweden and Germany, are more affected when consumers in other countries tighten their belts. Countries like the USA and Brazil are also impacted by a slowdown, but to a lesser degree, as they have such large domestic markets and a relatively small part of what they produce is exported.

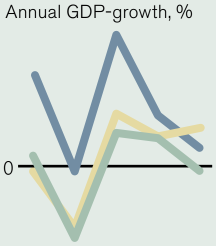
– The fact that the Volvo Group is global is an enormous advantage. If we had not been established on the growth markets, we wouldn't have been in the position we currently enjoy, says Johan Adler.

Another kind of event that impacts the whole of the commercial vehicle industry is the introduction of new emission legislation. New standards have traditionally resulted in more expensive, more technically complex trucks. This has generated an advance purchasing effect, a prebuy, as haulage companies have taken the opportunity to update their fleets just before the new regulations come into force. At the same time, new regulations have positive effects on the environment.

### Growth rates in different parts of the world

According to Consensus Economics, global GDP grew by 2.5% during 2012 compared with 3.1% in 2011. GDP in the EU declined by 0.3% following and increase by 1.6% in 2011. US GDP increased by 2.2% (1.8%). Japan's GDP expanded by 1.9% following a decline of 0.5% in 2011. Growth in countries such as Brazil, India and China hit cyclical lows during 2012. For 2013, global GDP is expected to grow by 2.6%. The emerging markets in primarily Asia and Latin America are foreseen to be the prime drivers of global growth.

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




| 08 | 09 | 10 | 11 | 12 | |
|---|---|---|---|---|---|
| 5.2 | (0.3) | 7.5 | 2.7 | 1.0 | Brazil |
| 0.6 | (4.1) | 1.9 | 1.6 | (0.3) | EU |
| (0.3) | (3.5) | 3.0 | 1.8 | 2.2 | USA |

Source: Consensus Economics

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


| 08 | 09 | 10 | 11 | 12 | |
|---|---|---|---|---|---|
| 9.6 | 9.2 | 10.4 | 9.3 | 7.8 | China |
| 6.8 | 8.0 | 8.5 | 6.5 | 5.3 | India |
| 3.8 | 1.9 | 7.1 | 4.6 | 4.7 | Asia/ Pacific* |
| (1.1) | (5.5) | 4.5 | (0.5) | 1.9 | Japan |

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

Source: Consensus Economics

**The Volvo business moves in close tandem with macroeconomic development**

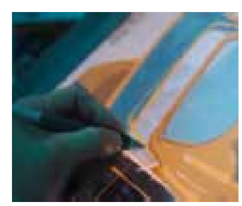
Euro Area GDP and heavy-duty trucks registration growth


## Research to meet future needs

**Wheel loaders without drivers, virtual sheet painting and electric buses that charge in ten minutes. In 2012, the Volvo Group opened the door to the future with its new Tech World website. For the first time, many of the research projects on which the company's engineers have been involved were openly displayed.**

The Volvo Group is one of the world's largest manufacturers of commercial vehicles and a leader in terms of developing sustainable transport solutions of the future. In 2012, the Volvo Group invested almost SEK 15 billion in research and development.

Research and development has always been the most secretive aspect of a company. This is natural, since it involves launching new solutions ahead of competitors. Nevertheless, the Volvo Group has decided to display some of the company's work for the future on its new website Tech World.



– Times are different and being open about where we are heading is now beneficial for us, our customers and society, says Torbjörn Holmström, Executive Vice President Group Trucks Technology and Chief Technology Officer of the Volvo Group. We will have the greatest opportunity to address current challenges and those of the future through cooperation.

Another key aim of the website is to show existing and future engineers the width of the subject areas that are encompassed by the Volvo Group.

Tech World features a large number of examples of future projects: automatic construction equipment, vehicle fuel from forest raw material, vehicles that communicate with each other, electricity generation from surplus engine heat, boat simulators and much more. The Volvo Group's engineers share their expertise and also present some of the challenges that remain to be overcome.

Read more at http://techworld.volvogroup.com/

**STRATEGIC APPROACH**

# The road we are taking

The Volvo Group's long-term plans stake out the road to success – to our vision, our target, as well as our wanted position. Our core values, focus areas, strategic objectives, road maps toward targets and activity plans will help us to achieve this as efficiently as possible.

**The Global Compact**
In 2001, the Volvo Group signed Global Compact, UN's initiative on socially responsible business practices. The Volvo Group's principles for responsible business are based on Global Compact among other.

During 2012, we adapted the Volvo Group's governance to becoming more efficient and launched a new strategy to achieve the Volvo Group's targets, wanted position and ultimately, our vision.

All work within the Volvo Group is based on a long-term sustainable perspective, since we are convinced that corporate social responsibility will contribute to long-term success. Assuming responsibility is deeply rooted in our culture and has its base in our core values and policies in the Group's Code of Conduct. We strive to assume economic, environmental and social responsibility for the operation, products and services in the areas where the Group has the potential to exert influence.

This will enable us to strengthen our brands and relations with business partners and thus create new business opportunities that offer long-term growth and improved profitability.

### Changed prerequisites

The global presence of the Volvo Group has undergone a dramatic change in the past decade. The Group has grown considerably in emerging markets and has welcomed new employees and companies. As a consequence of this, the Group currently has operations in approximately 190 markets and employs about 115,000 individuals, who strive to create efficient and sustainable transport solutions for our customers.

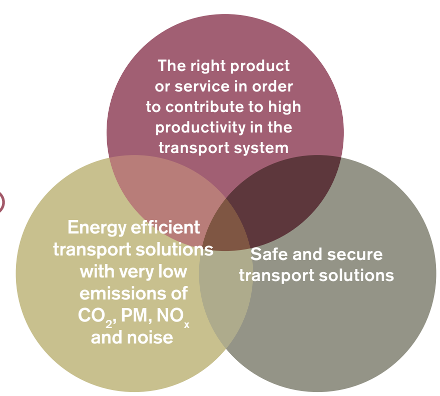
### Adaptation of governance

In the past year, we made extensive efforts to adapt the Volvo Group to the conditions and expectations of the business world and the future – and to achieve our wanted position by 2020. The efforts resulted in us taking a step toward governance as one Group with coordinated long-term plans for the business areas. The pace has increased with respect to governance and reconciliations connected to the development of the business areas. We have established a distinct brand portfolio and have moved from a regional focus with individual brands to a globally coordinated approach. In addition, we have created a more distinct distribution of responsibility with measurable targets. It is necessary to have all of this in place prior to the commencement of work based on the new strategies.

### Strategy process to achieve the wanted position and vision

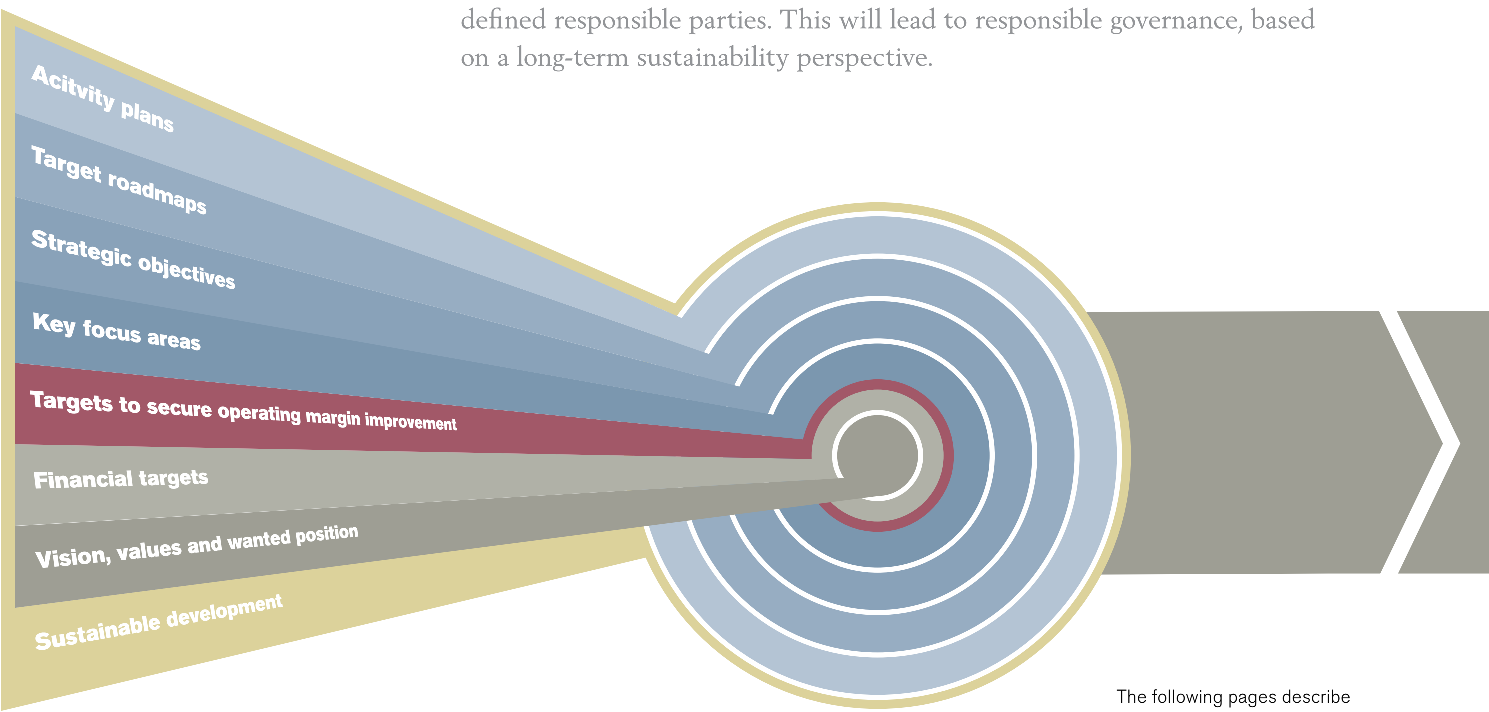
During 2012, a new strategy process was launched, which has resulted in three-year strategies for the individual business areas of the Volvo Group. The process resulted in five to nine focus areas, which are particularly significant for the future development, and approximately 20 strategic objectives per business area. The strategic objectives have been divided into more than 100 road maps and a large number of activity plans.

Our structure for governance encourages close monitoring, as well as rapid and efficient decisions and early adjustments, when necessary. The system also aims to involve all employees, by clarifying how each individual is important to achieving the targets.

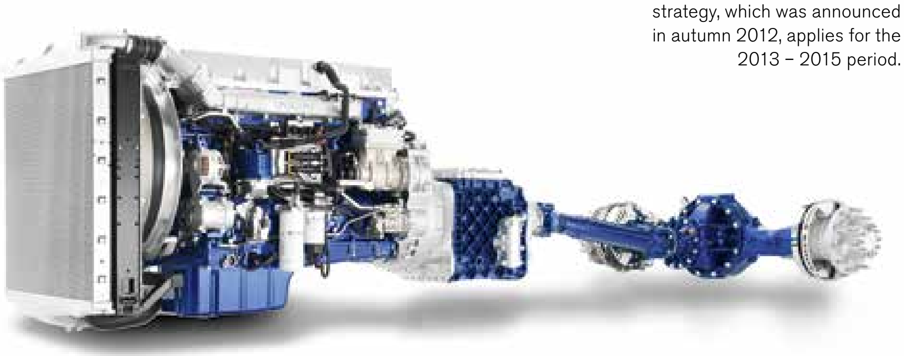




**Sustainable Transport Solutions**
Sustainable transport solutions to the Volvo Group are solutions that "improve the short and long term economic and environmental performance meanwhile social impact is considered".

All work in the Volvo Group is based on our vision, our values and the wanted position. Based on this core, outer rings are created in the form of objectives and focus areas all the way to tangible activities with clearly defined responsible parties. This will lead to responsible governance, based on a long-term sustainability perspective.




The following pages describe our strategic work, from the vision to the focus areas and strategic objectives. The new strategy, which was announced in autumn 2012, applies for the 2013 – 2015 period.



# Vision, Core values and Wanted position

The Volvo Group is part of the global society as well as many local societies. This provides us with the opportunity and ability to influence and contribute to social and business development. We strive to act responsibly, take into account the opinions of various stakeholders and create value for our shareholders and society. The overall objective is to become the world leader in sustainable transport solutions.

## 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 core values have a long tradition and permeate our organization, our products and our way of working. They are an important part of corporate social responsibility, and our goal is to maintain a leading position in these areas.

## 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 and infrastructure solutions.
- We are a global team of high performing people.

**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.

# Financial targets from 2012

Starting in 2012 new financial targets for the Volvo Group were implemented. 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. This creates a clear picture of how the operations are developing compared to the industry. Information on how the comparison with competitors is made is available under the heading Investors on www.volvogroup.com.

## INDUSTRIAL OPERATIONS

### Trucks and Buses

| Target | Comparison group | Preliminary outcome* |
|---|---|---|
| The annual organic **sales growth** for the truck and bus operations shall be equal to or exceed a weighted-average for comparable competitors. | Daimler, Iveco, MAN, Navistar, Paccar, Scania and Sinotruk.* | The organic **sales** decreased by 3.2% for the Volvo Group's truck and bus operations and was below the weighted average of –1.0% for the competitors. |
| Each year, **the operating margin** for the truck and bus operations shall be ranked among the top two companies when benchmarked against relevant competitors. | ** Navistar's figures are based on rolling four quarters as of the third quarter of 2012 and Sinotruk's figures are based on rolling four quarters as of the second quarter of 2012.* | **The operating margin** of 4.3% for the Volvo Group's truck and bus operations was ranked number four in comparison with the competitors. |

### Construction Equipment and Volvo Penta

| Target | Comparison group | Preliminary outcome |
|---|---|---|
| The annual organic **sales growth** for the construction equipment operations and Volvo Penta, shall be equal to or exceed a weighted-average for comparable competitors. | Brunswick, Caterpillar, CNH, Cummins, Deere, Hitachi, Komatsu and Terex. | The organic **sales** decreased by 2.9% for the Volvo Group's construction equipment operations and Volvo Penta and was below the weighted average of 2.3% for the competitors. |
| Each year, **the operating margin** for the construction equipment operations and Volvo Penta, shall be ranked among the top two companies when benchmarked against relevant competitors. | | **The operating margin** of 8.3% for the Volvo Group's construction equipment operations and Volvo Penta was ranked number five in comparison with the competitors. |

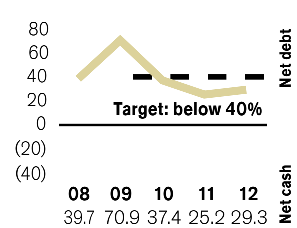
### Industrial Operations

**Target and outcome**

**The financial net debt**, including provisions for post-employment benefits, for the Industrial Operations shall be a maximum of 40% of shareholders' equity under normal conditions. At the end of 2012, the financial net debt amounted to 29.3% of shareholders' equity.

As of January 1, 2013, new accounting rules for employee benefits was effective. As a consequence, AB Volvo's Board of Directors has decided to exclude pension obligations from the target. According to the new target, the Industrial Operations' net financial debt, excluding pension obligations, shall be a maximum of 35% of shareholders' equity under normal conditions. The new target of 35% corresponds to the previous financial target of 40% in which pension obligations were included.

**Net financial debt as a percentage of shareholders' equity, %**

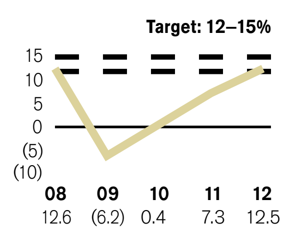



## CUSTOMER FINANCE OPERATIONS

**Target and outcome**

The target for Customer Finance is a return on shareholders' equity of 12–15% and an equity ratio above 8%. The return on shareholders' equity for 2012 amounted to 12.5%. At year end 2012 the equity ratio was 8.1%.

**Return on shareholders' equity, %**



# Targets to secure improved Group profitability

The targets for the coming strategy period, 2013 – 2015, was announced in autumn 2012. The overall target is to increase the operating margin by 3 percentage points for the Group as a whole. The truck operation has the greatest impact on profitability. The calculation below is based on Group sales of SEK 300 billion and truck sales of SEK 200 billion. To safeguard against unexpected events, 2 percentage points in the form of "headwind factor" have been deducted.

The strategy for 2013–2015 will ultimately lead to higher organic growth, while profitability will improve as we improve cost-efficiency and apply effective pricing and optimized positioning of our brands and products.

| Strategic objectives | Expected impact on Group operating margin |
|---|---|
| Trucks' impact on Group | + app. 4.0 percentage points |
| Business Areas: Volvo CE, Buses, Volvo Penta, Governmental Sales, Financial Services | + app. 0.5 percentage points |
| IT cost at 2% of total Group costs | + app. 0.5 percentage points |
| | = app. 5.0 percentage points<br>– Headwind factor |
| Targeted net improvement | = app. 3 percentage points |

**Drive organic revenue growth**

**Improve profitability**

+3 percentage points

# Truck operations' focus areas and strategic objectives

After 15 years of active acquisition strategy and streamlining to commercial vehicles, the Volvo Group is now entering a new phase, with a focus on driving organic growth and improving profitability. In the strategy for 2013 – 2015, we have identified five focus areas that have particularly high impact on the truck operation, for which there are 20 strategic objectives. Each objective is clearly restricted and measurable and is connected to both financial and operational key figures. In addition, there is a clearly defined responsible party for each individual strategic objective.

**1**

**Focus area 1: Secure number 1 or 2 in profitability**

We operate in a capital-intensive industry. Significant investments are necessary to simply comply with new regulations. Furthermore, a strong financial position affords us the opportunity to act, and to fund innovation and development, and our own expansion. To achieve this, we must excel in turning "volumes into profit" and capture the potential for efficiency that is associated with being a truly global player.

1.1 Increase vehicle gross profit margin per region by 3 percentage points

To increase the vehicle gross profit margin we must sell our products at the optimal price level and offer the right product mix in various markets. It also requires that we understand our customers – and their customers – and that we continuously improve the sales process.

1.2 Reduce actual standard cost of sales on total cost for current offer by 10%

Reducing the actual standard cost of sales will improve the bottom line, lower the break-even point and enable profitable growth. The main components of standard cost of sales include the material cost, manufacturing cost, logistics cost, warranty and technical goodwill.

1.3 Decrease wholesale selling expenses to 5% of sales

To reduce selling expenses we must align our wholesale organizations – from region to end customers – to drive productivity and efficiency. Sharing best practice and fine-tuning our processes will play an important role.

1.4 Increase own dealer soft offer absorption rate by 10 percentage points

A healthy aftermarket business with a total offer approach will reduce the vulnerability of our dealers to the cyclical demand for new trucks. A first-rate dealer network is also an important driver of customer loyalty and a way for us to become a real solutions provider. We need an appropriate number of workshops in the right locations, with the right tools, methods, and personnel skills, working according to the Genuine Service Process.

Among the activities to increase the gross margin are the coordination of the brand and product positioning (Read more on page » 22), the launch of a new truck series for the lower price segments in emerging markets (Page » 48) and the phase-out of unprofitable products and markets (Read more about UD Trucks in North America on page » 42).

1.5 Reduce R&D cost (spending pace) to 11.5 BSEK

A flexible, scalable research and development structure is key to increasing R&D efficiency. This will help us to more effectively manage multiple demands in various markets. An optimized project portfolio is another key factor.

1.6 IT cost on 2% of Volvo Group total cost by 2015

This strategic objective is to optimize the business value from IT over time. The use of global processes enables the deployment of a larger proportion of common applications and the phasing out of redundant applications. One goal is to improve the balance between running and development cost. It is crucial that we keep a tight rein on IT costs even in an upturn when margins are better.

**2**

**Focus area 2: Strengthen customer business partnership**

Success is based on being the best at solving our customers' problems and strengthening their operational performance. This is a key factor in building customer loyalty and becoming our customers' preferred business partner.

2.1 We will achieve 99% product availability contributing to "strengthen customer business partnership"

The first strategic objective within this area is to achieve up to 99% product availability, since uptime is a decisive factor for our customers. Reaching this level will require improved product quality, measures to avoid unplanned stops, rapid truck repair, and optimized preventive maintenance to reduce downtime.

2.2 Drive retail excellence by implementation of an integrated customer interface tool

We must strengthen the way our processes and tools support our personnel at all customer touch points, providing them with an overview of the total business relationship with a particular customer. This will improve our ability to offer our customers the right products and services. Examples of areas to address include the retail process, system architecture, information management and information sharing.

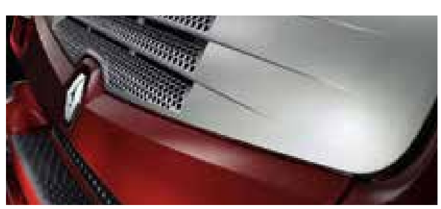
2.3 Each brand to rank number 1 on decided brand attributes in competitive set

The Volvo Group's portfolio of brands as a whole can capture a larger share of the total trucks market if we utilize the full potential of each of our brands. Working with customer segmentation and distinct brand attributes will be decisive in terms of how we position each brand in the market to enable the best opportunities for growth.

**Drive organic revenue growth**

**Improve profitability**






The Group's strong brand are important assets. By selling products under different brands, the Group can address many different customer and market segments in mature as well as growth markets. Read more on page » 22. More information on the Volvo Groups' service offering is available on page » 28.

**3**

**Focus area 3: Capture profitable growth opportunities**

We want to retain and strengthen our position as a profitable and global player in the truck industry. This is crucial given that high volumes help us achieve economies of scale and maintain our priority position among suppliers and retailers. Organic sales growth should be on par with or surpass the weighted average for our competitors.

3.1 By optimizing the brand assets become number 1 or 2 in combined Group Trucks HD market share

Our brand portfolio represents a unique strength. It is our goal to become number 1 or 2 in combined Group Trucks market share for heavy duty trucks in mature markets. In a number of markets we can optimize the manner in which we use our brand portfolio, also addressing new customer segments. Other measures include ensuring the right product quality and the appropriate coverage in sales and service networks.

3.2 Establish required commercial presence to support revenue growth by 50% in APAC (Asia Pacific) and 25% in Africa

New markets are emerging and we must lie ahead of the projected growth curve. This requires that we cover strategic locations, understand the specifics of selected emerging markets, and adapt our business models accordingly.

3.3 Establish required Order to Delivery footprint and supply chain in APAC and Africa achieving lead time reduction by 15% and capital tied up reduction by 15%

This relates to further developing what has already been built up and set in motion in the Asia Pacific region, and gearing up in Africa to match our commercial ambitions for that continent. Reaching this target will require action in such areas as sourcing strategies and supplier performance, as well as industrial and logistical structure.

3.4 Increase aftermarket sales per unit in operation by 12%, including total commercial solution offer for second and third owner

This objective aims to increase our share of the aftermarket business, covering the first, second and third owner of the trucks. We will achieve this by providing a competitive offering for parts and services wherever the location of the vehicles. Our offering should encompass all of our customers' needs.

3.5 Build 1 billion SEK new businesses complementary to existing offering

We recognize the potential for new business, and for expanding our current offering, in such areas such as vehicle productivity. Other examples include revenue streams from the truck end-of-life phase and from services facilitated by connected vehicles.

In addition to South America and Eastern Europe, Asia and Africa are important growth markets for the Volvo Group. Read more about the Volvo Group's development in Africa on page » 52.

## 4 Focus area 4: Innovate energy-efficient transport and infrastructure solutions

Environmental concerns, political demands, megacities and fuel prices are driving regulation and green technology. We must be able to anticipate and act on changing market demands and shifts in technology, and have the capacity to rapidly bring new solutions to market.

**4.1** Fuel efficiency to be improved by 2% per annum through vehicle optimization, diesel efficiency and electromobility

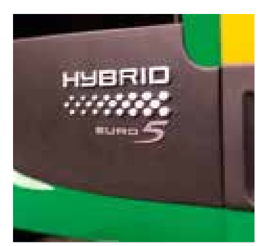
We aim to remain the leader in fuel economy. To reach our annual goal of 2%, we need to pursue fuel-efficiency improvements and optimization of Group Trucks vehicles and the existing diesel engine platform. We must also continue to develop hybrid solutions and alternative drivelines.

**4.2** Commercialize alternative fuel technology by launching concepts or products in all regions

Coming up with groundbreaking innovations is not enough. We must turn them into commercially viable products and bring them to market. To succeed in this respect, we must work in close partnership with customers and providers of infrastructure and alternative fuels.

**Drive organic revenue growth**

**Improve profitability**




The Volvo Group's product development is affected by the cost and supply of fuel as well as environmental legislation. The Group's research and development is therefore focusing on energy-efficient drivelines, hybrid drivelines and on vehicles that can be run on renewable fuels. Read more on page » 26.

**5**

**Focus area 5: Build high performing global teams**

To outperform competitors and achieve agreed objectives, we must attract and retain people with the right competencies across all of our businesses. Fully leveraging the existing in-depth business expertise and adopting best practices throughout our global organization will set us apart from the competition.

5.1 Become an attractive employer measured by reaching the employee engagement level (EEI) of high performing companies

We want to have committed employees with a level of engagement that is on par with high performing companies, defined as the top 25 percent. This will enable us to deliver on our business objectives and make us an attractive employer. Furthermore, our workplaces should have an open and inclusive culture, providing a healthy and inspiring work environment.

5.2 Drive high performance measured by reaching performance excellence level (PEI) of high performing companies

This objective aims to drive continuous improvements and high performance. Each individual needs clear personal objectives that are aligned with the strategic objectives of Group Trucks. Managers must provide clear feedback to employees and reward and recognize performance.

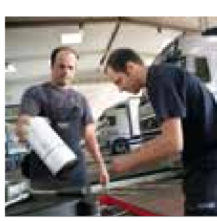
5.3 Secure leadership and strategic competencies, primary focus is the implementation of Volvo Group University

By establishing a Volvo Group University, we will gather training and development activities in a shared, efficient organization. Other aspects of this objective include enhancing knowledge transfer and mobility in the Group, carrying out talent reviews on all levels and improving our ability to plan and secure our future competency requirements.

5.4 Build an efficient and inclusive organization by implementing common global level 1 and 2 processes

Effectively utilizing process orientation and standardization will help us create a more efficient organization and provide us with a map that more clearly defines roles and responsibilities. By implementing shared global processes we will truly become one company, with a cohesive culture based on the Volvo Way.


The Volvo Group's vision is to become the world leader in sustainable transport solutions. A deciding factor in fulfilling this vision is our employees and their knowledge and commitment. Read more on page » 30.



# Business areas strategies

Growing and becoming more profitable are the main focus areas for Volvo CE, Volvo Buses, Volvo Penta and Volvo Financial Services for the next three-year period, 2013–2015. Developing on more markets is another common denominator. Here, the presidents of Volvo Buses, Volvo CE and Volvo Penta as well as Volvo Financial Services outline their respective strategies.

## Volvo Buses

The challenge for Volvo Buses is to obtain a sharp improvement in profitability by 2015. One way of achieving this is to expand in Asia.

– Growth in Asia is really significant and we already enjoy a strong position there. We are now going to continue along the same lines, says the acting president of Volvo Buses, Håkan Karlsson.

Volvo Buses has identified eight areas on which it is especially important to focus during the next three-year period. They will all help to improve profitability and make Volvo Buses one of the most profitable bus companies.

– This is our absolutely top priority. We are talking about an aggressive, powerful increase and it's essential that all the employees are both aware of and committed to it, says Håkan Karlsson.

Read more about Volvo Buses' new telematics system, which is currently being used in more than 20 countries, on page >> 60.

## Volvo CE

For Volvo CE, the next three years will focus on growth and profitability and, according to company president, Pat Olney, the potential for success is there for all to see.

– The important thing now is to make the whole organization understand that we need to change the way we think. We are transforming Volvo CE to meet the opportunity of the future, he says.

Growth, efficiency and leadership are Volvo CE's three cornerstones in the new strategy for 2013–2015. Using these three guiding principles as the starting point, Volvo CE has selected nine key focus areas.

They include allowing Volvo CE's two brands, Volvo and SDLG (Shandong Lingong) to develop and expand on more markets than today – SDLG outside China and Volvo in India, China and Brazil, for example.

Read more about Volvo CE's wheel loader L105, developed specifically for the Chinese market, on page >> 48.

**Drive organic revenue growth**

**Improve profitability**

### Volvo Buses' focus areas

- Number 1 in customer satisfaction.
- Profitable core market clusters.
- Soft product acceleration.
- Asia leverage.
- Profitable product portfolio.
- Manufacturing efficiency.
- Research and development efficiency.
- One company culture with high performing people and organization.

### Volvo CE's focus areas

- Profitably grow SDLG business globally.
- Develop Volvo branded products for emerging markets.
- Significantly increase Customer Solutions revenues.
- Significantly increase dealer and supply chain capability.
- Increase share and profitability of Road products.
- Increase gross margin per machine.
- Increase product portfolio development (PPD) efficiency.
- Deploy CAST globally (Common Architecture, Shared Technology).
- Develop, recognize and promote excellent leadership.

## Volvo Penta

Volvo Penta holds world-leading positions as an engine supplier to leisure boats, but the largest potential for growth in coming years is expected to be found within the company's other business segments. According to President Björn Ingemanson this is because the leisure boat industry has not recuperated after the severe crisis in 2009.

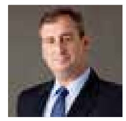
– Marine Leisure is still our core business, but we do not expect a quick recovery in this market. If we are to increase our sales, growth must come from Industrial and Marine Commercial, says Björn Ingemanson.

Within versatile industrial engines, i.e engines used in for example mining vehicles, stone crushers, cranes and forklift trucks, Volvo Penta has more to harvest on a growing market, according to Björn Ingemanson.

– Currently, we hold a small portion of this market, but our ambition is to increase substantially, he says.

The other area with considerable potential for growth is the commercial boat segment, which is not as sensitive to economic ups and downs as the market for leisure boats. Volvo Penta's objective is to double the business in this area by 2015. Volvo Penta is also to prepare for new markets, mainly in Asia but also in Africa and South America.

## Volvo Financial Services



Profitability, integrated offerings for dealers and customers, increased opportunities for profitable growth and leadership development – these are Volvo Financial Services' (VFS) cornerstones in the new strategy for 2013–2015, according to VFS President, Martin Weissburg.

Five key focus areas will guide VFS to higher and measurable levels of performance as a key element of the Volvo Group's success.

The direction outlined for VFS in the new strategy is more integrated and aligned with Group Trucks and the other Business Area strategies than ever before. As a result, VFS will play an increasingly important role in the delivery of the Volvo Group's total customer solution.

The strategy provides a path to operational excellence, so that VFS operates with more speed and increased productivity. It will also guide on how to grow VFS' offerings and market presence in the most profitable way.

**Volvo Penta's focus areas**

- Grow the Industrial Versatile Engine (VE) business.
- Grow the Marine Commercial business.
- Leverage on growth in emerging markets.
- Build a world-class supply system.
- Build a customer- and quality-focused company culture.

**Volvo Financial Services' focus areas**

- Strengthen customer and dealer partnerships throughout product lifecycle.
- Capture profitable growth opportunities.
- Drive operational excellence in support of efficient customer solutions.
- Attract, develop and retain high-performing employees.
- Optimize shareholder return on equity.

# Creating value for many stakeholders

The Group is dependent on stakeholders to develop its competitiveness, in the same manner as its stakeholders are dependent on the Group in many respects. Accordingly, the Volvo Group strives, jointly with stakeholders, to create common values in a manner that is sustainable in the long-term.

## Value creation

The Volvo Group's operation comprises several activities and products that create value for our stakeholders. Here are a few examples.

### Product development

- Costs for research and development amounted to SEK 14.8 billion (13.3) for 2012, corresponding to 4.9% (4.4) of net sales.
- Product development is controlled by the needs of customers, legislation, changes in society and new technology.
- Safety and environmental issues are integrated in product development.
- Approximately 90% of the environmental impact from a truck occurs during use. Consequently, product development focuses on sustainable transport solutions.

### Purchasing

- The Volvo Group has approximately 36,000 subcontractors in the first tier, of which about 6,000 supply components for the Group's products.
- In 2012, the Group made purchases of goods and services in an amount of SEK 211.5 billion.
- Corporate social responsibility is an integrated part of the purchasing process.
- One job within the Volvo Group generates a number of other job opportunities directly at subcontractors and indirectly in the rest of society.

### Production

- At year-end 2012, the Volvo Group had 98,717 employees and 16,548 temporary employees and consultants, of whom 48,152 employees and 7,548 temporary employees and consultants were blue collar.
- The Volvo Group has 61 factories in 18 countries around the world.
- In 2012, the Volvo Group delivered 224,000 trucks, 10,700 buses, 78,500 units of construction equipment, 17,200 marine engines and 17,600 industrial engines.

## Sustainability perspective

The sustainability perspective is an integrated part of the Group's operation. Here are a few examples of what we do and the effects of each step in the value chain.

We work to reduce the environmental impact of our products and on developing energy efficient solutions for our customers. Each new product must have less environmental impact than the product it replaces. The Group works continuously to improve the performance of products and our long-term research and development focuses on sustainable transport solutions, with a focus on transport efficiency, lower fuel consumption and thus lower emissions, as well as on hybrid solutions and alternative fuels. This is profitable for the customer, good for the environment and a competitive advantage for the Volvo Group.

Responsible purchasing involves encouraging behavior, managing risks and building long-term relations with our suppliers to improve social, environmental and business ethical relations in the supply chain. The Volvo Group strives to ensure that unethical values are not incorporated into our products and services and bases the work on a minimum standard in its Code of Conduct. The Group believes that a high standard of corporate social responsibility will result in high productivity and stable long-term relations, which will benefit all parties.

Environmental work is governed by a common environmental policy. Another important tool is Volvo Production System, with methods for streamlining the operation and minimizing productivity losses and also tools for documenting work-related risks, indicators for measuring health and safety and methods for ergonomic workplaces. At the end of 2012, 97% of employees in production worked in units that are certified according to environmental and quality management systems, primarily ISO 14001 and ISO 9001.

**Value by stakeholder group**

| SEK M | 2012 | 2011 |
|---|---|---|
| Purchase of goods and services | 211,458 | 214,483 |
| Salaries and remunerations* | 39,446 | 37,039 |
| Social costs* | 9,680 | 8,652 |
| Pension costs* | 4,126 | 3,471 |
| Income taxes | 4,097 | 6,814 |
| Interest paid to creditors | 2,476 | 2,875 |
| Dividend to shareholders | 6,083 | 6,082 |

* For further information, please see note 27 to the consolidated financial statements.

## Distribution and service

- The Volvo Group's products are distributed through wholly-owned and independent dealerships.
- Since the year 2000 net sales for the Volvo Group has risen by 133% to SEK 303.6 billion in 2012.
- Selling expenses in the Industrial Operations amounted to SEK 26.6 billion in 2012, corresponding to 9.0% of sales.

To meet society's need for efficient transport solutions, co-operation is necessary. It is in dialog with its customers that the Group can fully understand what drives their businesses and how the Group can seize the opportunities to build our shared success. Customer satisfaction is not only about the quality and performance of our products, but also about how customers are treated and how services are delivered.

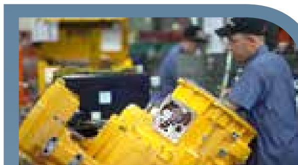
## Products in use

- Trucks manufactured by the Volvo Group transport goods and products so that society functions, our buses are important parts of efficient transport systems and our industrial engines are used as reserve power, for example, in hospitals. These are only a few examples of our products' and services' contribution to society.
- More than 2 million trucks and 100,000 buses, which the Group manufactured in the past ten years, operate on roads worldwide. At construction sites, there are more than half a million units of construction equipment that we manufactured in the last ten years.

As a manufacturer of commercial transport solutions, our products play an important role in daily life and are important components in the transport system. The Group also participates in the development of efficient transport systems by such initiatives as Green corridors, BRT systems, debate about renewable fuels and transport-policy issues.

Most of the negative impact from our products occurs during the use phase. We strive to offer the right products and services to achieve safe and energy efficient transport systems.

## Re-use



- Remanufactured components are important to the offering, which can help to reduce ownership and operating costs for customers.
- The Volvo Group takes into account resource efficiency and recycling potential already in the development of its products.
- We have stations where trucks, buses and equipment are disassembled and where reusable components are utilized, refurbished and tested.

The Volvo Group's products comprise largely of recoverable material. For example, our trucks consist of 85% recoverable material and are manufactured from as much as one third recycled material. Here, material strength is the limiting factor.

The Volvo Group also offers refurbished spare parts as an option to new, as a way to extend the useful life, household with resources and reduce costs for the customer.

**Investments**

A significant portion of the income for the year is transferred back into the operation. The capital is used for investing in activities to strengthen competitiveness and create long-term value for the Group's stakeholders. Of the income for the year of SEK 11,258 M (18,115), SEK 5,175 M (12,033) was returned to the operations.

**Income for the year amounted to SEK 11,258 M (18,115).**

**Shareholders**

Of the income for the year of SEK 11,258 M, AB Volvo shareholders will receive a certain portion in the form of a dividend, after the operation has received necessary capital for continued development according to the strategies. The Board of Directors has proposed a dividend of SEK 3.00 (3.00) per share, corresponding to a total of SEK 6,083 M (6,082) for 2012.

## PRODUCT OFFERING
# Strong brands are important assets

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.

### Brand positioning project aims to unlock hidden potential

Increasing market coverage, sharing and better utilizing resources, and increasing market share – these are the aims of the new Brand Positioning Project, which is a key part of the Volvo Group's growth strategy.

– The brands are at the centre of the Group Trucks organization. By aligning the brands, we are going to increase our market coverage and be able to sell trucks to a broader customer base, says Olof Persson, President and CEO of the Volvo Group. Furthermore, we will be able to better utilize the strategic assets we have built over time – our customer relations, scale, industrial footprint, distribution networks and supply chains. In some countries, we may even be able to add additional brands from our portfolio to an existing network base, which will grow and strengthen the business of our dealers.

Since taking the strategic decision to focus on commercial vehicles, the Volvo Group has built a strong portfolio of truck brands, including Renault Trucks, Mack, UD Trucks, and of course Volvo, as well as a joint venture with Eicher Motors in India. Over the past decade, the Group has also invested heavily in developing technology platforms, customer relations, a global industrial footprint and global distribution networks.

Until recently each truck brand has been operating relatively independently and often in the same segments. By aligning brands so they focus on different segments, while also sharing resources and networks, the Volvo Group can better leverage its assets in the brand portfolio.

– The brand positioning project is extremely important because we're taking the Volvo Group into a completely new phase, says Peter Karlsten.

– We are going from a brand-by-brand strategy, to having a full brand portfolio and taking a completely different approach to the markets.

### Joint view on markets

The first step in the brand positioning project was to define market segments, so that the entire group views the market in the same manner. Group Trucks has agreed on four key segments of the truck industry: basic, value, high-end and premium.

– By combining the brands and networks we open new opportunities, stresses Peter Karlsten.

– For example, currently most of our brands are in the high-end or premium segments, while there is an empty spot in the value segment – this represents a great opportunity.

Under the new plan Volvo and Mack will continue to service the high-end and premium segments. Outside of Japan, UD Trucks will focus on the value segment, while UD Trucks in Japan remains in the high-end segment. Renault Trucks will concentrate on the high-end segment and will stretch into the value segment. Eicher, which currently services the basic segment, will also stretch into the value segment.

With each truck brand being assigned a specific segment and customer base, Group Trucks can increase its market share, and contribute to the overall growth of the Volvo Group. The brand positioning project has also provided valuable input when the Group Trucks organization was designing road maps to reach their strategic objectives.

– We now have a very clear view on where we are going and how we can do things in a more efficient way, says Olof Persson. This is a new approach and it will open up fantastic opportunities.

## TRUCK BRANDS

– full market coverage with future positioning


**Eicher**

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

**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.

**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. 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.

**Volvo**

The Volvo brand, which has been built up since 1928, enjoys a solid position worldwide. It is one of the world's best known and respected brands within trucks. It is associated with the Group's core values - quality, safety and environmental care.

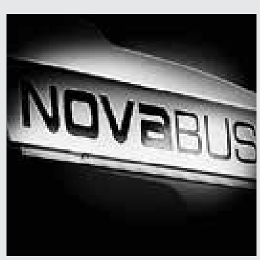
## BRANDS IN OTHER AREAS

**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 buses and construction equipment. It is associated with the Group's core values - quality, safety and environmental care.

**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.



**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.

**Prevost**

Prevost is a leading North American manufacturer of premium touring coaches and bus shells for high-end motorhomes and specialty conversions.

**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.

# Efficient products

All of the Volvo Group's products have been developed to contribute to efficient transport and infrastructure solutions in all parts of society.

### 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 Eicher, Mack, Renault Trucks, UD Trucks and Volvo, which all offer customers a broad range of products and services for efficient and economic transports.

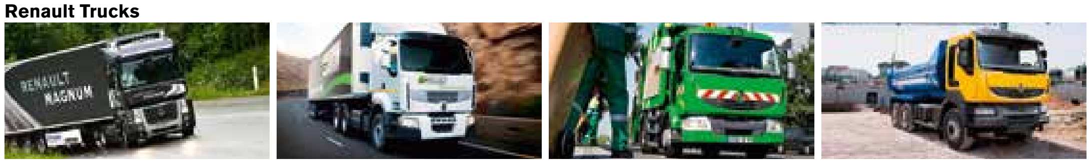
Long-haul trucks from Volvo are a common sight on the roads.

Long-haul | Regional distribution | City distribution | Construction

**Eicher**

**Mack**

**Renault Trucks**




**UD Trucks**

**Volvo**

### Special-purpose vehicles

The Volvo Group manufactures special-purpose vehicles for use by for instance government, defense, peace-keeping and relief organizations.


### 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.

Volvo Buses

Nova Bus

Prevost

**Expanded partnership with WWF**
During 2012 Volvo CE and Volvo Buses joined the Volvo Group's cooperation with WWF Climate Savers. The cooperation is based on the Volvo Group's commitment to reduce carbon-dioxide emissions by 30 million tons from construction equipment, buses and trucks manufactured through 2014 compared to a baseline of 2008. The Volvo Group's company, SDLG, becomes the first-ever Chinese company to be a member of Climate Savers.

Climate Savers involves multinational companies in the battle to reduce carbon-dioxide emissions. The results will be reviewed by independent technical experts. The agreed target must be more ambitious than the company would have set on its own, and must also signify that the company is leading its sector in the reduction of greenhouse gas emissions.

In autumn 2010, the Volvo Group became the world's first automotive manufacturer to join Climate Savers.

In addition, Volvo Buses has also committed to expand the number of field tests with plug-in hybrid buses during the commitment period. The plug-in technology has excellent fuel-savings potential for city buses. During the development of fuel-saving technology, Volvo Construction Equipment will prepare a new prototype with additionally improved fuel performance, compared with existing models.

The agreement between Volvo and WWF also states that:

- Volvo will develop a new truck prototype with 20% lower fuel consumption than a corresponding truck manufactured in 2008.
- Prior to 2014, Volvo will offer the commercial market trucks that operate on renewable gas.
- The Volvo Group will also reduce carbon-dioxide emissions from its production plants by 0.2 million tons (12%) before 2014, compared with 2008.

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

**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.

All over the world, Volvo CE is a leading provider when customers want to buy superior construction 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

**Engines for boats and industrial applications**
Volvo Penta manufactures engines and drive systems for both leisure boats 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 container handling, mining equipment and other industrial applications.

Marine engines

Industrial engines

**Financial services**
Financial solutions such as customer financing and leasing, dealer financing, and other fee-based products 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 meeting today's high customer demands, and to attracting and retaining Volvo Group customers.

# Environmentally enhanced products

It is critical for the Volvo Group's future success to continue to be innovative and develop technologies, which can be converted into financially viable products and services.

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 manufacturers of commercial vehicles the Volvo Group works to reduce $CO_2$ emissions from the use of its products.

### 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 and electric drivelines and 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

The Group's products have the largest impact on the environment in the usage phase. Therefore the Group has a life-cycle perspective and consider the environmental impact from the products, from them being developed all the way to them being phased out and recycled. Since approximately 90% of the environmental impact results from the use of the products, the Group's main focus is on reducing fuel consumption, $CO_2$ emissions and other emissions to the air. The basic principle is that each new product shall have less impact on the environment than the product it replaces.

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 39% in certain bus operations.

Three areas of focus

**Energy-efficient drivelines**

**Hybrid and electric drivelines**

**Renewable fuels**

### Hybrid and electric drivelines

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.

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 double-decker started in 2010. Significant fuel savings of up to 39% 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. With a plug-in solution, the fuel saving potential of a Volvo FE Hybrid is up to 30% in refuse applications. In distribution applications the saving is 15–20%.

### 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).

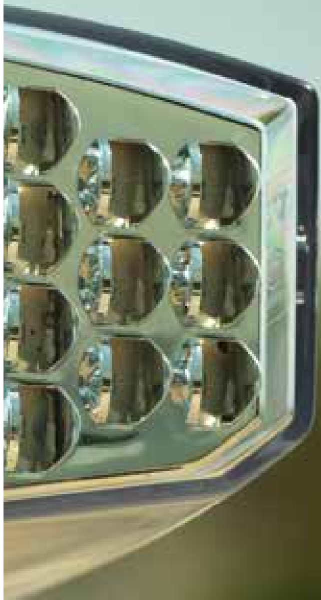
*Joint DME project*

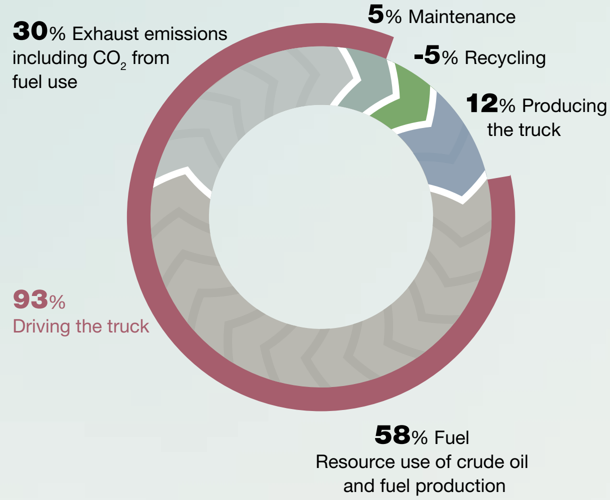
DME is a potential alternative to fossil fuel; it is energy-efficient and has a proven lower environmental impact. Estimates show that by replacing conventional diesel with Bio-DME carbon dioxide emissions will be cut by 95%.

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.

*Combining methane and diesel*

The benefit of methane diesel technology is that methane fuel is already available as a fuel for vehicles. Volvo FM and Volvo FL/FE are available in methane diesel versions. The trucks are powered by up to 75% gas and therefore the $CO_2$-emissions are reduced. Volvo Trucks is the first manufacturer in Europe that sells gas-powered trucks for long-haul operations.



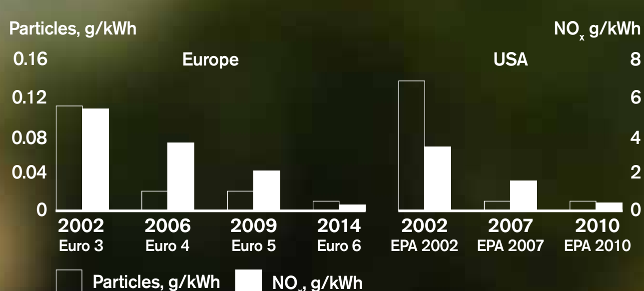



**Life Cycle Assessment**

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 well-informed decisions in the development process.

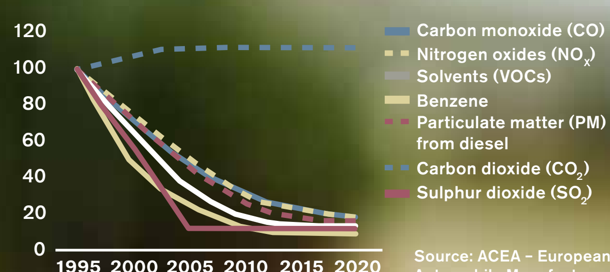
Findings from analyses indicate approximately 90% of the environmental impact results from the use of the products. The Group's main focus is therefore on reducing the environmental impact of products in use.

**Emissions regulations for trucks and buses**




In January 2010, EPA 2010 was implemented in North America and on January 1, 2014 Euro 6 will be introduced in the EU. With the implementation of EPA 2010, emission levels for particulates and NOx are close to zero. Euro 6 entails that emissions of $NO_x$ (Nitrogen Oxides), and PM (Particulate Matter) will be reduced by 97% compared to a truck from the early 1990s.

**Significantly reduced emissions**




Source: ACEA – European Automobile Manufacturers' Association.

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.

**New engine for Euro 6**

The Euro 6 legislation, which will come into effect in the EU in 2014 entails that emissions of $NO_x$ (Nitrogen Oxides), and PM (Particulate Matter) will be reduced by 97% compared to a truck from the early 1990s. During 2012, the Volvo Group launched an engine that will comply with Euro 6.

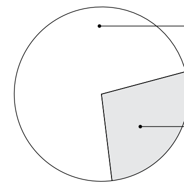
**Full lineup of Volvo Group trucks in the US earns 2014 greenhouse gas certification**

The US Environmental Protection Agency and National Highway Traffic Safety Administration have certified all Volvo Group truck models in the US, both Mack and Volvo branded, in accordance with 2014 fuel efficiency and greenhouse gas regulations.

## WORLD-CLASS SERVICES
# Strengthen customer relationships

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

**Distribution of net sales 2012**




When customers choose a supplier of vehicles or machinery, the offering of supplementary services combined with excellent products is a crucial factor.

Customer surveys show that the Volvo Group's companies get high ratings in terms of service and spare parts availability in most markets. As important as getting the customers' vehicles and machines back in operation quickly, is the way customers are treated. This does not apply to just a specific workshop, instead customers must be able to count on receiving the same, first-class service wherever they are.

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 is of ever-increasing importance to the Group's competitiveness.

### 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. A competent and professional dealer and service network, which makes sure that customers' vehicles and machines can be used to the maximum and are free from unwanted stoppages, is of vital importance for the Volvo Group and assists in strengthening the Group's various brands.

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.

### 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.

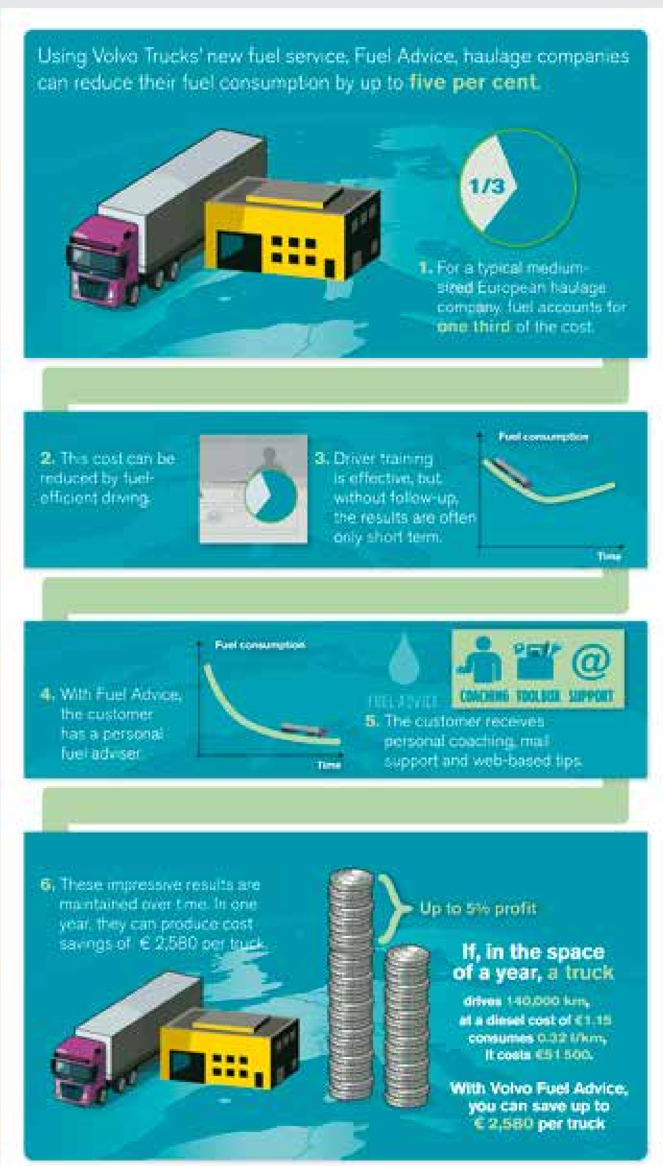
Since a large part of the offering within the aftermarket business is requested as long as products are being used, they contribute to balancing the fluctuations in the business cycle for the Group. By strengthening the aftermarket offering, profitability and revenue sustainability can improve for the 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 2012, the services and aftermarket products business (soft products) represented approximately 27% of net sales in the Industrial Operations compared to 26% in 2011. The extended product offering such as used vehicles and machines, trailers and superstructures and special vehicles were previously defined as soft products. As of January 1, 2012 these are instead defined as hard products.

# Training and advice to save even more fuel

In addition to products at the forefront in terms of fuel efficiency, the Volvo Group also offers training and advice that can contribute to further fuel savings.

## Volvo Fuel Advice




Fuel costs represent between 25% and 35% of total haulage firm costs. At the same time, the hauliers' profit margins are often very small, which means that all savings make an important difference. In order to succeed in cutting the haulage firm's overall fuel consumption, the part played by the drivers is vital. Driver training courses in eco-driving have proven themselves to be effective, but without professional follow-up the results are often short-term. That is why the Volvo Group's various businesses offer extensive services in this area. Some of them are described below.

**Volvo Trucks Fuel Advice**

Volvo Trucks' new Fuel Advice is a personal fuel advisor whose aim is to help hauliers cut their fuel costs while at the same time maintaining these improvements in the long-term perspective. The results are long-term, with savings as high as 5%.

Fuel Advice consist of three modules:

1) Fuel Coaching. The fuel advisors register and analyze each driver's individual driving techniques. The advisors provide practical tips on how fuel consumption can be reduced, as well as help with planning and with structuring the necessary follow-up.
2) Fuel Management Toolbox. A web-based toolbox with tools that provide inspiration, guidance and practical information about the best and simplest ways of working with fuel savings.
3) Fuel Management Support. The customer's interface for contacts with his or her individual fuel advisor, who is there to answer questions and offer advice.

Fuel Advice is primarily targeted to small and medium sized companies and complements Volvo Trucks' existing Fuel Management Service, which is primarily designed for larger haulage firms.

**Renault Trucks Optifuel**

Renault Trucks offers customers the possibility for further increasing the savings through its Optifuel solutions, which is an offer consisting of both products and services. It consists of Optifuel Technology, including the automatic gearbox Optidriver+, Optifuel Infomax, a tool for measuring and analyzing fuel consumption that is very precise and Optifuel Training, which trains drivers in economical driving.

**Eco Operator from Volvo CE**

EcoOperator is a training program from Volvo Construction Equipment that gives operators the practical and theoretical knowledge they need to become safer, more efficient and extra environmentally conscious while operating equipment. No matter how fuel efficient a piece of equipment is, the operator has a significant effect on fuel consumption and productivity.

The program teaches correct machine operation and maneuvering as well as how to plan work in the smartest, most efficient way. By following these techniques operators can help save money on fuel, increase overall productivity, reduce maintenance expenses and reduce the impact on the environment.

**Efficient driving with Volvo Buses**

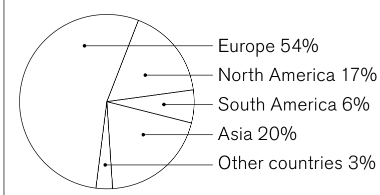
Volvo Buses also offers courses in efficient driving to help drivers save fuel and provide passengers with a pleasant ride. Together with Volvo Buses' new web-based tool – Volvo Bus Telematics – that gives bus operators better control over their vehicles' fuel consumption and allows them to tailor maintenance to meet individual needs, these measures can deliver fuel savings of about 10%. The hardware is fitted as standard in Volvo's hybrid bus.

**A HIGH-PERFORMING ORGANIZATION**

# Committed employees

The Volvo Group's vision is to become the world leader in sustainable transport solutions. A deciding factor in fulfilling this vision is our employees and their knowledge and skills.

**Geographic distribution of employees**




Increased global presence, new products, new technologies, 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 that 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.

The Volvo Group's Code of Conduct prescribes the minimum standard our emplyees can expect from their employer, but also their own responsibilities. All employees are offered education on the policy's principles.

*Academic Partner Program*

The number of people in Europe graduating with degrees in mathematics, science and technology 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 (APP), which 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 picture of important collaborative partners and to increase the Group's visibility to students and researchers. The cooperation with universities is also important for creating relationships with students and potential employees to secure access to future competence. The Volvo Group has eight talent partners in APP globally: EM Lyon and INSA Lyon in France, Tsinghua University and Tongji University in China, Chalmers University of Technology and the School of Business, Economics and Law at the University of Gothenburg, Sweden and North Carolina State University and Pennsylvania State University in the U.S.

*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 2012 VGAS, the Volvo Group reached an Employee Engagement Index of 76%, which was on the same level as the year before. This means that the Volvo Group is one of the top 25% companies. The response rate in VGAS was 92%. In 2012 a measurement on the organization's status was also included, PEI – Performance Excellence Index, which measures if the company has the right prerequisites to perform and deliver, but also factors such as cooperation, clear targets, customer service as well as quality and efficiency. PEI ended up at 74%, which is good, but below the level of the top 25% companies.

**The Volvo Group's company culture – The Volvo Way**

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.

The Volvo Way shows what we stand for and aspire to be in the future. It lays the foundation for developing the Volvo Group into the world's leading provider of commercial transport solutions. It is a recipe for success in which we strongly believe. It expresses the culture, behaviors and values shared across the Volvo Group.

The Volvo Way is based on the conviction that every individual has the capability and the determination to improve our business operations, and the desire to develop professionally.

The Volvo Way is the lively dialogue between leaders, within teams, and among colleagues around the world. This is the way we conduct business and deliver results. This is how we partner with customers and suppliers, how we work and change, and how we build the future together.

| **Key figures** | **2012** | 2011 |
|---|---|---|
| Number of permanent employees at year-end | 98,717 | 98,162 |
| Number of temporary employees and consultants | 16,548 | 19,675 |
| Share of women, % | 17 | 18 |
| Share of women, Board Members, % | 14 | 13 |
| Share of women, Presidents and other senior executives, % | 19 | 17 |

**INDUSTRIAL STRUCTURE**
# Global industrial structure

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.

**Employees worldwide 2012**


| | Major production facilities | North America | South America |
|---|---|---|---|
| Group Trucks Operations | Eicher* | | |
| | Mack | Macungie (US) | Las Tejerias (VE) |
| | Renault Trucks | | |
| | UD Trucks | | |
| | Volvo | New River Valley (US) | Curitiba (BR) |
| | 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) | |

* Ownership ≥ 50%


| Europe | Asia | Rest of the world |
|---|---|---|
| | Pithampur* (IN) | |
| | | Brisbane (AU) |
| Blainville, Bourg-en-Bresse, Limoges, Vénissieux (FR), Kaluga (RU) | | |
| | Ageo (JP), Hangzhou* (CN) | Johannesburg* (ZA) |
| Göteborg, Umeå (SE), Gent (BE), Kaluga (RU) | Bangalore (IN), Bangkok (TH) | Durban (ZA), Brisbane (AU) |
| Köping, Skövde (SE), 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) | |

# PRODUCTION
# With the environment in focus

The environmental effort is and has long been one of the cornerstones of the Group's efforts. The common environmental policy is one of the most important documents for governance. The policy is based on the Group's environmental management system, strategies and targets, reviews and measures.

The Volvo Group conducts manufacturing in 18 countries around the globe. An important tool is Volvo Production System (VPS), which includes methods for streamlining the operation and minimizing productivity losses. VPS includes tools for documenting work-related risks, indicators for measuring health and safety and methods for ergonomic workplaces. Today, 17 of the Group's production facilities are certified according to the international standard for occupational health and safety, OHSAS 18001. Environmental issues are also partly managed in VPS. At the end of 2012, 97% of employees in production worked in units certified according to environmental and quality management systems, primarily ISO 14001 and ISO 9001. At each production unit, there are environmental coordinators, safety delegates and quality coordinators. Indicators are used to measure and monitor work in environment, health and safety.

The Group's environmental goals are used to govern, develop and monitor the environmental work. Focusing on energy-saving measures is good for the environment and for 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 clear that it was also a good financial investment, which will generate considerable cost savings in the long-term.

All production facilities must comply with common minimum requirements in terms of 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 during acquisitions, companies and properties are reviewed with respect to environmental aspects and risks.


An important tool in production is Volvo Production System (VPS), which includes methods for streamlining the operation and minimizing productivity losses.

In 2012, there were 15 licensable facilities in Sweden. All have the necessary environmental permits and no permit must be renewed in 2013. An inventory of any contaminated land among the Group's properties is conducted annually. During 2012, post-remediation work was conducted on one case of contaminated land among the Volvo Group's properties in Sweden. During 2012, one major environmental incident occurred in Eskilstuna, Sweden. A leakage of oil was discovered in time for it to be stopped before it reached a nearby stream. No environmental disputes are in progress.

**The New River Valley plant is the first in the US with two high energy certifications**

The plant in New River Valley (NRV), which is the largest for Volvo Trucks, was certified according to ISO 50001 and SEP (Superior Energy Performance). ISO 50001 is an international standard and SEP is a certification program in the US for the development of continuous improvements in energy efficiency. The NRV plant was SEP-certified at platinum level – the highest possible – for implementing more than 15% energy improvements over a three-year period. To achieve ISO 50001 and SEP standards entail a milestone for NRV, on the way to becoming a carbon-dioxide neutral plant.

Jointly with 32 other major companies, NRV is participating in the DOE's Better Buildings/Better Plants improvement program. The commitment includes reducing energy intensity, within a ten-year period, by 25% per unit, and Volvo achieved the program's target within one year instead of ten. Some of the solutions that helped to reduce NRV's energy consumption were technical, for example, automation system, heating with solar energy and infrared heat, and many of the ideas were contributed by employees.

**RESPONSIBLE SOURCING**

# Continuously increasing demands

Responsible sourcing 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.

The Volvo Group has a process for the evaluation of its suppliers, based on the principles in the Volvo Group Code of Conduct.

### Sourcing and risk assessments

In 2012, more than 36,000 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 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.

### Results from the assessments in 2012

In 2012, 66% (60) of Volvo Group purchasing spend for direct material derived from suppliers of that during 2010 to 2012 had completed a self-assessment based on the Volvo Group's CSR requirements (CSR – Corporate Social Responsibility).

Of the 66% of the suppliers that completed the self-assessment 80% 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, which is one of the requirements. The rest failed beacuse of a lack of other processes to comply with the requirements. Suppliers that do not pass are asked to draw up an action plan.

Of the suppliers in high-risk countries from a CSR perspecitve 64% completed the test. In terms of volume the share was 84%. Of the suppliers in high -risk countries that completed the assessment 74% passed.

In 2013, 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.

**66%**

of the purchased direct material, measured in cost, came from suppliers that have undergone CSR evaluation during 2010 to 2012.

# 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 and marine and industrial engines.

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 2012, the markets outside of Western Europe and North America accounted for 47% of the Industrial Operations' total sales, compared with 16% in 2000.

### Strong market channels

The Volvo Group's products are sold and serviced through wholly-owned as well as independent dealers and service workshops. In order to attain a market position which is strong over the long term, good products are not enough. Of at least equal importance is a finely-meshed network of dealers and service points that can support customers in demanding transport and construction businesses. A testament to the strength of the Volvo Group's distribution and service network is the market positions that have been attained. The table to the right shows the truck brands' combined market shares in heavy-duty trucks in a number of important markets.

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.

**Group market shares**

| | Heavy-duty trucks | |
|---|---|---|
| | 2012 | 2011 |
| EU29 | 25.7 | 26.3 |
| North America | 18.3 | 18.2 |
| Brazil | 18.2 | 17.1 |
| Japan | 17.5 | 20.3 |
| India* | 3.9 | 3.1 |
| Australia | 21.4 | 23.4 |
| South Africa | 23.5 | 24.5 |

* In India Eicher has a particularly strong position within medium-duty trucks with a market share of 31.4% (30.5).

**The Volvo Group's larger 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** Acquisition of remaining 50% of the Canadian bus manufacturer Prévost.

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

**2007** Acquisition of Chinese wheel loader manufacturer Lingong (SDLG).

**2007** Acquisition of Ingersoll Rand's road development division.

**2008** Formation of joint venture with Eicher Motors of India within trucks and buses.

**2012** Acquisition of the French vehicle manufacturer Panhard.

**2012** Divestment of Volvo Aero to the British company GKN.

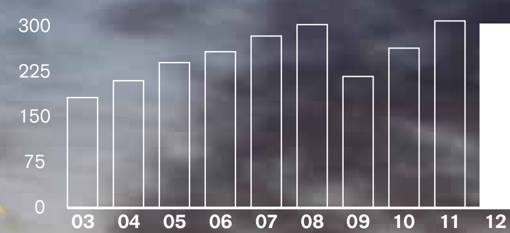
**2012** Increase to just over 25% ownership in engine manufacturer Deutz.

**2013** Agreement to acquire 45% of Chinese truck company Dongfeng Commercial Vehicles.

## Strong positions

- One of the world's largest manufacturers of trucks.
- One of the world's largest within construction equipment.
- One of the world's largest manufacturers of heavy-duty diesel engines.
- Strong brands.
- Good market presence globally.

**Volvo Group net sales,** SEK bn




**Distribution of net sales by geography 2012**



**Distribution of Group's net sales 2012**


* Volvo Aero was divested on October 1, 2012.

## DEVELOPMENT BY CONTINENT
# Europe – the largest market

During 2012, the European market accounted for SEK 112 billion, corresponding to 37%, of Group net sales. Europe is the historical home market, where the Group has a considerable industrial structure with a relatively large share of its manufacturing and sizeable exports.

**Weak markets**
In 2012 the heavy-duty truck market in Europe 28 (EU's 27 member states minus Bulgaria plus Norway and Switzerland) decreased by 9% to 221,000 trucks compared to 242,200 in the preceding year. The markets in Southern Europe weakened further during the year and the weaker market conditions spread to large parts of Europe. Demand held up better in Germany, Scandinavia and the UK. The Russian market was strong for most of the year. In 2013, the market in Europe 29 is expected to amount to about 230,000 heavy-duty trucks.

The Group's truck business had somewhat lower market shares during 2012 compared with the previous year. Part of the reason is the weak market development in Southern Europe, where Renault Trucks has a traditionally strong position. A shift in market mix with a relatively stronger demand in Germany, where the Volvo Group's position is relatively weak, also impacted the development negatively. In Europe 29 the Group's combined market share amounted to 25.7% (26.3) in heavy-duty trucks.

The construction equipment market continued to grow during the first half of 2012, however with a gradually weakening growth rate. During the second half of the year demand weakened significantly. Measured in number of units, the total market decreased by 4%. The European market for construction equipment is expected to decline by 5–15% during 2013.

Also in 2012 the European bus market was characterized by weak demand, fierce competition and considerable price pressure in tenders. Volvo Buses strengthened its market share to 13%.

Demand for marine engines was negatively impacted by the continued uncertainty regarding the economic development, not least in the previously strong boat markets in Southern Europe. The slower economic activity and the financial turmoil had a negative impact also on the market for industrial engines.

**New organization for truck business in Europe**
On January 1, 2013, the Volvo Group introduced a new organization for its sales and marketing of trucks in Europe, the Middle East and Africa (EMEA). The reorganization aims to capitalize more effectively on opportunities for the Group's brands and products. At the same time, an optimization of the dealer and service networks in Eastern and Central Europe is carried out, with the aim to considerably increase the service availability, primarily for Renault Trucks. The number of service points is expected to increase by 30–40% for Renault Trucks and by 10% for Volvo.

The new organization is a stage in the implementation of the new strategy for the Volvo Group's truck operation, which is a key component of efforts to improve the Volvo Group's operating margin by three percentage points.

–By making smarter use of existing networks, we can capitalize more effectively on our various brands and products in the truck operation while improving our service to customers, says Peter Karlsten, Executive Vice President of Group Trucks Sales & Marketing EMEA.

**Volvo Buses consolidates manufacture of complete buses in Europe**
In October, Volvo Buses announced its plans to concentrate its European production of complete buses in the company's main plant in Wroclaw, Poland. The consolidation is done to address a structural overcapacity in Europe. Production at the Volvo Buses plant in Säffle, Sweden, is planned to end at June 2013.

**Volvo Group invests in Russia**
The Volvo Group invests SEK 783 M in a new facility for the production of cabs at the plant in the Russian city of Kaluga. The facility, which is expected to become operational in 2014, will manufacture cabs for the Volvo and Renault Trucks brands with a total annual capacity of 15,000 cabs.

The plant in Kaluga, situated about 200 kilometers south of Moscow, was inaugurated in 2009 and currently supplies Russia and surrounding countries with trucks under the Volvo and Renault Trucks brands. The total annual capacity of the facility is 15,000 trucks. Volvo sold 6,973 heavy-duty trucks in Russia and Renault Trucks sold 1,777 trucks.

**New Volvo engine for Euro 6**
In July, Volvo presented an engine tailored for the tough Euro 6 environmental standards. Nitrogen oxide emissions will drop by 77% and particulate emissions will be halved. The first engine is Volvo's D13 460 hp engine, which today powers more than one-third of all Volvo trucks.

**New Volvo FH truck**
The new generation of Volvo FH was presented to the public in early September through parallel launches in some of our most important markets in Europe. It was also displayed at the automotive fair in Hannover where it got very positive reviews. The advanced technology of the new Volvo FH will create a new platform for strengthening Volvo's competitiveness. Production will start during the spring of 2013.

The truck contains ten top news that all will contribute to increasing customer profitability. On the next spread you can read more about the new Volvo FH.

Volvo Group invests SEK

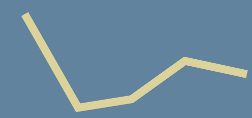
# 783M

in cab plant in Russia

**Volvo Group in Europe**

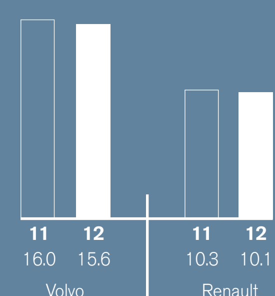
- **Net sales:** SEK 111,606 M (120,828)
- **Share of net sales:** 37%
- **Number of employees:** 53,434
- **Share of Group employees:** 54%
- **Largest markets:** France, the UK, Sweden and Russia.

**Market development, heavy-duty trucks, Europe,** Thousands



| 08 | 09 | 10 | 11 | 12 |
|---|---|---|---|---|
| 319 | 165 | 179 | 242 | 221 |

**Market shares in Europe, heavy-duty trucks, %**



| | Volvo 11 | Volvo 12 | Renault 11 | Renault 12 |
|---|---|---|---|---|
| % | 16.0 | 15.6 | 10.3 | 10.1 |

**Market development, construction equipment, Europe,** Thousands

| 08 | 09 | 10 | 11 | 12 |
|---|---|---|---|---|
| 173 | 76 | 94 | 125 | 120 |

## Facts about Euro 6

- New emissions regulations within the EU as of January 1, 2014.
- One-fifth the nitrogen oxide emissions of a Euro 5 engine.
- Half the particulate emissions of a Euro 5 engine.
- Certification rules have been changed so that it will be compulsory to meet emissions legislation down to an ambient temperature of at least –7° C.
- Emissions legislation encompasses nitrogen oxides (NOx), particulates (mass), particulates (quantity), ammonia (NH3), carbon monoxide (CO) and hydrocarbons (HC).


Volvo Buses is world leading within hybrid buses and has sold close to 1,000 hybrid vehicles in 20 countries. In June, 25 new hybrid buses were delivered to Gothenburg, Sweden.

**FOCUS NEW VOLVO FH**

# A truck that will carry us far into the future


## Ten important news on the new Volvo FH

The new Volvo FH containts ten news that will change the world. At least for truck drivers. Improvements have been made on:

- Design
- Handling
- Fuel
- Workplace
- Space
- Accommodation
- Safety
- Security
- Loading
- Uptime

Read more about all the news on www.volvotrucks.com/fh

# New series Volvo FH trucks

"A truck that will carry us far into the future." That is how Claes Nilsson, head of Volvo Trucks, summarizes the new versions of the Volvo FH and Volvo FH16 that was launched in September 2012.

– For almost two decades, the Volvo FH Series has provided haulage companies with safety, efficient transport and high quality. With our new replacements, we are going to be even better in all three areas, says Claes Nilsson.

**Setting a new standard**

Never before has Volvo conducted so many tests among drivers and haulage firms with the aim of ensuring that the new model meets the highest requirements. The result is a product that not only meets today's needs, it also offers properties that nobody has previously experienced in a truck.

– It really is our customers who have influenced the end-product, and I'm convinced that we're setting a new benchmark for the entire truck industry, says Claes Nilsson.

**"More like a car"**

One prioritized goal in the development process was to create a truck with the market's best handling. Several structural improvements give the new Volvo FH series a stable and flexible design, something that can be seen in a film entitled "The Ballerina Stunt" on www.volvotrucks.com/fh where slackline walker Faith Dickey walks the tightrope between two trucks travelling at 80 km/h.

– We've surpassed our expectations. The Volvo FH is more like a car than a truck when it comes to precise response and confidence-inspiring directional stability, says Martin Palming, Product Manager at Volvo Trucks.

**"Revolutionary" front suspension**

With the new Volvo FH series comes a new Individual Front Suspension (IFS) system for heavy trucks with left-hand drive.

– The Volvo FH without IFS will be number one on the market, but IFS is all set to revolutionise handling in the truck world. The Volvo FH with IFS will have the world's best road handling, says Martin Palming.

Individual front suspension means that each front wheel is suspended separately from the other so it does not affect the movement of the other wheel. Since both front wheels move individually, the result is gentler, more settled progress on the road. Thanks to the fact that movements are not transmitted from one wheel to the other, the sense of precision and control also increases.

– For more than 15 years now the Volvo FH has been a reliable growth engine for both Volvo Trucks and haulage companies the world over. The new Volvo FH will play the same significant role. It's an innovative truck that puts the driver in firm focus while at the same time allowing haulage firms to do the best business possible. It's a truck that's going to carry us far into the future, says Claes Nilsson.

## DEVELOPMENT BY CONTINENT

# Continued growth in North America

North America is the Group's second largest market and its overall development continued to be positive in 2012.

**Growing truck market**

In 2012, the total market for heavy-duty trucks in North America increased by 15% to 249,600 trucks compared to 216,100 in the previous year. Demand was strong mainly during the first half of the year, driven primarily by the need to replace the industry's aging highway tractor population. During the second half, demand weakened as many trucking companies postponed their investment decisions as a consequence of continued uncertainty about the economic development, weak employment growth and the outcome of the federal budget negotiations. For 2013, the market is expected to be at about the 2012 level of 250,000 heavy-duty trucks.

Growth continued on the market for construction equipment during 2012. In total, the market, measured in number of machines, rose by 23% compared to 2011, which also was a year of growth following a number of weak years. For 2013, growth in the North American market is expected to be in the range of minus 5% to plus 5%.

The North American market for city buses continued to be weak due to the budget restrictions in effect in many cities. Recovery in the coach market was slow.

**Success thanks to good products and strong network**

During 2012, the Volvo Group maintained its market shares in North America. The combined market share in the heavy-duty segment was 18.3% (18.2), on the back of a competitive customer offering of trucks equipped with engines and gearboxes that provide considerable fuel savings, improved drivability, less wear and improved safety. The new drivelines have meant that an increasing number of customers opt for Volvo Group engines. During 2012, 79% (79) of Volvo trucks built in North America were equipped with Volvo engines. The vast majority of Mack trucks are equipped with the Group's Mack engines.

Volvo Trucks' dealers in the US have in recent years made substantial investments in their service networks. In the Southeastern parts of the country, service capacity has increased by some 20% since January 2010. In Texas, service capacity has increased by 32%. In the West, investments have led to a capacity increase of almost 15%.

On the weak North American market for coaches, Prevost defended its position as the second largest brand in the US and Canada with a market share of 30% (34). Nova Bus is the third largest supplier of city buses in North America with a market share of 14% (15) and with considerable potential for continued growth.

**Success for I-Shift and mDRIVE**

As a result of the strong demand for the Group's automated mechanical transmissions, production of the Volvo I-Shift and Mack mDRIVE gearboxes started at the U.S. engine plant in 2012. Volvo Trucks introduced its I-Shift transmission on the North American market in 2007. During 2012, 59% (45) of trucks with Volvo engines in North America were equipped with I-Shift. 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 and lightweight design. mDRIVE was introduced in Mack products in 2010 and already during 2012 it was installed in 27% of all Mack highway trucks.

**Volvo CE expands in Shippensburg**

Over the next couple of years, Volvo Construction Equipment (Volvo CE) invests USD 100 M in its Shippensburg, Pennsylvania, USA manufacturing facility. In the long term, the plant will be able to produce 70% of the machines sold in the North American market. Groundbreaking for the new facility was in May of 2012.

**UD Trucks ends production for U.S. Market**

Due to a combination of factors, including the continued shrinking of the cab-over-engine market segment and the accelerating cost of regulatory compliance, a strategic decision was made to end production of UD trucks for the U.S. market. UD Trucks delivered 472 trucks in North America in 2012.

**Volvo Group strengthens its range of trucks powered by natural gas**

Under the Mack brand, the range of trucks powered by natural gas will be expanded by a further two models during 2013, Mack Pinnacle and Mack Granite. The Mack TerraPro model is already available to customers in the waste mangement segment. All models will be offered with engines powered by either liquid natural gas (LNG) or compressed natural gas (CNG). The Volvo Group also plans to launch a proprietarily developed 13-liter engine for liquid natural gas (LNG) under the Volvo brand in the North American market in 2014.

**Full lineup of trucks earns 2014 greenhouse gas certification**

The US Environmental Protection Agency and National Highway Traffic Safety Administration have certified all Volvo Group truck models in the US, both Mack and Volvo branded, in accordance with 2014 fuel efficiency and greenhouse gas regulations.

– The Volvo Group is committed to leading the way in fuel efficiency, and to reducing the emissions from our operations and products. This shows that the Group is at the forefront of technology development and that the development benefits the entire Group and our brands, said Dennis Slagle, Executive Vice President Group Trucks Sales & Marketing Americas.

In 2012, the heavy-duty truck market increased by

# 15%

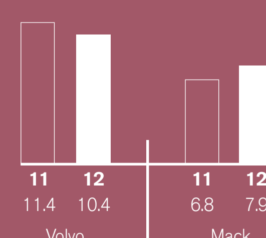
**Volvo Group in North America**

- **Net sales:** SEK 71,101 M (60,560)
- **Share of net sales:** 23%
- **Number of employees:** 16,569
- **Share of Group employees:** 17%
- **Largest markets:** USA, Canada and Mexico.

**Market development, heavy-duty trucks, North America,** Thousands

| 08 | 09 | 10 | 11 | 12 |
|---|---|---|---|---|
| 185 | 118 | 142 | 216 | 250 |

**Market shares in North America, heavy-duty trucks, %**



| | Volvo | | Mack | |
|---|---|---|---|---|
| | 11 | 12 | 11 | 12 |
| % | 11.4 | 10.4 | 6.8 | 7.9 |

**Market development, construction equipment, North America,** Thousands

| 08 | 09 | 10 | 11 | 12 |
|---|---|---|---|---|
| 137 | 68 | 82 | 112 | 138 |

During 2013, Mack will strengthen its lineup of trucks that run on natural gas. On the photo is the Mack Granite.

During the year all of the Volvo Group's truck models under the brands Volvo and Mack were certified according to the emission regulations coming into effect in 2014. On the photo is Volvo VNL 780.


Volvo CE is expanding its production of machines at the factory in Shippensburg, Pennsylvania.

## DEVELOPMENT BY CONTINENT

# Strengthened market position in Brazil

After a very strong growth in 2011, the South American market weakened during 2012, chiefly as an effect of a slowdown in the Brazilian economy. Despite the slowdown the Volvo Group had its second best year to date in terms of truck deliveries.

**Volvo strong on a weaker truck market**

The South American market for heavy-duty trucks decreased to approximately 146,000 trucks in 2012 compared to 148,000 the year before. Brazil is the largest market by far in South America and accounted for approximately 60% of the total market in the region. In 2012, the Brazilian market decreased by 22% from 111,500 trucks to 87,400, impacted by the general slowdown in the Brazilian economy during the first nine months of 2012 and the transition from Euro 3 emissions regulations to Euro 5. During the fourth quarter demand picked up. Lower financing rates for truck purchases, combined with good customer profitability and the positive outlook for economic recovery in 2013, significantly improved demand. The total Brazilian market for heavy-duty trucks is expected to increase and reach a level of about 105,000 trucks in 2013.

The construction equipment market continued to grow during 2012, although the growth rate slowed down during the year. In total, the market increased by 6% in 2012 compared to the strong 2011. Growth in the South American market for construction equipment is expected to be in the range of minus 5% to plus 5% during 2013.

The South American bus market weakened during the year. During 2011, many operators invested in buses with engines adapted to Euro 3 ahead of the changeover to Euro 5 on January 1, 2012, which entailed a price increase on buses. Against that background, investments in buses were fewer during 2012. In Brazil, the market towards the end of the year was also negatively affected by operators awaiting the outcome of municipal elections. The total heavy bus market in Brazil decreased by 9% to 4,400 buses (4,900). With a market share of 25% (23), Volvo is the second largest bus brand in Brazil.

**Increased market shares in heavy-duty trucks in Brazil**

Volvo reaped success in the Brazilian market, not least with its new Euro 5 trucks. In the segment for trucks above 16 tons in Brazil, the market share increased to 18.2% compared with 17.1% in 2011 and Volvo strengthened its position as market leader. Volvo has gained market share continuously in recent years. In 2010 the market share was 14.8% and in 2009 it was 13.3%. Within the segment for new Euro 5 trucks, Volvo was the leader with 23.3% of the Brazilian market. The Volvo Group is the market leader in heavy-duty trucks also in Peru with the Volvo brand and in Venezuela with the Mack brand.

**Volvo Buses leading in Bus Rapid Transit**

Volvo Buses is the world's leading manufacturer of high capacity buses and Bus Rapid Transit (BRT) systems. During the year, deliveries started for the contract of 688 bus chassis to Colombia's capital Bogotá, which was signed towards the end of 2011. It was Volvo Buses largest contract ever in Colombia. The contract covers conventional buses, articulated buses and bi-articulated buses.

The new vehicles were sold for the third phase expansion of Transmilenio in Bogotá, the continent's most efficient and advanced BRT-system. With its high capacity and fast transport, BRT is a cost efficient alternative to rail-bound transport systems.

**Volvo CE expands in Brazil**

Following a rapid rise in demand for SDLG branded machines in Latin America Volvo CE is investing USD 10 M to start manufacturing SDLG excavators in its Pederneiras, Brazil plant.

In January 2013, Volvo CE also decided to consolidate its production capacity in the Americas by relocating the manufacturing of Volvo branded backhoe loaders from Tultitlan, Mexico to Pederneiras.

During the year, deliveries started of bus chassis to be used in the third phase of Bogotá's public transport system, Transmilenio.

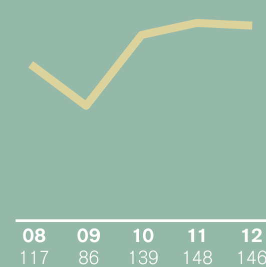
# 18.2%

Volvo's market share for heavy-duty trucks in Brazil in 2012.

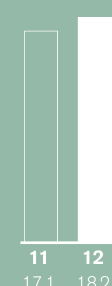
**Volvo Group in South America**

- **Net sales:** SEK 29,164 M (35,142)
- **Share of net sales:** 10%
- **Number of employees:** 5,977
- **Share of Group employees:** 6%
- **Largest markets:** Brazil, Chile and Peru.

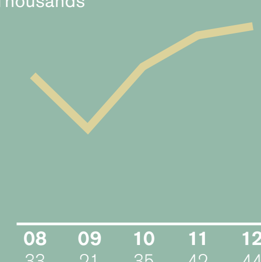
**Market development, heavy-duty trucks, South America,** Thousands




**Market shares, heavy-duty trucks, Brazil, %**




**Market development, construction equipment, South America,** Thousands




Chile is one of many truck markets in South America where the Volvo Group holds a strong position.


The South American market for construction equipment is of large importance for Volvo CE, which has production in Pederneiras, Brazil.

**FOCUS PERU**

# The second largest market for Volvo trucks in South America

## Brand loyalty runs in the family

Santiago Rodríguez Banda S.A.C. is a family owned carrier company with workshops in the cities of Arequipa and Lima, Peru. In the mid-1970s, the Rodríguez brothers, founders of the company, bought the first Volvo N88 truck to enter the Peruvian market. Since then, loyalty to the brand has been added to the family tradition. Currently, the second generation of the family runs the company, whose fleet of 41 trucks is composed of 100% Volvo vehicles.

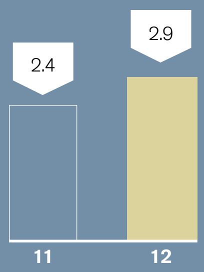
**Peru**

- **Area:** 1,285,216 km$^2$
- **Population:** 29 million (2011 estimate)
- **Capital:** Lima with 8,5 million inhabitants
- **Other big cities:** Arequipa (785,000), Trujillo (683,000), Chiclayo (520,000), Piura (378,000) and Iquitos (371,000)

**Volvo Group in Peru**

- **Number of employees:** 274
- **Net sales:** SEK 2,861 M
- New, multi-brand base of operation opened in 2012.

**Volvo Group net sales in Peru**
SEK bn




# The Volvo Group invests in Peru

On June 12, the Volvo Group opened its new base of operations in Peru. With a total area of 56,500 square meters, the facilities will serve as a hub for commercial and after-market activities supporting Volvo, Mack and UD Trucks, Volvo Buses, as well as Volvo Penta marine and industrial engines. SEK 130 M is being invested in the new facilities.

– We have a very strong presence in Peru, a strong image and a high level of customer satisfaction, says Roger Alm, president of Latin American sales for Volvo Group Trucks Sales and Marketing Americas. We are market leaders in heavy-duty trucks and the new investment will help us support the expansion of our business in the country. The Volvo truck fleet in Peru is around 17,500 trucks and the fleet is expanding.

The Peruvian facility is the first multi-brand operation of the Volvo Group in South America, given that it will support Volvo, Mack and UD Trucks.

**Strong position**

The Peruvian market for heavy-duty trucks amounted to 9,985 vehicles during 2012, compared with 8,441 trucks during 2011.

In terms of the Volvo truck brand, Peru is the second largest market in the continent. 2011 was a record year in Peru and a total of 2,040 Volvo branded trucks were sold, a historical record since Volvo entered the market 50 years ago. During 2012, the market weakened somewhat in the mining segment, compensated with increase in the long haul. During the year 1,973 Volvo trucks were sold, which gave Volvo a market-leading position and a market share of 19.8%.

The Volvo Group has been successful in the Peruvian market and has increased the sales volume in the heavy-duty segment in recent years, from 241 units in 2000 to 2,100 units in 2012.

During 2012, 127 Mack trucks were also sold, which gave a market share of 1.4%. Having access to several brands means that the Volvo Group can offer customers in many important segments of the market the exact type of truck they demand.

**Large mining transports**

Peru is one of the world's largest producers of copper and silver and a major supplier of gold, zinc, lead and other minerals. The mining industry accounts for roughly 15% of the country's GDP.

– Our trucks are ideal to address the requirements of Peruvian carriers in the mining and long distance freight segments, said Rolf Smedberg, who was Managing Director of Volvo Peru from 2006 to 2012, when he retired and was succeeded by Marcus Högberg.

**Training center for mechanics and drivers**

The new Volvo Group Peru facilities are located in Lurín along the coast south of the capital, Lima. Lurín is a popular area which is attractive for both employees and other stakeholders. The new venue will also feature a training center for service technicians and drivers/operators, equipped with the leading edge in Volvo, Mack, UD and Volvo Penta equipment and training infrastructure.

## 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 markets in Asia.

### Weakening markets

Asia accounted for 23% (24) of net sales during 2012. In 2000 the figure was 7%. The sharp increase has primarily been achieved by the acquisitions of UD Trucks of Japan (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 organic growth. In the beginning of 2013, the Volvo Group signed an agreement to purchase 45% of the Chinese truck manufacturer Dongfeng Commercial Vehicles, which will give a strong presence on the Chinese truck market – the world's largest.

In Japan the total market for heavy-duty trucks in 2012 rose by 28% to 31,800 vehicles (24,800) partly driven by government incentives as well as the need for trucks for reconstruction work following the earthquake and the tsunami. For 2013, the total Japanese market is expected to increase to about 35,000 heavy-duty trucks on the back of expectations of higher economic activity stemming from governmental stimulus activities and a weaker currency.

In India, the total 2012 market for heavy-duty trucks declined by 18% to 195,140 trucks (237,300).

In China the largest part of net sales stem from construction equipment. The Chinese construction equipment market continued to weaken in 2012 and declined by 37% (+7%). In Asia outside of China, the market for construction equipment grew by 11% (28). For 2013 the total market growth in China is expected to be in the range of minus 5% to plus 5%. Asia excluding China is expected to decline by 0% to 10%.

### Volvo CE number 1 in China

With a volume totaling 248,000 wheel loaders and excavators in 2012, the Chinese market is by far the world's largest, and the Volvo Group is the number 1 in these segments. During 2012 Volvo CE with the brands Volvo and SDLG had a combined market share of 15.0% (12.0) within wheel loaders and excavators. That increased the distance even further to the number two on the market.

Part of Volvo CE's strategy is to develop products for growth markets under the Volvo brand. In November 2012, the medium-heavy wheel loader Volvo L105 was launched. It was developed specifically to meet the needs of customers in China.

Since 1998, Volvo CE's main facility for the development and manufacture of excavators is situated in Changwon, South Korea.

### Sunwin, leading within large electric buses

China is a large market for electric buses. Currently there are 1,700 large (over 10 meters) electric buses in China, an increase of 1,000 buses during 2012 alone. Here Sunwin Bus, a Volvo Buses and SAIC Motor joint-venture, has a market share of approximately 40%. During the year, Sunwin Bus delivered 3,250 buses. 512 of these were so called new energy buses, of which 413 were fully electric. That made Sunwin leading in China and a world-leading supplier of large, fully electric buses in 2012.

### Plans to launch Value Trucks

In the next few years, the Volvo Group plans to launch a new series of trucks in the so called value segment, i.e the lower price segments, in emerging market in for instance Asia, South America and Africa. Production is being prepared in Thailand and India. The Group also intends to manufacture these trucks for the Chinese market in the joint venture DND.

### Restructuring in Japan

In Japan, a voluntary leave program was launched with the aim of reducing costs by 10% to improve competitiveness. Compared with mid-2012, the organization was reduced by 1,000 employees and consultants as of January 1, 2013.

In the beginning of 2013, a program to improve the total efficiency in the Japanese production system was launched.

### Success and investments in India

During the year, VECV (the joint venture together with Eicher Motors) strengthened its position in the Indian market. The total market for trucks and buses above 5 tons decreased by 12% but VECV's deliveries remained on the same level as the previous year and the market share rose to 12.7% (11.1); the highest so far. Within buses Eicher's share rose to 11.9% (9.7), for trucks 5-14 tons to 31.4% (30.5) and in the heavy-duty segment over 16 tons to 3.9% (3.1).

VECV continues to invest in India. During 2012 and the next few years, some SEK 2 billion is invested in a new factory for medium-duty engines that will be up and running in 2013, a new paint shop, tooling for new products and a new facility for bus chassis. The sum also includes research and development related to a number of new products to be launched the next few years. The investments are made with funds already in VECV and with the company's future cashflow.

Furthermore, Volvo India invests approximately SEK 2.5 billion the next few years, among other things in a new factory in Bangalore for the production of the new truck series planned for the value segment. In addition, investments are made in the development of new products and in a new office in Bangalore where backoffice functions that were previously spread out over the city are to be gathered.

### Volvo Buses strong in India

Volvo Buses has a strong position in India and is one of the most well-known brands on the market. In total, 4,500 buses from Volvo are in operation in India. Volvo's city buses run in 13 cities and in the segment for coaches, the company is represented on all important routes. During the year a number of new models were launched, among them the long-distance coach Volvo 9100, which opens up new market segments and increases the potential for growth.

# 23%

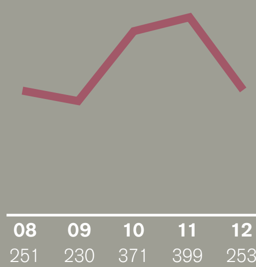
of Group sales come from Asia

**Volvo Group in Asia**

- **Net sales:** SEK 69,278 M (73,586)
- **Share of net sales:** 23%
- **Number of employees:** 20,222
- **Share of Group employees:** 20%
- **Largest markets:** China, Japan, India and Indonesia.

**Market development, heavy-duty trucks, Japan,** Thousands

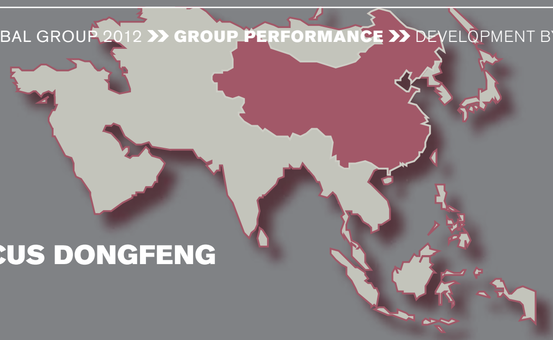

**Market development, construction equipment, China,** Thousands




On September 19, 2012 UD Trucks was launched in South Korea. First off the mark was the Quon 6x4 truck. UD Trucks Korea plans to launch a number of new models and fully leverage the Volvo Group's solid, nationwide network of 25 service points.

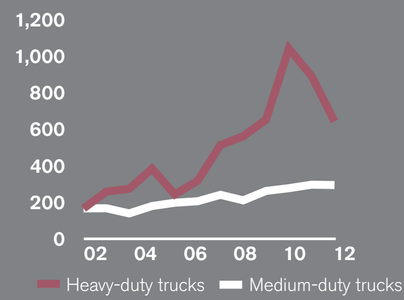
Volvo CE's new wheel loader L105 has been developed specifically for the Chinese market.


In India, success continued for VECV with trucks under the brand Eicher. Currently investments are made in the development of new products and in new facilities.



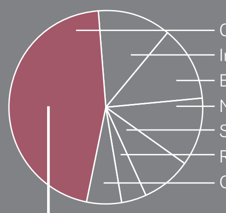
## FOCUS DONGFENG

**Chinese truck market development**
Thousands




# Volvo Group to become world's largest heavy-duty truck manufacturer

**World's largest truck markets above 14 tons in 2011**




# Strategic alliance with Chinese company Dongfeng Motor Group

In January of 2013, AB Volvo signed an agreement with the Chinese vehicle manufacturer Dongfeng Motor Group Company Limited (DFG) to acquire 45% of a new subsidiary of DFG, Dongfeng Commercial Vehicles (DFCV), which will include the major part of DFG's medium- and heavy-duty commercial vehicles business. At completion of the transaction, the Volvo Group will become the world's largest manufacturer of heavy-duty trucks.

– This is a very exciting venture that will combine the best of two worlds, strengthening the positions of the Volvo Group and Dongfeng and offering excellent opportunities to both parties, says Volvo's President and CEO Olof Persson.

Combining Dongfeng's strong domestic position and know-how with the Volvo Group's technological expertise and global presence will offer DFCV excellent potential for growth and profitability in and outside China.

**Completion within a year**

Completion of the transaction is subject to certain conditions, including the approval of relevant anti-trust agencies and Chinese authorities. The purchase consideration amounts to RMB 5.6 billion. The ambition is to complete the transaction as soon as possible and completion is expected to take place within approximately 12 months from signing. Payment of the purchase price will increase Volvo's net debt by approximately SEK 6 billion.

The Volvo Group is the world's third largest manufacturer of heavy-duty trucks with 180,000 units sold in 2011. Dongfeng was the second largest producer of heavy-duty trucks in 2011, with total sales of 186,000 units, of which approximately 142,000 units were produced by the part of the company that will be included in DFCV.

– We are pursuing a clear strategy to achieve our vision of becoming the world leader in sustainable transport solutions, says Olof Persson. With this agreement in place, we take a crucial step toward reaching a number of our key strategic objectives such as size and growth in Asia.

**The world's largest truck market**

During 2012, the Chinese market for heavy-duty trucks totaled approximately 636,000 vehicles, while the corresponding figure for the medium-duty market was 290,000 vehicles. DFCV occupied a leading position in China in both the heavy- and medium-duty segments, with sales of 102,000 heavy-duty trucks and 45,500 medium-duty trucks, corresponding to market shares of 16.1% and 15.7%, respectively.

The partnership with DFG not only provides the Volvo Group with ownership in the largest heavy-duty and medium-duty truck manufacturer in China, but also offers excellent opportunities to achieve economies of scale in terms of sourcing, development and production for the Group's truck operations. There are a number of areas in which cooperation is planned between DFCV and the Volvo Group, such as engines and powertrain components, product platforms and purchasing.

– In Dongfeng, we have a partner that we know well, having worked together for several years, and with a management team and a product range that we really appreciate, says Olof Persson, Volvo President and CEO. Joining forces will provide clear benefits for both parties and the right conditions to develop DFCV into a competitive and successful international truck manufacturer with healthy profitability.

**FOCUS AFRICA**

## Volvo CE supports training of technicians in Africa

Volvo Construction Equipment (Volvo CE) is confronting a shortage of technicians in Sub-Saharan Africa with a Sida (Swedish International Development Cooperation Agency) project to help support and modernize technical schools in Africa. Volvo CE will take a hands-on approach with a project at Selam Technical and Vocational College in Addis Ababa, Ethiopia, providing new equipment, training materials, teacher training, ongoing curriculum development and apprenticeship opportunities for students.

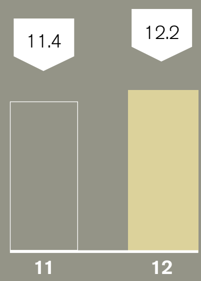
A lack of well-trained machine technicians is a serious problem in much of Africa and has meant that equipment dealers operating in countries like Ethiopia are often forced to hire expatriate technicians, rather than invest in local workers who would remain in the country permanently – and keep more money in the local economy. Developing a technical program will benefit OEMs like Volvo CE by providing a larger pool of skilled workers. Though students and apprentices won't be under any obligation to work for Volvo CE, the project will provide Volvo CE a very powerful way of building relationships with potential employees.

The project, which will train about 30 students a year, is a first for Volvo CE in Africa, but a similar Volvo program that trains homeless teenagers in Brazil has had a great deal of success. If the new program works well, the company hopes to expand into other African countries in the future.

# A continent with large opportunities

Mack enjoys a special position in Nigeria.

**Volvo Group sales in Africa**
SEK bn




# A new Africa

The roar from the Lion Economies in Africa is becoming ever louder. In the Volvo Group, many people are listening. After several decades characterized by war, weak economic growth and a decline in productivity, developments gathered speed at the beginning of this century.

**Growth boom**

There are a number of explanations for the upswing in recent years. The conflicts have come to an end in many countries, and the excessive lending of the 1980s and 1990s has now been rectified in a growing number of African states. The external factors include a more accommodating international climate, with different pro-Africa initiatives, and the appearance of new economic superpowers, China and India in particular. The emerging countries are playing a particularly critical role in infrastructure financing that is essential in order to harness Africa's potential. This has helped to boost the demand for African raw materials.

For a number of African countries, the world's hunger for oil, gas, metals and precious stones has resulted in a jackpot. After 27 years of war, Angola began its journey from poverty thanks to oil exports. Between 2001 and 2010, the country's GDP grew by an average of 11.3% a year. This gave Angola a very close victory over China, in the rapid expansion league. In recent years, African countries have experienced success in turning their export revenue into investments in the future in the form of infrastructure and more diversified trade and industry. This often involves contracts with foreign companies that are given access to natural resources in return for constructing roads and railways, schools, hospitals or oil refineries.

Not everything is, however, linked to black oil and sparkling diamonds. The internet and mobile telephony have given the African farmer or businessman new opportunities to find information and do business. Industries such as tourism, banking and telecommunications have also expanded more rapidly than those based on raw materials. Taken together, all these factors have created a growing middle class which is consuming and drives growth further.

**Enormous differences**

There is no doubt that double-digit growth figures are good news. However, this growth has taken place from very low levels and it is distributed unequally. From a business angle, there is no point in talking about Africa as a cohesive market.

– If you are going to generalize, you can talk about three areas. North Africa has gas and oil. Provided that the political climate is stable in the future, growth is going to continue in countries such as Algeria and Libya. Unfortunately, Central Africa still has a long way to go. The poverty is still enormous. The largest potential for growth can be found in southern Africa: from Angola down to Namibia, Botswana and South Africa and then up again to Mozambique, Tanzania and Kenya, says Anders Petersson, Manager Transport Industry Analysis at Group Trucks Sales & Marketing EMEA, in response to the difficult question: Can you describe in simple terms how things look in Africa?

He is, however, quick to stress that anyone looking to sell a product in Africa should not simply study the growth figures. It is also necessary to

**Truck deliveries in Africa**

| | 2012 | 2011 |
|---|---|---|
| Mack | 159 | 387 |
| Renault Trucks | 4,258 | 3,480 |
| UD Trucks | 3,658 | 3,899 |
| Volvo | 4,117 | 3,240 |

# FOCUS AFRICA


By tradition, Renault Trucks enjoys a powerful position in North Africa, but it is also represented in many other African markets.

see how things look in reality – which immediately makes the situation more complicated.

### Without roads, no trucks

If truck sales are to be possible on a large scale, a functioning road network and an industrial infrastructure are essential. Other pieces of the jigsaw include a system for financing, a haulage tradition and trained staff to service the trucks. These prerequisites exist primarily in the northern and southern parts of Africa and this is reflected in the Volvo Group's delivery figures for 2012. By tradition, Renault Trucks enjoys a strong position in North Africa, in Algeria in particular, but it is also represented in many other African markets. Volvo trucks are also sold in the north, in Morocco, for example, but the brand is largest in South Africa. South Africa is also the most important market for UD Trucks, while Mack enjoys a special position in Nigeria.

In a conference room in Lundby in Gothenburg, Lars-Erik Forsbergh is talking about strategy. At the time of the interview he headed up Group Trucks Sales & Marketing EMEA's operations in Northern Africa and the Middle East, with responsibility for the Volvo, Mack and UD Trucks brands. Lars-Erik Forsbergh is optimistic about the future. So optimistic, in fact that the vision for his region is described as substantial growth in business. He stresses that the distribution network is going to be totally decisive.

– We can never be larger than our local importer. We have to be perfectly synchronized and have the same vision. Having a good product is not enough. Our service network must expand so that we can keep our promises. One method involves delivering modular workshops in kits. All the importer needs to do is cast a concrete foundation. After a couple of weeks, everything is in place. We also have another product in the shape of a turn-key permanent workshop which is delivered by a Turkish company, says Lars-Erik Forsbergh.

Africa is a continent that generates creativity. One example is Mack's importer in Nigeria's largest city, Lagos, who is putting together truck deals by gathering hauliers, developers and financiers around the same conference table – a local form of total transport solution.

### Products for Africa, today and tomorrow

Nigeria can also serve as an illustration of the two faces of Africa. Outside Lagos, work is in progress on creating Eko Atlantic – an artificial peninsula on which a city district as large as Manhattan will rise from the sea. Three years from now, it is estimated that 25 million people will be living and working in the region. There are already more than 50 cities in Africa with populations of over one million and the urbanization process is continuing.

Jan Vandooren, Director Middle East, Africa and CIS at Volvo Buses, picks up a glossy brochure to illustrate developments.

– We delivered two Bus Rapid Transport systems prior to the Football World Cup in South Africa. This system is without question the transport solution for the mega-cities that are developing in Africa. The cost of a BRT system corresponds to just 5% of the investment in a traditional rail-bound system and it can be operational within a year after a decision is made.

At the same time, the majority of people in Africa currently live in the countryside, where the infrastructure is frequently inferior or non-existent. For Jan Vandooren, this poses a challenge.

In many parts of Africa, buses with engines at the front are still the order of the day. They have more ground clearance and can therefore be driven on roads of poorer quality. In some circumstances, they may also be easier and less expensive to service and purchase. Jan Vandooren can see similarities with the Indian market. There is also a market in Africa for buses with a European specification, but they would be best suited to long-distance transport along the transport corridors that are currently being constructed in parts of the continent.

### The Chinese dominance

The sale of trucks and buses is linked to the development of an improved road network and functioning towns and cities and Johan Haglund, Vice

**Volvo Group in Africa**

- **Number of employees:** 1,120
- **Production:** Durban and Johannesburg.
- **Net sales:** SEK 12.168 M (11.371), 4% of Group sales
- The goal is to increase the truck operation's net sales in Africa by 25% by 2015.

**Africa**

- **Area:** 30,244,050 km$^2$ (the second largest continent in the world)
- **Population:** roughly 1 billion in 55 countries.
- **Large countries:** Nigeria with 152 million inhabitants, Egypt (80), Ethiopia (77), Democratic Republic of the Congo (66) and South Africa (44).

President EMEA Hub South at Volvo CE, feels that this offers huge business potential. At the same time, the real-life situation differs to some degree.

– The focal point for Volvo CE in Africa is the mining industry. This is where we are largest and where we are making the most money. There is no customer in this industry that dares to risk having machines that are out of action. If you purchase our machines, you can keep a mine operating. Chinese companies are capturing a large number of projects, but they, too, are purchasing their critical equipment from western companies. At the same time, Chinese excavators have recently started appearing.

In spite of the competition, Johan Haglund has some winning cards up his sleeve.

– After all, we own a majority of Shandong Lingong (SDLG). We are Chinese, so to speak. Historically, Chinese companies have enjoyed a strong position within wheel loaders. What we have done now is to establish a network of SDLG dealers. We also have know-how relating to distribution in Africa, which our Chinese competitors lack. Taken together, this should be a good argument for us to sell SDLG in China, to Chinese companies that are operating in Africa.

Like Jan Vandooren, Johan Haglund is eager to stress the need for products that are suitable for the African market. Products of high quality but with fewer integrated features to enhance driver comfort, for example, for which customers in Africa are not prepared to pay.

When Africa is discussed with people in different parts of the Volvo Group, Volvo CE is always mentioned with respect. They have a long history in Africa, are well positioned and close to their customers in geographical terms. This is something of which Hannes Norrgren, Director Marketing & Sales at Volvo Penta with responsibility for Africa, is keen to take even greater advantage.

– Partnership with Volvo CE is important and it is often a good match into the bargain. However, our only chance of quickly increasing our coverage is through distributors that have the critical mass to re-invest in their operations, he says.

Engines for gensets constitute Volvo Penta's largest business sector in Africa. The manufacturing industry is expanding more rapidly than the infrastructure for electricity distribution.

– A few years ago, our sales of engines for locally manufactured gensets in South Africa rose from 50 to 2,000 in the space of one year when the country found itself in an energy crisis. We are now relatively stable at approximately 500 engines a year. There are no alternatives to the diesel engine when it comes to efficiency and flexibility.

In overall terms, he describes Africa as a pure aftersales market. It is a question of offering service and parts in order to increase the number of engines in imported machines, because very few machines are actually built in Africa. Hannes Norrgren therefore faces the same dilemma as so many others: the potential in Africa is huge, but we are still not in a position to take advantage of it.

## A joint road ahead

Representatives from the different business units in the Volvo Group meet regularly at different levels to chart their common way forward in Africa. Coordination is key.

– We already have a strong position in Africa, but, if we adopt an even more coordinated approach, we can obtain both improved market coverage and more effective distribution, as Peter Karlsten, head of Group Trucks Sales & Marketing EMEA and a member of the Group's executive management team, puts it.

Currently, the truck operations are working together with a large number of importers in Africa. However, there are only six in which two brands share the same importer.

– So there is enormous potential to offer the same importer much more business with more brands aimed at different customer segments. This gives the importer the opportunity to invest more in his business relationship with us, in the form of an improved service network, for example. Local conditions naturally influence the best way of working, says Peter Karlsten and he goes on to underline the fact that the Group is currently reviewing the whole of its strategy for all its truck brands. This is going to clarify how the different brands and products are going to target different customer segments. This could also include introducing trucks from our joint venture with Eicher Motors in India in the African market.

The focal point for Volvo CE in Africa is the mining industry. This is where they are largest and it is a profitable segment. There is no customer in this industry that dares to risk having machines that are out of action.

Engines for diesel-powered gensets constitute Volvo Penta's largest business sector in Africa. Industry is expanding more rapidly than the infrastructure for electricity distribution.

# SIGNIFICANT EVENTS
# During 2012

The divestment of Volvo Aero, increased ownership in Deutz and the launch of the new Volvo FH truck series were some of the important events in 2012.

**Annual General Meeting of AB Volvo**

The Annual General Meeting of AB Volvo held on April 4, 2012 approved the Board of Directors' motion that a dividend of SEK 3.00 per share be paid to the company's shareholders.

Peter Bijur, Jean-Baptiste Duzan, Hanne de Mora, Anders Nyrén, Olof Persson, Ravi Venkatesan, Lars Westerberg and Ying Yeh were reelected as members of the AB Volvo Board. In addition, Carl-Henric Svanberg was elected member of the Board and Board Chairman, replacing Louis Schweitzer who had declined reelection.

Carl-Olof By, representing AB Industrivärden, Jean-Baptiste Duzan, representing Renault s.a.s, Lars Förberg, representing Violet Partners LP, Håkan Sandberg, representing Svenska Handelsbanken, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen and the Chairman of the Board were elected members of the Election Committee.

**AB Volvo signs memorandum of understanding with Deutz**

On April 5 it was announced that AB Volvo had signed a non-binding memorandum of understanding with Deutz AG with the intention to explore the potential to extend the long-term cooperation with a joint development of the next generation of medium-duty engines for off-road applications.

The memorandum of understanding also aims at analyzing the conditions for establishing a Deutz majority-owned joint-venture company in China for the production of medium-duty engines for off-road applications. The production company is intended to provide support for the Volvo Group's anticipated growth in off-road applications in Asia. Any implementation requires both companies to agree on the final terms and conditions in a binding contract.

**Unfavorable court ruling in the U.S. pertaining to Volvo Penta engines**

Volvo Powertrain Corporation and the U.S. Environmental Protection Agency are in a dispute pertaining to emission compliance of 8,354 model year 2005 Volvo Penta engines under a 1999 Consent Decree entered between the parties. On April 13, 2012, the U.S. District Court for the District of Columbia issued an order directing Volvo to pay a total of USD 72 M in penalties and interest. The decision has been appealed.

**AB Volvo acquires shares in Deutz AG**

On June 13 AB Volvo announced that it had signed an agreement under which the company was offered the opportunity to increase its shareholding in Deutz AG from 6.7% to just over 25% by acquiring a total of 22,117,693 shares from Same Deutz-Fahr Group at a price of EUR 5.88 per share, EUR 130 M in total. The transaction was completed in September and made AB Volvo the largest shareholder in Deutz AG, which since many years is a strategic partner within medium-duty engines.

**AB Volvo divests Volvo Aero to British GKN for SEK 6.9 billion**

On July 5 it was announced that AB Volvo divests the Group's subsidiary Volvo Aero to the British engineering company GKN for an enterprise value of SEK 6.9 billion. The transaction was completed on October 1, 2012. The transaction generated a positive effect on the Group's operating income of SEK 568 M of which SEK 254 M in the fourth quarter. The divestment reduced the Group's financial net debt by SEK 5.5 billion.

**New Volvo engine for Euro 6**

On July 5 Volvo Trucks presented an engine tailored for the Euro 6 environmental standards. Nitrogen oxide emissions will drop by 77% and particulate emissions will be halved from already low levels. First off the mark is Volvo's D13 460 horsepower engine, which powers more than one-third of all Volvo trucks.

**Renault Trucks Defense acquires French manufacturer Panhard**

On July 26 it was announced that Renault Trucks Defense, which is included in the Volvo Group's Governmental Sales business area, acquires the French company Panhard, which specializes in manufacturing light transport vehicles adapted for defense operations. In 2011, Panhard reported sales of EUR 81 M and operating profit amounted to EUR 9.4 M. The transaction was finalized in October 2012.

**New Volvo FH launched**

On September 5, Volvo introduced its new Volvo FH series. The new Volvo FH is pushing the envelope for what a premium truck can offer. The Volvo FH is a truck built with the driver in mind and with the focus on improving the haulage firm's profitability.

**Volvo Group invests in Russia**

On September 13, the Volvo Group announced that it will invest SEK 783 M in a new facility for the production of cabs at the plant in Kaluga, Russia. The facility, which is expected to become operational in 2014, will manufacture cabs for the Volvo and Renault Trucks brands with a total annual capacity of 15,000 cabs.

**Volvo Group announced new truck strategy to achieve profitability improvement**

The new strategy, which is an important step for the Group towards achieving the objective to improve the operating margin by 3 percentage points, was presented in detail at the Capital Market Day on September 25.

**Volvo Buses to consolidate the manufacture of complete buses in Europe**
On October 3, Volvo Buses announced plans to concentrate its European production of complete buses to the main plant in Wroclaw, Poland. Production at the plant in Säffle, Sweden, will be terminated at end June 2013.

**New organization for the truck dealer networks in Europe, the Middle East and Africa**
On October 10, the Volvo Group announced that it as of January 1, 2013 introduces a new organization for its truck dealer networks in Europe, the Middle East and Africa (EMEA). The reorganization aims to capitalize more effectively on opportunities for the Group's brands and products in line with the new truck strategy.

**Full lineup of Volvo Group trucks in the US earns 2014 greenhouse gas certification**
On December 12, 2012 the Volvo Group announced that the US Environmental Protection Agency (EPA) and National Highway Traffic Safety Administration (NHTSA) had certified all Volvo Group truck models in the US, both Mack and Volvo branded, in accordance with 2014 fuel efficiency and greenhouse gas regulations.

**Renault s.a.s. divests entire holding in AB Volvo**
On December 13, 2012, AB Volvo received a request for the conversion of 110,048,945 Series A shares to Series B shares. Furthermore, AB Volvo's largest shareholder, Renault s.a.s., announced that the company had divested all of its shares in AB Volvo through the sales of 138,604,945 Series A shares on the stock market. In connection with Renault's divestment, Industrivärden increased its holding and at year-end was the largest owner with 6.5% of the outstanding number of shares (19.5% of the votes). Norges Bank Investment Management also increased its holding and at year-end was the second largest owner based on capital with 4.9% of the outstanding number of shares (5.1% of the votes).

**Consolidation of the Volvo Group industrial operation in Japan**
On January 11, 2013 the Volvo Group announced that it had decided to consolidate its industrial operation in Japan in order to improve the overall efficiency. In May 2013 the Ota remanufacturing plant will be closed and the operation moved to Ageo, the main plant in Japan. The project also includes cleaning of the land, demolishing of old and outdated buildings as well as moving or phasing out equipment for old products. In total, costs corresponding to SEK 280 M related to these activities were recorded in the fourth quarter of 2012, affecting the truck segment.

## Events after balance sheet date

**Strategic alliance with Chinese company Dongfeng Motor Group**
On January 26, 2013 AB Volvo announced that it had signed an agreement with the Chinese vehicle manufacturer Dongfeng Motor Group Company Limited (DFG) to acquire 45% of a new subsidiary of DFG, Dongfeng Commercial Vehicles (DFCV), which will include the major part of DFG's medium- and heavy-duty commercial vehicles business. At completion of the transaction, the Volvo Group will become the world's largest manufacturer of heavy-duty trucks. Completion of the transaction is subject to certain conditions, including the approval of relevant anti-trust agencies and Chinese authorities. The purchase consideration amounts to RMB 5.6 billion. The ambition is to complete the transaction as soon as possible and completion is expected to take place within approximately 12 months from signing.

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

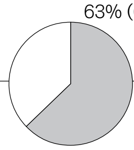
**Volvo has issued a corporate governance report which is separate from the annual report and which is found on pages 74–88.**

**TRUCKS**

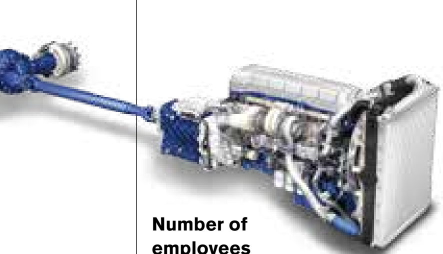
# Weaker markets and lower earnings

During 2012 market conditions varied between different parts of the world. In Europe, South America and Asia truck markets weakened while North America showed growth.

**Share of Group net sales**




The truck operation's product offer stretches from heavy-duty trucks for long-haulage and construction work to light-duty trucks for distribution.



**Number of employees**
61,300

**Position on world market**
The Volvo Group is one of the world's largest manufacturers of heavy-duty trucks.

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

Demand in Europe slowed down gradually during the year while the development in North America was characterized by a strong first half and a weaker second half of the year. In Brazil demand recovered towards the end of the year. The Japanese market weakened during the second half of the year after governmental incentives to buy new, environmentall adapted trucks had run out in July.

### Weakness in many markets

In 2012, the heavy-duty truck market in Europe 28 (EU minus Bulgaria plus Norway and Switzerland) reached 221,000 trucks, down by 9% compared with 2011. Given the macro-economic development it is difficult to assess the total market for heavy-duty trucks in Europe 29 for 2013. The current estimate is that the market will reach a level of about 230,000 heavy-duty trucks.

In 2012, the total North American retail market for heavy-duty trucks increased by 15% to 249,562 vehicles, compared with 216,080 in 2011. For 2013 the total market is difficult to assess, but it is expected to be at about the 2012 level of 250,000 heavy-duty trucks.

In 2012, the Brazilian market decreased by 22% to 87,430 trucks compared with 111,471 trucks in 2011. The total Brazilian market for heavy-duty trucks is expected to increase and reach a level of about 105,000 trucks in 2013.

In Japan the total market for heavy-duty trucks in 2012 rose by 28% to 31,800 vehicles (24,800). For 2013, the total Japanese market for heavy-duty trucks is expected to increase to about 35,000 trucks.

In India, the total 2012 market for heavy-duty trucks declined by 18% to 195,140 trucks (237,329).

In general the Volvo Group maintained its market positions, with the exception of Japan. In Europe the combined market share for heavy-duty trucks amounted to 25.7% (26.3) and in North America the combined market share was 18.3% (18.2). In Brazil market share increased to 18.2% (17.1) while it decreased to 17.5% (20.1) in Japan. In India the market share for Eicher amounted to 31.4% (30.5) in the medium-duty segment and to 3.9% (3.1) in the heavy-duty segment.

### Lower earnings

In 2012, net sales in the truck operations decreased by 3% to SEK 192,283 M (198,920) after a weak second half of the year. Operating income decreased to SEK 10,216 M (18,227), while the operating margin was 5.3% (9.2).

The lower operating income was a result of lower sales and low capacity utilization during the second half of the year as well as restructuring costs. Profitability was also affected by the high investment pace in research and development for the upcoming comprehensive product renewal and related launch costs in sales, production and aftermarket support. Among the projects are the new Volvo FH series, a new Renault Trucks range, a new range of trucks in the lower price segments in emerging markets, a new medium-duty engine range and research and development ahead of the new emission legislation Euro 6.

### New products

On July 5, Volvo Trucks presented an engine tailored for the Euro 6 environmental standards. Nitrogen oxide emissions will drop by 77% and particulate emissions will be halved from already low levels. First off the mark is Volvo's D13 460 hp engine, which powers more than one-third of all Volvo trucks.

A completely new generation of Volvo FH was presented to the public in early September through parallel launches in some of the most important markets in Europe. It was also displayed at the automotive fair in Hannover where it received very positive reviews. The advanced technology of the new Volvo FH will create a new platform for strengthening Volvo Trucks' competitiveness. Production will start in the spring of 2013.

In December it was announced that the full lineup of Volvo Group truck models in the US had been certified according to the 2014 greenhouse gas regulations.

### New truck strategy and reorganization in EMEA

The new truck strategy, which is an important part of the goal to improve the operating margin by 3 percentage points, is described in detail starting on page 12.

On January 1, 2013, the Volvo Group introduced a new organization for its truck dealer networks in Europe, the Middle East and Africa (EMEA). Implementation will be carried out during the year. The reorganization aims to capitalize more effectively on opportunities for the Group's brands and products in line with the new strategy for the truck operation.

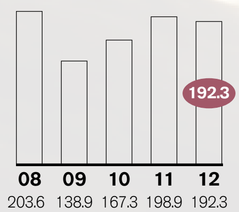
### Net sales by market

| SEK M | **2012** | 2011 |
|---|---|---|
| Europe | 76,365 | 83,451 |
| North America | 42,650 | 37,042 |
| South America | 21,172 | 26,847 |
| Asia | 36,531 | 37,840 |
| Other markets | 15,565 | 13,741 |
| **Total** | **192,283** | **198,920** |

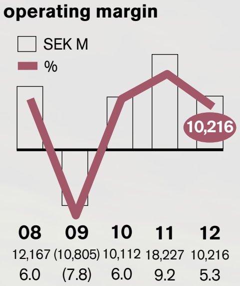
### Deliveries by market

| Number of trucks | **2012** | 2011 |
|---|---|---|
| Europe | 84,355 | 95.113 |
| North America | 47,806 | 42.613 |
| South America | 23,443 | 29.274 |
| Asia | 51,514 | 56.165 |
| Other markets | 16,899 | 15.226 |
| **Total** | **224,017** | **238.391** |

### Net sales
SEK bn




### Operating income (loss) and operating margin



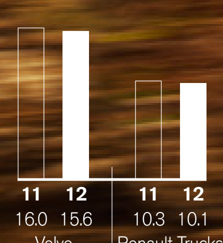


# Continued product renewal

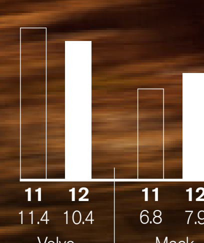
### Volvo VM

The Volvo VM is a truck developed specifically for the South American market, where it is used for regional transports and city distribution.

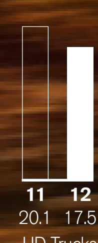
### Market shares in Europe, heavy-duty trucks




### Market shares in North America, heavy-duty trucks




### Market shares in Japan, heavy-duty trucks



**BUSES**

# Weak market development and lower volumes

The global market for buses declined in 2012. Sales for Volvo Buses fell and profitability declined.

Volvo Buses is one of the world's leading manufacturers of buses and bus chassis. The product program comprises complete transport solutions, city buses, intercity buses and coaches, as well as services in financing, vehicle service, vehicle diagnostics and traffic information. Volvo Buses has sales in 85 countries and one of the industry's strongest service networks, with more than 1,500 dealerships and workshops worldwide. Production facilities are found in Europe, North America, South America and Asia.

**Lower fuel consumption and emissions**

During 2012, Volvo Buses presented a number of new products, including a program of city buses, intercity buses and coaches for the coming European emission requirements Euro 6. The new buses generate significantly lower emissions of nitrogen oxide and particles, while improving both fuel economy and climate impact, compared with current vehicles. Two of the three new engines included in the program can be driven on bio-diesel. Sales will commence during the second half of 2013.

In India, the product program was increased with three new models, including the Volvo 9100 coach, which will provide Volvo Buses with good opportunities to expand in a new, key segment. At the same time, the expansion of the company's industrial capacity in India was intensified.

**Increased sales of hybrid buses**

Volvo Buses is world-leading in hybrid buses and has sold a total of nearly 1,000 vehicles to customers in 20 countries. In 2012, hybrid buses were sold to cities including Curitiba, Hamburg and Gothenburg. The most recent model, the Volvo 7900 Hybrid, has up to 39% lower fuel consumption and climate impact than corresponding diesel buses. During the year, a Volvo 7900 Hybrid articulated bus was introduced, which meant an important strengthening of the hybrid program. From 2014, all low-floor buses sold by Volvo Buses in Europe will be hybrid buses. To satisfy the increasing global demand, Volvo Buses has also started the manufacturing of hybrid bus chassis in Brazil. The first 30 Brazilian-manufactured hybrid buses were put in service in Curitiba in September 2012.

In parallel, the business area continued to develop the next generation of hybrid buses – so called plug-in hybrids. The technology means that the bus batteries can be charged directly from the electricity mains and that the bus can operate silently and exhaust-free longer distances on electricity alone. Diesel consumption and climate impact emission can be reduced by up to 75%, compared with comparable diesel-driven buses. Field tests using three plug-in hybrids will commence in Gothenburg in spring 2013.

In China, Volvo Buses is a driving force in electro-mobility, partly through the partnership in the bus manufacturer Sunwin Bus, one of the world's largest manufacturers of fully electric buses, partly through a newly started company for hybrid and electrical drive lines, Shanghai Green Bus Drive System. Sunwin Bus delivered 413 fully electric buses during the year, which made the company the leader in China and a world-leading supplier of fully electric buses over 10 meters in 2012.

**Positive reception for new telematic system**

Volvo Buses' new telematic system, which was presented in 2011, has been positively received in the market and is now being used in over 20 countries. Volvo Bus Telematics provides bus operators with better control of the vehicle's fuel consumption and the opportunity to adapt maintenance to exact requirements. Measures that can generate fuel savings of approximately 10%. Volvo's hybrid buses are now equipped with the Volvo Bus Telematics hardware.

**Fewer deliveries and lower order intake**

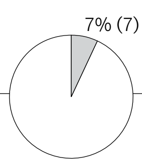
With the exception of China and India, the global bus market declined in 2012. Volvo Buses delivered 10,678 buses and bus chassis (12,786). At the same time, Volvo Buses' market share in Europe rose to 13%, thanks to sales of hybrid buses. Markets shares were also strengthened in North America and South America. The total order intake was also lower for 2012 than in the preceding year. However, several important orders were signed during the year, for example, 460 front-engine buses were sold to Belo Horizonte, Brazil – a strategic breakthrough in a new segment – and 475 Nova hybrid buses to Quebec, Canada.

Due to lower volumes and higher pressure on prices, Volvo Buses will concentrate manufacturing of complete buses in Europe to the company's production facilities in Wroclaw, Poland. This means that manufacturing at Volvo Buses in Säffle, Sweden, will discontinue mid-2013.

**Sales and earnings fell**

During 2012, net sales fell to SEK 20,295 M (21,823). Operating income declined to SEK 51 M (1,114) and the operating margin decreased to 0.3% (5.1) due to low volumes, a negative market mix and low capacity utilization.

**Share of Group net sales**




Buses offers complete buses and chassis within city buses, intercity buses and coaches as well as services within vehicle service, vehicle diagnostics and traffic information.

**Number of employees**
7,500

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

**Brands**
Volvo, Prevost, Nova and Sunwin.

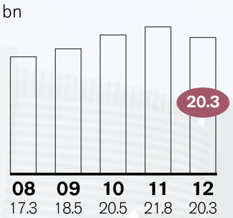
**Net sales by market**

| SEK M | **2012** | 2011 |
|---|---|---|
| Europe | 6,200 | 6,631 |
| North America | 6,675 | 7,532 |
| South America | 2,794 | 2,715 |
| Asia | 2,853 | 2,953 |
| Other markets | 1,774 | 1,992 |
| **Total** | **20,295** | **21,823** |

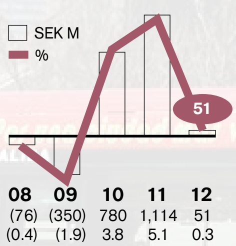
**Deliveries by market**

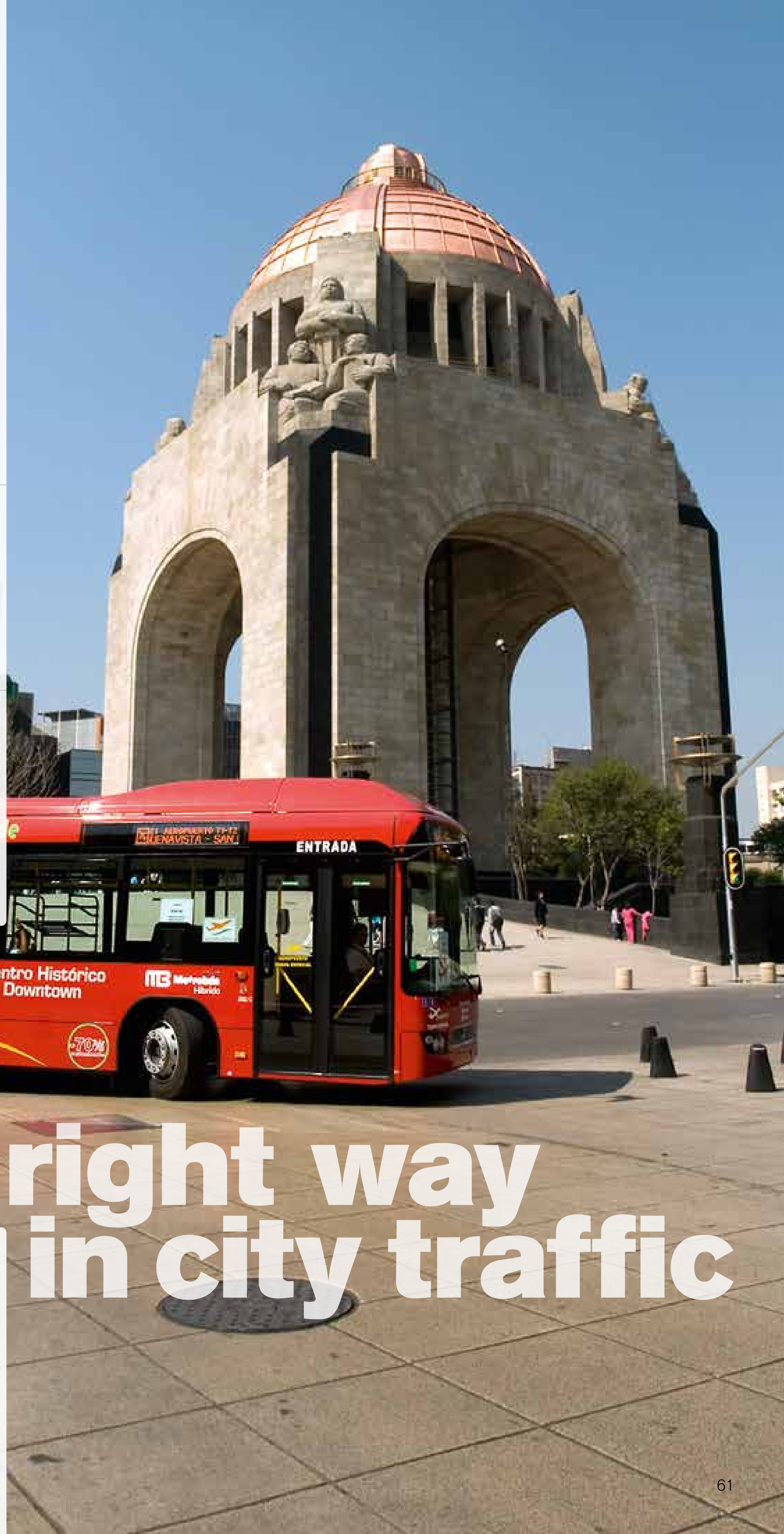
| Number of buses | **2012** | 2011 |
|---|---|---|
| Europe | 2,491 | 2,695 |
| North America | 1,826 | 3,014 |
| South America | 2,560 | 2,620 |
| Asia | 2,945 | 3,417 |
| Other markets | 856 | 1,040 |
| **Total** | **10,678** | **12,786** |

**Net sales**
SEK bn




**Operating income (loss) and operating margin**



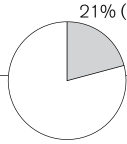

# The right way in city traffic

**Success for Volvo Hybrids**
Volvo Buses hybrids are successful around the world thanks to the combination of environmental performance, drivability, fuel economy and reliability. On the photo is one of Volvo's hybrid buses in operation in Mexico City.

# CONSTRUCTION EQUIPMENT
# Continued investments in growth

Celebrating a heritage that dates back 180 years, Volvo Construction Equipment (Volvo CE) is one of the largest and arguably the oldest global producer of products and services for the construction, extraction, waste processing and materials handling industries.

**Share of Group net sales**




Volvo CE manufactures equipment for construction applications and related industries.

**Number of employees**
14,800

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

**Brands**
Volvo and SDLG (Lingong).

Following a comprehensive product renewal program that has seen over 100 new products launched in the last two years, Volvo CE offers a modern fleet of excavators, haulers, wheel loaders and a range of smaller equipment such as backhoe and skidsteer loaders. The road machinery range includes graders, compactors and pavers. Its Chinese-built range of SDLG branded products includes excavators and wheel loaders.

Volvo CE equipment is distributed to customers through a global network of independent and Volvo-owned dealerships. SDLG branded products are distributed through separate sales channels. The offering also includes services such as customer support agreements, attachments, financing, leasing and used equipment sales.

### Market turbulence

Measured in units sold, the total European market for heavy, compact and road machinery equipment shrank by 4% compared to 2011, while Asia (excluding China) increased by 11% and demand in China itself fell by a significant 37%. Bucking the trend however were North and South America, who saw market growth during 2012 of 23% and 6% respectively.

Lower economic activity and the uncertainty about the future impacted customers' willingness to invest in new equipment during 2012. As a consequence Volvo CE reacted quickly to the slowing global market, cutting production in its facilities and reducing inventories throughout the supply chain. During the year the company sold 78,500 machines, compared with 84,000 in 2011.

In 2012, net sales were flat at SEK 63,558 M (63,500). Operating income decreased to SEK 5,773 M (6,812) and operating margin was 9.1% (10.7). After a strong first half of the year, sales and earnings during the second half were negatively impacted by much lower volumes and a negative product mix as well as lower activity in the global mining industry affecting sales of larger and more profitable products. Low capacity utilization also affected profitability.

### Investing in new products

At the Intermat exhibition in France in April, Volvo CE launched 60 new products. These machines, in addition to a further 55 new models introduced in 2011, represents the most fundamental overhaul of the company's product portfolio ever. On show in Paris were the new D-Series excavators in the 13 to 25 ton classes, two short swing excavators and four new models of EW wheeled excavators in the 14 to 21 ton classes.

The new G-Series wheel loaders also featured prominently as did the European launch of the innovative range of C-Series skid steer and tracked loaders. Under the theme 'Discover a new way' Volvo CE's also showcased its new road construction machinery.

Meeting the divergent needs of local markets around the world, new product introductions are designed to meet a broader audience, with a host of new products designed to meet the specific requirements of customers in Asia and other international markets.

### Production and distribution

2012 saw the roll out of the latest phase of the company's factory and distribution investment program. Russia featured in both aspects, with excavator production set to begin in 2013 at a new factory in Kaluga, while the dealer network in Russia is set to double to 90 locations by 2015. There were also capacity and product expansion programs ongoing in India, Brazil, China and the US. In Bangalore, India, a new factory was inaugurated during 2012 to make excavators alongside the existing road machinery already produced at the facility.

In the Chinese city of Jinan, meanwhile, a Technology Centre is under construction that will, when completed in June 2013, employ up to 200 engineers to design products and components primarily for emerging markets.

In May a ground breaking ceremony was held on the USD 100 million expansion of Volvo CE's facility in Shippensburg, Pennsylvania, USA. When completed it will create a new Americas headquarters, demonstration center and the ability to localize production of larger machines.

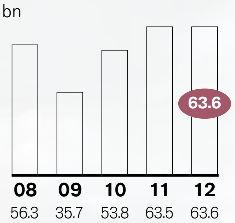
### Industry recognitions

The company picked up a number of important honours for its innovative products during the year. Out of a field of more than 80 entries from leading manufacturers, Volvo CE scooped a gold prize at this year's Intermat 2012 Innovation Award for its revolutionary On Board Weighing system, designed for its F-Series Full Suspension articulated haulers. This allows complete payload management, giving access to data such as total transported load in tons, tons transported per liter of fuel and number of cycles.

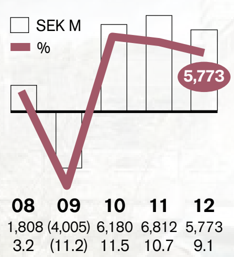

**Net sales by market**

| SEK M | **2012** | 2011 |
|---|---|---|
| Europe | 16,518 | 17,765 |
| North America | 12,027 | 7,829 |
| South America | 3,788 | 4,163 |
| Asia | 27,033 | 29,999 |
| Other markets | 4,192 | 3,745 |
| **Total** | **63,558** | **63,500** |

**Net sales**
SEK bn




**Operating income (loss) and operating margin**




# Building for the future

### Red Dot Design Award

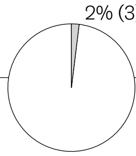
For the second year in a row, Volvo CE was honored by the prestigious red dot design awards for its outstanding industrial design. In 2012 Volvo CE received the jury's highest honor for its A40F articulated hauler – the red dot best of the best award. This award is presented for groundbreaking design and is the top prize, reserved for the leading products in each category.

## VOLVO PENTA

# Good profitability despite weak demand

Volvo Penta contributes significant synergies and economies of scale to the Volvo Group's total diesel engine manufacturing. Approximately 10% of the total volumes in the Group's diesel-engine plants in Europe and more than half of the Group's global volumes of 16-liter engines are delivered to Volvo Penta's customers.

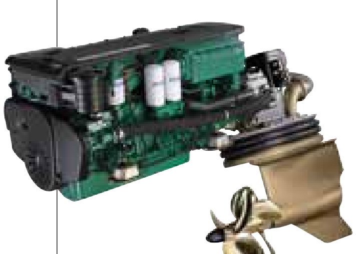
**Share of Group net sales**




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

**Number of employees**
1,400

**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.



The Industrial business segment is the part of Volvo Penta's operation that generates the largest volumes based on the Volvo Group's diesel platforms. Volvo Penta's product range in the Industrial segment comprises high-technological diesel engines for industrial applications, for example, power generation, cranes, mining vehicles and container handling equipment. With unique performance, operating and environmental features, Volvo Penta's industrial engines create strengthened competitiveness for such world-leading customers as Sandvik, Cargotec and SDMO. By utilizing the strength of the Volvo Group's combined service offering, Volvo Penta is also able to offer efficient support in the form of global service and aftermarket services.

Within the Marine Commercial business segment, Volvo Penta delivers diesel engines for use under the toughest possible offshore conditions. Coast guards and sea-rescue organizations, ferry companies, port authorities and shipyards worldwide install Volvo Penta's reliable engines in boats for sea rescue, patrol, passenger transport, security and maintaining offshore wind turbines.

Within the Marine Leisure business segment, Volvo Penta delivers diesel engines, gasoline engines and complete drive systems for most of the leading boat brands in the industry, for example, Fairline, Sunseeker and Princess of the UK, Jeanneau/Beneteau of France, Bavaria of Germany and Intermarine of Brazil.

Using innovative, technical solutions for boats, Volvo Penta creates significant advantages for customers in the form of lower fuel consumption, simpler maneuvering and reduced installation time. With joystick maneuvering, sophisticated communication and navigation equipment and fully integrated drive system, Volvo Penta is quickly moving toward delivering complete boat-driver environments, with a strong focus on comfort and user-friendliness.

Volvo Penta's marine customers have access to one of the world's strongest offering of aftermarket services and a global service and dealership organization with approximately 4,000 dealerships worldwide.

### Total market

The total market for industrial engines primarily in Europe, but also North America, was weak during the year due to the continued decline in the global economy. The major manufacturers of equipment and industrial vehicles were forced to successively reduce production as a result of weaker demand. A slightly stronger trend in China and the rest of Asia during the first half of the year weakened toward the end of the year due to the global financial turmoil.

The total market for marine diesel engines was largely unchanged, compared with the weak trend in recent years. European boat sales were negatively impacted by austerity packages and financial restrictions in mainly Southern Europe. In Italy, traditionally Volvo Penta's largest marine market, sales in many boat segments are currently about 70–80% lower than a few years ago.

In North America, sales of marine diesel engines and gasoline engines rose during the year as a result of the continued increased demand for leisure boats in the US, but volumes still remained low compared with the peak years.

### Earnings trend

Total sales amounted to SEK 7,631 M, compared with SEK 8,458 M in 2011. Operating income amounted to SEK 541 M, compared with SEK 825M in the preceding year. The operating margin was 7.1% (9.8). Earnings were negatively impacted mainly by lower sales and an unfavorable product mix.

### New products

Using aggressive investments in product development, Volvo Penta has created a modern and highly competitive product program for industrial engines in recent years. With the SCR technology, well-proven by the Volvo Group, the industrial program meets the emission legislations for coming years, while Volvo Penta is able to offer high fuel efficiency and installation benefits.

During the year, Volvo Penta's Tier4i-approved 13-liter engine received important North American mining certifications. These mining certificates take into account the amount of emissions from the engine and make calculations based on the ventilation rate. The lower the ventilation rate, the more cost-efficient mining operations can be conducted and here, Volvo Penta's SCR technology has demonstrated major competitive advantages.

On the marine side, Volvo Penta launched the V8-380 for leisure boats during the year. This state-of-the-art gasoline engine at 380 horsepower has been awarded and attracted major attention within the marine industry, not least thanks to good environmental features and performance.

### Net sales by market

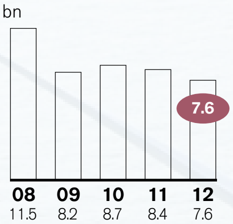
| SEK M | **2012** | 2011 |
|---|---|---|
| Europe | 3,620 | 4,274 |
| North America | 1,486 | 1,379 |
| South America | 306 | 335 |
| Asia | 1,867 | 2,130 |
| Other markets | 352 | 341 |
| **Total** | **7,631** | **8,458** |

### Engine volumes

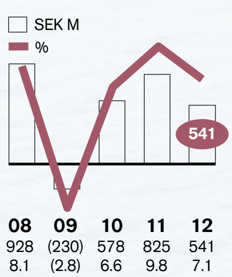
| No. of units | **2012** | 2011 |
|---|---|---|
| Marine engines[1] | 17,240 | 20,074 |
| Industrial engines | 17,584 | 21,137 |
| **Total** | **34,824** | **41,211** |

1 Excluding outboard engines.

### Net sales
SEK bn



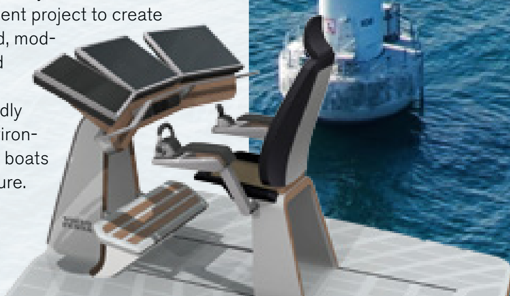

### Operating income (loss) and operating margin




# Saves fuel

### Driver environment of the future

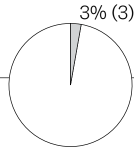
The driver of a passenger car starts the vehicle's engine, electricity system and instruments at a mere push of a button. In the boat world, it is often not as simple – as yet. However, Volvo Penta currently has an advanced development project to create integrated, module-based and more user friendly driver environments for boats of the future.



# VOLVO FINANCIAL SERVICES
# Profitable growth

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

**Share of Group net sales**




Conducts operations in customer and dealer financing.

**Number of employees**
1,400

**Position on world market**
Volvo Financial Services operates exclusively to provide finance and leasings solutions to customers and distributors of Volvo Group products, thus enhancing the sales process and the competitiveness of the Group product offering.

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 wherever VFS operates. When customers choose a vehicle or equipment supplier, the availability of financial solutions is an important factor. Customers desire total transport solutions that enable them to work more efficiently while maximizing profitability and reliability.

VFS creates value for Volvo Group customers by providing solutions including customer financing and leasing, dealer financing and other fee-based products such as insurance. Financial services are delivered to customers through VFS in conjunction with dealers of Volvo Group products, allowing customers to enjoy the benefits of a convenient, one stop-shop experience.

### Good profitability levels

Although global economies and financial markets continued to be characterized by uncertainty and slow movement during 2012, VFS continued to achieve good profitability levels and growth while at the same time improving credit portfolio performance. Customer repayment patterns improved, which resulted in continued reductions in customer delinquencies, defaults and repossessions. During the year, VFS also continued to reduce inventories of repossessed units through good, coordinated remarketing activities with the other business areas.

In markets where VFS financing is offered, market penetration and financing volumes were strong in 2012. Through a disciplined approach to balancing new business development with risk and cost control, VFS managed its portfolio in a good way while growing its operations and supporting Volvo Group sales with historically high levels of finance market penetration of 27%.

### Market development

During 2012, VFS provided financial services in 40 markets around the globe. In support of these offerings, VFS continued to strengthen its services through operational consolidation, process standardization and systems harmonization. These activities have enabled VFS to capitalize on profitable growth opportunities with scalable business platforms that boost efficiencies while improving service levels.

The demand for VFS products in 2012 was good and the global VFS credit portfolio reached historically high levels. In the Americas, Brazil rebounded well after a short downturn during Q3 and the US and Canadian credit portfolios continued to grow and perform well throughout the year. In EMEA (Europe, Middle East and Africa), the market remained soft but the VFS portfolio grew nonetheless and the performance of the credit portfolio improved steadily throughout the year. In APAC (Asia Pacific), the slowdown in China experienced towards the latter half of the year negatively impacted VFS growth rates in that country. However, portfolio performance remained good in China during the year even in light of the weakening economic conditions. In 2012, VFS continued to serve the markets of South Africa, India and Indonesia with third party finance alliances.

### Customer finance operations

Total new financing volume in 2012 amounted to SEK 46.6 billion (44.8). Adjusted for changes in exchange rates, new business volume increased by 5.3% compared to 2011 as a result of increased penetration levels. In total, 50,994 new Volvo Group vehicles and machines (49,757) were financed during the year. In the markets where financing is offered, the average penetration rate was 27% (25).

As of December 31, 2012, the net credit portfolio amounted to SEK 99,690 M (94,275). 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 to the Consolidated financial statements.

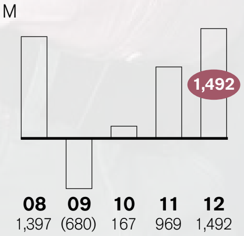
The operating income for the year amounted to SEK 1,492 M compared to SEK 969 M in the previous year. Return on shareholders' equity was 12.5% (7.3). The equity ratio at the end of the year was 8.1% (9.1). The improvement in profitability is driven mainly by higher earning assets and good margins. During the year, credit provision expenses amounted to SEK 640 M (682) while write-offs of SEK 577 M (804) were recorded. The write-off ratio for 2012 was 0.58% (0.93). At the end of December 31, 2012, credit reserves were 1.23% (1.33) of the credit portfolio.

# Adds value

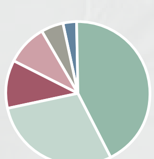
## Strengthens the relationship with customers

VFS supplies financial services and accompanying service to Volvo Group customers. Together with the other business areas, integrated solutions are offered which add value to both customers and the dealer network.

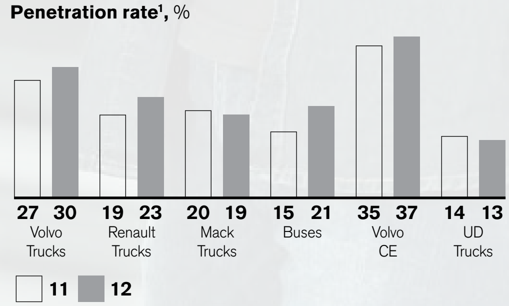
**Operating income (loss)**
SEK M




**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.

## FINANCIAL MANAGEMENT

# Balancing the requirements of different stakeholders

The objectives of the financial management in the Volvo Group is to assure shareholders long-term attractive and stable total return and debt providers the financial strength and flexibility to secure proceeds and repayment.

A long-term competitive market position requires access to capital to be able to invest and grow the business. The financial management secures that the capital is used in the best possible way through well-defined ratios and objectives for the Industrial Operations as well as for the Customer Finance Operations. The objectives on net sales growth and operating margins for the Industrial Operations and return on equity for the Customer Finance Operations secure the return requirements from shareholders. The restrictions on net debt to equity for the Industrial Operations and equity ratio for the Customer Finance Operations are to secure financial stability and flexibility for debt providers.

### Steering principles to ensure financial flexibility over the business cycle

To ensure financial stability and flexibility throughout the business cycle the Volvo Group holds a strong liquidity position. Besides cash and marketable securities the liquidity position is also built up of committed credit facilities. The funding and lending is in local currency and the customer finance portfolio is matched both from an interest and a liquidity risk perspective.

### Diversified funding sources give flexibility and support the global presence

The Volvo Group has a central portfolio management of all financial assets and liabilities, funding operations and cash management through the internal bank, Volvo Treasury. The liability portfolio is separated into two portfolios, one for Industrial Operations and one for Customer Finance, to correspond to the needs in the different operations.

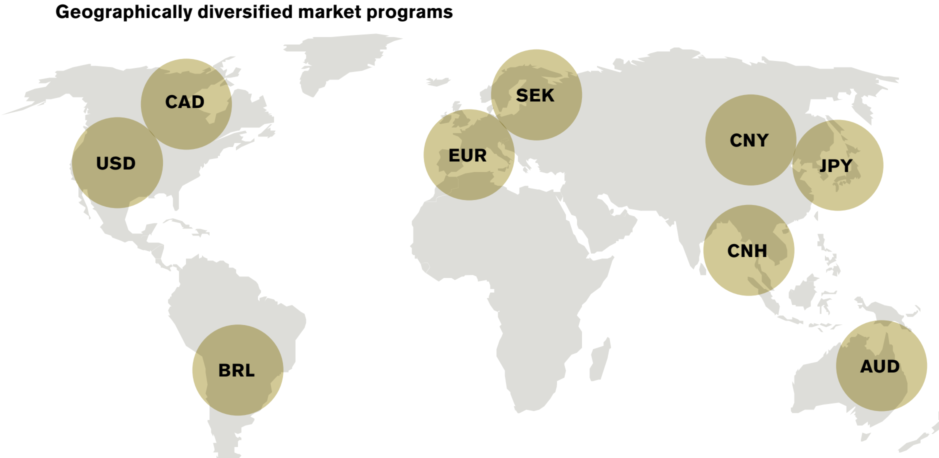
Volvo Treasury is increasing the possibility to access capital markets at all time through diversified funding sources. Furthermore, the Volvo Group global presence is supported by market programs on all major debt capital markets in the world. Besides the acces to capital markets around the world, the Volvo Group uses different instruments, such as bilateral bank funding, corporate bonds and certificates, agency funding as well as securitization of assets in the Customer Finance portfolio. An increasingly important part of the treasury work is also to manage increased funding needs in new growth markets for the Group.

### A strong and stable credit rating is important for an industrial company

Being a large issuer with a growing customer financing business, it is critical to have a strong and stable credit rating. The level of the credit rating is not only important for debt investors but also a number of other stakeholders when it comes to create long lasting relationships. A strong credit rating has a positive effect on the ability to attract and finance customers and on the trust from suppliers.

The Volvo Group has contractual relations with two global Credit Rating Agencies (CRAs) for solicited credit ratings; Moody's Investors Service and Standard & Poors' Rating Services. The credit rating levels from both CRAs have been unchanged during 2012. There are also agreements with CRAs in Canada and Japan for local credit ratings. The CRAs evaluate the Volvo Group future ability to repay debt. A strong credit rating gives access to more funding sources and lower cost of funds.

**Geographically diversified market programs**

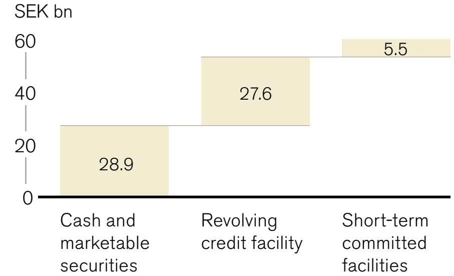



**Credit rating at February 21, 2013**

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

**Volvo Group liquidity position 2012**

SEK bn

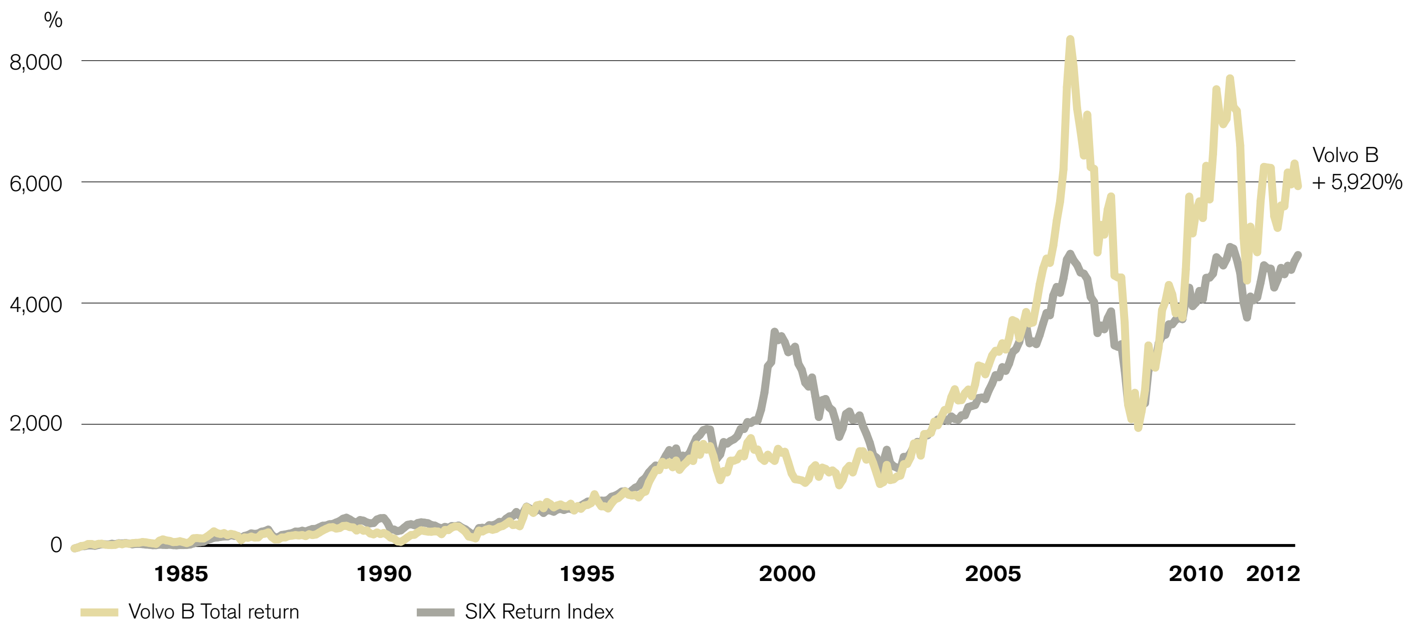


## SHAREHOLDER VALUE

# Long-term shareholder value

The Volvo Group strives to create long-term value for its shareholders.

**Accumulated total return**

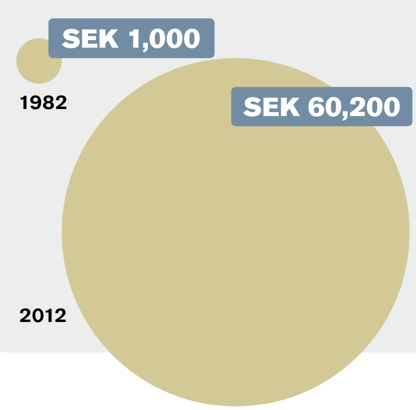



The Volvo Group's origins can be traced to 1927, when the first serial produced Volvo car rolled out of the factory in Gothenburg, Sweden. The first serial produced truck saw the light of day in 1928 and was an immediate success. In 1935, AB Volvo was listed on the Stockholm Stock Exchange. All through its history, the Volvo Group has strived to create long-term value for ist shareholders.

The graph shows the total return for the Volvo B share, measured as the share price development with all dividends re-invested, since December 30, 1982, which is as far back as the comparison index, SIX Return Index, stretches. SIX Return Index measures the total return for the Stockholm Stock Exchange as whole.

The graph shows that SEK 1,000 invested in the Volvo B-share in 1982 had grown to SEK 60,200 at the end of 2012, under the condition that all dividends have been reinvested in Volvo B shares.

**SEK 1,000 invested in Volvo B shares on 30 december 1982, was worth SEK 60,200 at the end of 2012.**



## THE SHARE

# The most traded share in Stockholm

In spite of the slowdown in the economy, many of the world's leading stock markets had a positive development in 2012. The Volvo share also had a positive development.

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

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

### Positive development on the stock market

In general, developments on the leading stock exchanges were positive following the negative developments in 2011. On Nasdaq OMX Nordic, the broad OMXSPI index rose by 12% (–17%) during the year.

On Nasdaq OMX Nordic the share price for the Volvo A share increased by 18%, and at year-end the price for the Volvo A share was SEK (89.40) (75.95). The lowest price paid was SEK 73.80 on June 28, and the highest price paid was SEK 100.50 on February 21.

The share price for the Volvo B share increased by 18% and was SEK 88.80 (75.30) at year-end. The lowest price paid was SEK 73.60 on June 28, and the highest price paid was SEK 100.40 on February 21 and March 16.

In 2012, a total of 2.1 billion (3.1) Volvo shares at a value of SEK 188 billion (282) were traded on Nasdaq OMX Stockholm, corresponding to a daily average of 8.5 million shares (12.0). The Volvo share was the most traded share on Nasdaq OMX Stockholm in 2012. At year-end 2011, Volvo's market capitalization totalled SEK 189 billion (153).

According to Fidessa, the trading on Nasdaq OMX Stockholm accounted for 46% (56) of the turnover in the Volvo B share while the remainder took place at exchanges such as BATS, Chi-X, Burgundy and Turquoise.

### 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 116,950,647 A shares were converted to B shares, representing 17.6% of the outstanding A shares at the end of 2011.

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

### Ownership changes

In December 2012, Renault s.a.s. sold its entire holding of 138,604,945 A shares to a number of institutions in Sweden and abroad. As part of the transaction, Renault s.a.s. requested the conversion of 110,048,945 A shares to B shares. In conjunction with the transaction, Industrivärden announced that it had increased its holding by 10,000,000 A shares. At year end, Industrivärden was the largest owner in AB Volvo followed by Violet Partners, SHB and Norges Bank Investment Management, when measured as share of votes.

### Dividend

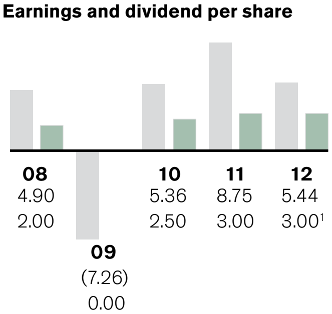
The Board proposes a dividend of SEK 3.00 per share for the financial year of 2012, which would mean that a total of SEK 6,083 M would be transferred to AB Volvo's shareholders. For the preceding year a dividend of SEK 3.00 per share was paid out, in total SEK 6,082 M.

### 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**

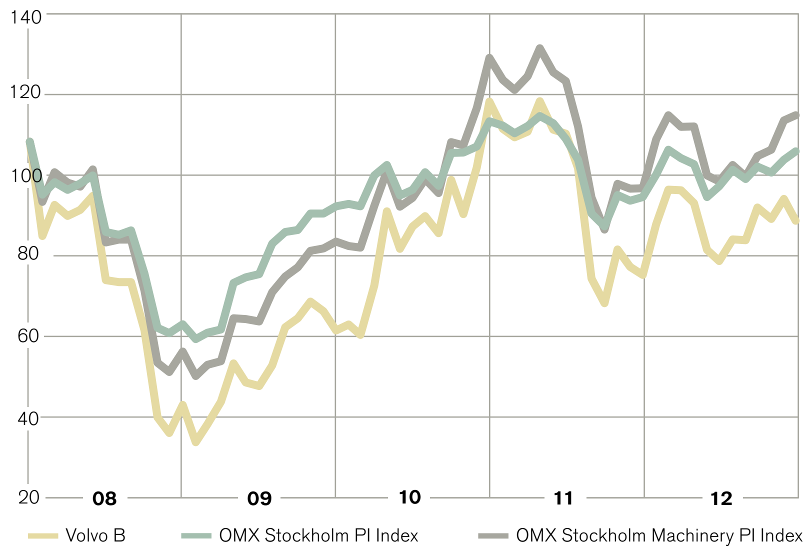



1 Proposed by the Board of Directors

**Dow Jones Sustainability Indexes**
**Member 2012/13**

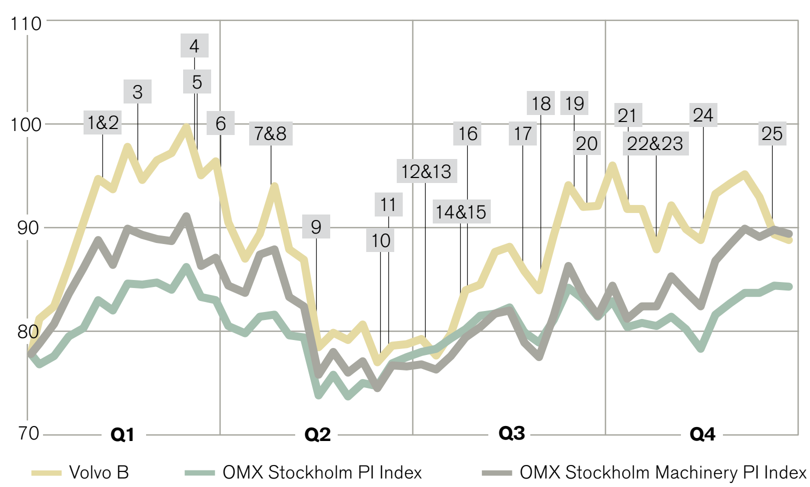
The Volvo Group once again qualifies for the Dow Jones Sustainability World Index (DJSI). The Volvo Group receives a particularly good rating for its handling of environmental issues. In this ranking, the world's 2,500 largest companies are assessed on the basis of their strategies and results in spheres such as business ethics, environmental consideration and social criteria, with the focus on their ability to generate long-term value. The top 300 companies, a category that encompasses the Volvo Group, are included in the DJSI World.

**Price trend, Volvo Series B shares, 2008–2012, SEK**




Source: NASDAQ OMX

**Price trend, Volvo Series B shares, 2012, SEK**




Source: NASDAQ OMX

**Selected press releases**

1 Truck deliveries for December 2011, February 3
2 Year-end report 2011, February 3
3 Truck deliveries for January, February 22
4 Annual Report 2010, March 14
5 Truck deliveries for February, March 16
6 Annual General Meeting 2011, April 4
7 Truck deliveries for March, April 26
8 Report on the first quarter, April 26
9 Truck deliveries for April, May 16
10 AB Volvo aquires shares in Deutz AG, June 13
11 Truck deliveries for May, June 18
12 AB Volvo divests Volvo Aero, July 5
13 New Volvo engine for Euro 6, July 5
14 Truck deliveries for June, July 24
15 Report on the second quarter, July 24
16 Renault Trucks Defense acquires Panhard, July 26
17 Volvo Trucks launches new FH series, August 22
18 Truck deliveries for July, August 29
19 Truck deliveries for August, September 18
20 Volvo Group announces new truck strategy, September 25
21 New organization in Europe, Middle East and Africa, October 10
22 Truck deliveries for September, October 24
23 Report on the third quarter, October 24
24 Truck deliveries for October, November 16
25 Truck deliveries for November, December 19

**The largest shareholders in AB Volvo, 31 december**[1]

| | Röstandel, % | |
|---|---|---|
| | **2012** | 2011 |
| Industrivärden | 19.5 | 15.6 |
| Violet Partners LP | 6.5 | 5.6 |
| SHB[2] | 5.5 | 4.7 |
| Norges Bank Investment Management | 5.1 | 2.4 |
| AMF Insurance & Funds | 5.0 | 3.9 |

Renault s.a.s., which was the largest owner at December 31, 2011, during 2012 divested its entire holding corresponding to 17.7% of the votes.

1 Adjusted for shares owned by AB Volvo, which carry no voting rights at the AGM. AB Volvo held 20,728,135 class A shares and 80,013,209 class B shares comprising in total 4.7% of the number of registered shares on December 31, 2012.

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

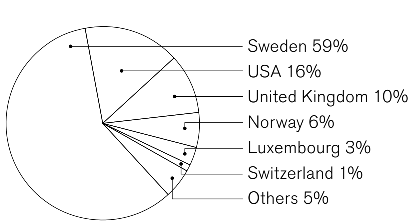
**Share capital, December 31, 2012**

| | |
|---|---|
| Registered number of shares[1] | 2,128,420,220 |
| of which, Series A shares[2] | 546,544,375 |
| of which, Series B shares[3] | 1,581,875,845 |
| Quota value, SEK | 1,20 |
| Share capital, SEK M | 2,554 |
| Number of shareholders | 242,482 |
| Private persons | 223,975 |
| Legal entities | 18,507 |

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

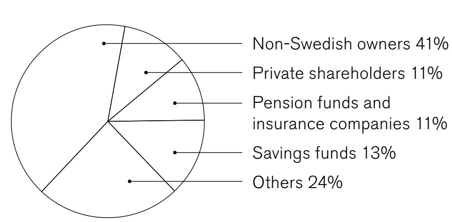
1 The number of outstanding shares was 2,027,678,876 at December 31, 2012.
2 Series A shares carry one vote each.
3 Series B shares carry one tenth of a vote each.

**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.

## 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 the Volvo Group 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.

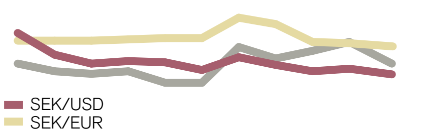
#### Intense competition

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.

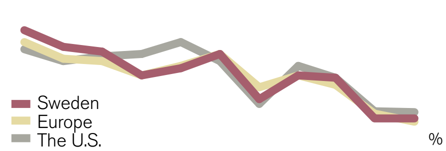
**Currencies**




| | 02 | 03 | 04 | 05 | 06 | 07 | 08 | 09 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK/USD | 9.7 | 8.0 | 7.3 | 7.5 | 7.4 | 6.8 | 7.8 | 7.2 | 6.7 | 6.9 | 6.5 |
| SEK/EUR | 9.1 | 9.1 | 9.1 | 9.2 | 9.3 | 9.3 | 10.9 | 10.4 | 9.0 | 8.9 | 8.6 |
| SEK/100 JPY | 7.3 | 6.7 | 6.5 | 6.7 | 5.8 | 5.8 | 8.6 | 7.7 | 8.3 | 9.0 | 7.5 |

Source: Reuters

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




| | 02 | 03 | 04 | 05 | 06 | 07 | 08 | 09 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sweden | 5.3 | 4.6 | 4.4 | 3.4 | 3.7 | 4.3 | 2.4 | 3.4 | 3.3 | 1.6 | 1.5 |
| Europe | 4.8 | 4.1 | 4.0 | 3.4 | 3.8 | 4.3 | 2.9 | 3.4 | 3.0 | 1.8 | 1.3 |
| The U.S. | 4.5 | 4.0 | 4.2 | 4.3 | 4.8 | 4.0 | 2.2 | 3.8 | 3.3 | 1.9 | 1.8 |

Source: Reuters
Government bonds, 10 year benchmarks

#### 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 74–88. Most of the Volvo Group's financial transactions are carried out through the 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.

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 Group'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**

The Volvo Group 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**

The Volvo Group 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. AB 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. The amount paid during 2012 to Renault s.a.s. for license fees amounted to SEK 6.4 M.

The Volvo Group's rights to use the Panhard brand are regulated by a license from Peugeot SA. The amount paid during 2012 to Peugeot SA for license fees amounted to SEK 90,000.

**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.

The Volvo Group verifies annually, or more frequently if necessary, the goodwill value 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.

For further information on intangible assets, see note 12.

The reported amounts for contingent liabilities reflect a part of the Volvo Group'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 AB 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.

# Corporate Governance Report

## Significant events during 2012

On January 1, 2012, the implementation of a new, more functional oriented organizational structure for the Volvo Group was initiated.

At the Annual General Meeting held on April 4, 2012, Carl-Henric Svanberg was appointed new Chairman of the AB Volvo Board.

In December 2012, Renault s.a.s. divested its holding of Volvo shares and, in connection therewith, converted a large number of series A shares to series B shares, entailing that the total number of votes in the company declined.

## The Swedish Corporate Governance Code

AB Volvo's shares are admited to trading on the NASDAQ OMX Stockholm and accordingly, Volvo complies with NASDAQ OMX Stockholm's Rule Book for Issuers. As a listed company, Volvo also applies the Swedish Corporate Governance Code (the Code), which is available at www.bolagsstyrning.se.

Between January 1, 2012 and December 31, 2012, Volvo did not deviate from any of the regulations set forth in the Code.

This Corporate Governance Report was prepared in accordance with the Swedish Annual Accounts Act and the Code, and is separate from the Annual Report. The report has been examined by Volvo's auditors and includes a report from the auditors.

## Corporate Governance Model

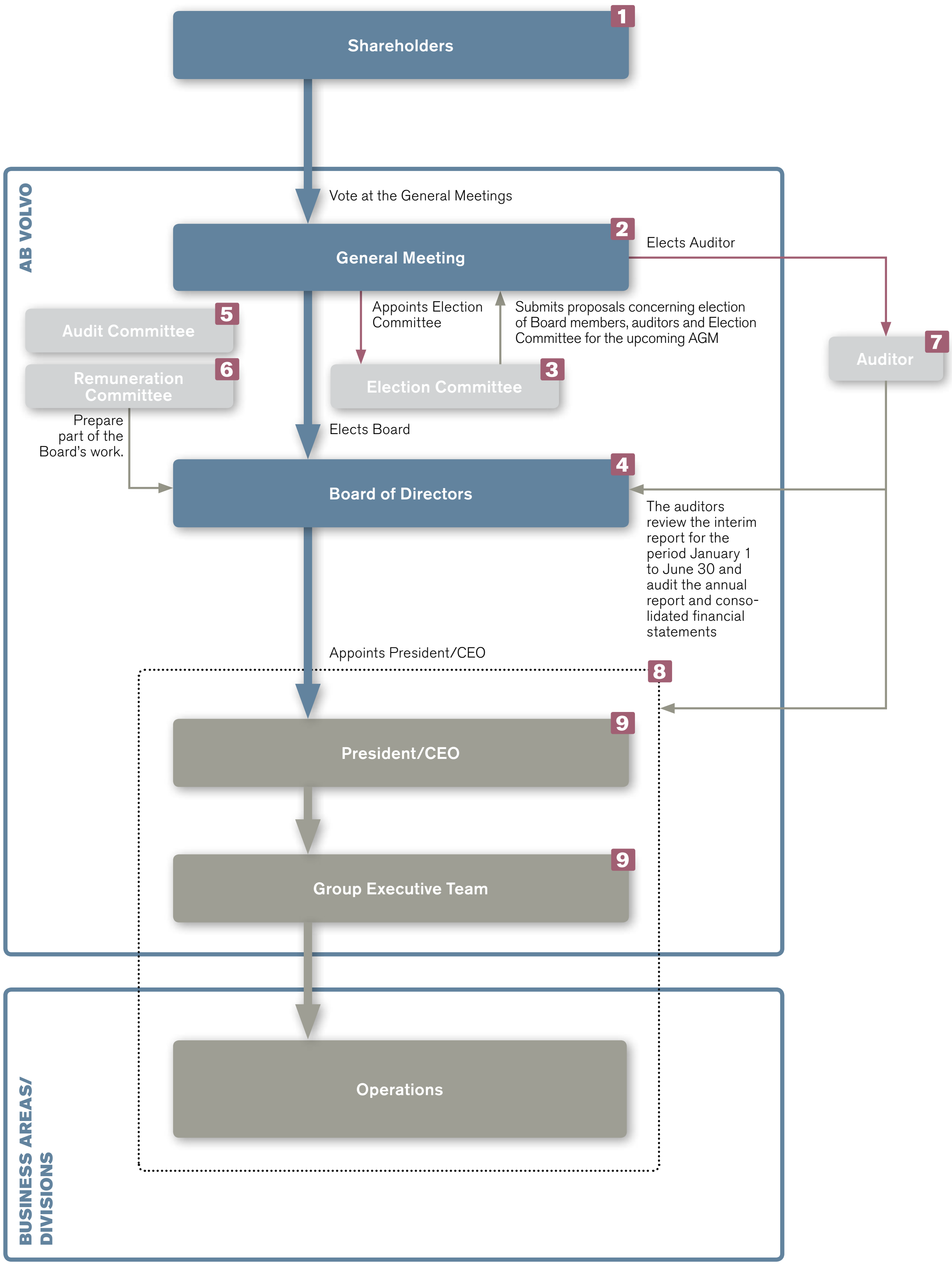
The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the General Meetings of AB Volvo, which is the Parent Company in the Volvo Group, the shareholders exercise their voting rights with regard to for example the composition of the Board of Directors of AB Volvo and election of auditors.

An Election Committee, appointed by the Annual General Meeting of AB Volvo, submits proposals to the next Annual General Meeting concerning the election of Board members, Board Chairman and, when necessary, external auditors, and proposals for resolutions concerning fees to the Board and the auditors.

The Board is ultimately responsible for Volvo's organization and management of the operations. The duties of the Board are partly exercised through its Audit Committee and its Remuneration Committee.

In addition, the Board appoints the President of AB Volvo, who is also the Chief Executive Officer (CEO) of the Volvo Group. The CEO is in charge of the daily management of the Group in accordance with guidelines and instructions provided by the Board.

Division of responsibilities and duties between General Meetings, the Board of Directors and the President are regulated inter alia by the Swedish Companies Act, Volvo's articles of association, the Code and the Board's work procedures.


Shareholders
1
Vote at the General Meetings
AB VOLVO
General Meeting
2
Elects Auditor
Audit Committee
5
Remuneration Committee
6
Appoints Election Committee
Submits proposals concerning election of Board members, auditors and Election Committee for the upcoming AGM
Election Committee
3
Auditor
7
Prepare part of the Board's work.
Elects Board
Board of Directors
4
The auditors review the interim report for the period January 1 to June 30 and audit the annual report and consolidated financial statements
Appoints President/CEO
8
President/CEO
9
Group Executive Team
9
Operations
BUSINESS AREAS/ DIVISIONS

## 1 Shares and shareholders

AB Volvo's share register is kept by Euroclear Sweden AB. On December 31, 2012, Volvo had 242,482 shareholders according to the share register. The largest shareholder on that date was AB Industrivärden, with 18.7% of the votes based on the number of registered shares. Violet Partners L.P. held 6.2% of the votes and Svenska Handelsbanken together with SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen held 5.2% of the votes, based on the number of registered shares.

Volvo has issued two classes of shares: series A and series B. In a vote at a General Meeting, series A shares carry one vote and series B shares one-tenth of a vote. The two share classes carry equal rights to a share in the assets and earnings of the company. According to a special share conversion clause in the Articles of Association, holders of series A shares are entitled to request that their series A shares be converted to series B shares. Implementation of such conversions entails that the total number of votes in the company decreases.

In mid-December 2012, Volvo's largest shareholder at that time, Renault s.a.s., announced that the company had divested all of its Volvo shares by selling 138,604,945 series A shares in the stock market. In connection therewith, Volvo received a request for conversion of 110,048,945 series A shares into series B shares. Implementation of the conversion entailed that the total number of votes in the company declined. At the end of 2012, the total number of shares in the company amounted to 2,128,420,220, of which series A shares accounted for 546,544,375 and series B shares accounted for 1,581,875,845. The total number of votes amounted to 704,731,959.50.

For more information about the Volvo share and its shareholders, refer to the Board of Director's report on pages 70-71 of the Annual Report.

## 2 General Meeting

### General

The General Meeting is Volvo's highest decision-making body. The General Meeting held within six months after the end of the fiscal year and that adopts the income statement and balance sheet is called the Annual General Meeting. The Annual General Meeting of Volvo is normally held in Gothenburg. In addition to resolutions concerning adoption of the income statement and balance sheet for AB Volvo and the Volvo Group, the Annual General Meeting also adopts resolutions concerning allocations of profit, the composition of Volvo's Board, directors' fees and elects external auditors. Notice to attend a General Meeting is issued in the form of an announcement in Post- och Inrikes Tidningar (Swedish Official Gazette) and on the company's website. The fact that notice has been issued is announced in Dagens Nyheter and Göteborgs-Posten.

Shareholders who are recorded in the share register five working days prior to a General Meeting and who have notified Volvo of their participation in a certain order, are entitled to participate in the Meeting, in person or by proxy, and to vote for or against the proposals put forward at the Meeting and to present questions to the Board and the President.

A shareholder who wants the Meeting to consider a special matter must submit a request to the Board in sufficient time prior to the Meeting to the address provided on Volvo's website, www.volvogroup.com.

Resolutions at a General Meeting are normally passed by simple majority and for elections, the person who receives the most votes is considered elected. However, certain resolutions, such as amendment of the Articles of Association, require a decision by a qualified majority.

### Annual General Meeting 2012

Volvo's Annual General Meeting 2012 was held on Wednesday, April 4, 2012 in Gothenburg. The Meeting was attended by 1,401 shareholders, either in person or by proxy, representing 70.17% of the votes in the company. Attorney Sven Unger was elected Chairman of the Meeting. Members of the Board and the Group Executive Team, and Volvo's Lead Auditor Göran Tidström representing PricewaterhouseCoopers, Volvo's elected auditing firm, were present at the Meeting. At the Meeting, Göran Tidström announced that he would be resigning as Lead Auditor and that his replacement would be Authorized Public Accountant Peter Clemedtson.

The Annual General Meeting 2012 adopted inter alia the following resolutions:

- to pay a dividend of SEK 3.00 per share,
- to reelect Board Members Peter Bijur, Jean-Baptiste Duzan, Hanne de Mora, Anders Nyrén, Olof Persson, Ravi Venkatesan, Lars Westerberg and Ying Yeh,
- to elect Carl-Henric Svanberg as new Board Member and Chairman,
- the Board's fees for the period up until the next Annual General Meeting,
- to adopt the proposed guidelines for remuneration of senior executives.

Complete minutes and information about the Annual General Meeting 2012 are available at www.volvogroup.com.

### Annual General Meeting 2013

Volvo's Annual General Meeting 2013 will be held on Thursday, April 4, 2013 in Lisebergshallen, Gothenburg. For further information about the Annual General Meeting 2013, please refer to the fold-out in the end of the Annual Report and Volvo's website www.volvogroup.com.

## 3 Election Committee

### Duties

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 to the Meeting for the election of auditors and for fees to be paid to the auditors. 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.

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 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 duties and holding of shares in Volvo.

### Composition

In accordance with instructions adopted by the Annual General Meeting 2007, 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 on the Election Committee. In addition, one of the members shall be the Chairman of the AB Volvo Board. Additionally, the Election Committee can offer other major 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 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 Annual General Meeting 2012 resolved to appoint the following individuals as members of the Election Committee:

- Carl-Henric Svanberg, Chairman of the Board,
- Jean-Baptiste Duzan, representing Renault s.a.s.,
- Carl-Olof By, representing AB Industrivärden,
- Lars Förberg, representing Violet Partners LP, and
- Håkan Sandberg, representing Svenska Handelsbanken, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen.

The Election Committee appointed Carl-Olof By as Chairman.

## 4 Board of Directors

### Duties

The Board of Directors is ultimately responsible for Volvo's organization and management of the company's operations. The Board is responsible for the Group's long-term development and strategy, for regularly controlling and evaluating the Group's operations and for the other duties set forth in the Swedish Companies Act.

### Composition

During the period January 1, 2012 – December 31, 2012, AB Volvo's Board 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.

The Annual General Meeting 2012 appointed Carl-Henric Svanberg as new member and Chairman of the AB Volvo Board. Carl-Henric Svanberg is also Chairman of the Board of BP p.l.c. He has long prior experience as a President and CEO for leading global companies.

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 21, 2013, and the year they were elected on the Volvo Board, is presented in the "Board of Directors" section below on pages 80–81.

### Independence requirements

The Board of Directors of AB Volvo must meet independence requirements pursuant to the Code entailing 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. Prior to the Annual General Meeting 2012, the Election Committee presented the following assessment concerning independence of the Board members elected by the Annual General Meeting 2012.

Peter Bijur, Hanne de Mora, Carl-Henric Svanberg, 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.

Olof Persson, as AB Volvo's President and CEO of the Volvo Group, was considered independent of the company's major shareholders but not of the company and company management.

Jean-Baptiste Duzan was considered independent in relation to the company and company management. However, in his prior 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 Annual General Meeting 2012, 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 President and CEO of AB Industrivärden, he was not deemed independent thereof. Since AB Industrivärden, prior to the Annual General Meeting 2012, 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.

**Work procedures**

Every year, the Board adopts work procedures for the Board's work. The work procedures contain rules pertaining to the distribution of work between the Board members, the number of Board meetings, matters to be addressed at regular meetings of the Board and duties incumbent on the Chairman.

In accordance with the work procedures, Volvo'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 resolutions. 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 work in 2012**

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, regular contact is maintained between the Chairman of the Board and the CEO in order to discuss on-going business and to ensure that the resolutions taken by the Board are executed.

In 2012, there were eight regular meetings, one statutory meeting and two extraordinary meetings. The attendance of Board members at these meetings is presented in the table on page 79.

During 2012 the Board devoted time to matters related to the implementation of the new organizational structure of the Group, such as the introduction of a new financial framework and new strategic objectives for 2013–2015 and discussions concerning a new truck brand positioning strategy. The launch of the new Volvo FH was an important event for the Volvo Group during 2012, which was the result of a long-term development project that has been discussed and decided upon by the AB Volvo Board. During 2012 the Volvo Group further divested the subsidiary Volvo Aero to the British engineering company GKN and the Group increased its shareholding in the German engine manufacturer Deutz AG, two transactions that have also been discussed and decided by the Board. Further the Board has during 2012 devoted time to matters concerning the agreement that Volvo signed with Dongfeng Motor Group Company Limited (DFG) in January 2013, to acquire 45% of a new subsidiary of DFG. As a result of the uncertainty about the macroeconomic trend, the Board specifically focused on monitoring the business environment in order to be prepared to adapt the operation to prevailing demand. The Board also continuously worked with leadership succession- and leadership development issues.

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 which to follow-up and control 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. The Board also met with the company's auditors at several occasions during 2012 and without the presence of management at one occasion. The Board continuously evaluates the performance of the CEO.

During 2012 the Board performed its yearly evalutation of the Board's work.

**The Board's committees**

**5 Audit Committee**

*Duties*

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. The Audit Committee also has the task of reviewing and overseeing the Group's legal and taxation matters as well as compliance with laws and regulations that may have a material impact on the financial reporting. The Audit Committee also has the task of reviewing and overseeing the impartiality and independence of the company's auditors. 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. In addition, the Audit Committee's task is to establish guidelines specifying what other services, beyond auditing, the company may procure from the auditors. The Audit Committee shall also 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. Finally, the Audit Committee adopts guidelines for transactions with companies and persons closely associated with Volvo.

*Composition and work in 2012*

At the statutory Board meeting following the Annual General Meeting 2012, the following Board members were appointed members of the Audit Committee:

- Lars Westerberg,
- Peter Bijur,
- Jean-Baptiste Duzan

Lars Westerberg was appointed Chairman of the Audit Committee.

According to the Swedish Companies Act, the members of the Audit Committee may not be employees of the company and shall be independent and at least one member of the Audit Committee shall be independent and have accounting or auditing expertise. In addition, the Code stipulates that a majority of the members of 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. The Election Committee's assessment of independence prior to the Annual General Meeting 2012 is presented above under the "Independence requirements" section on pages 77–78. All members of the Audit Committee are highly familiar with accounting matters and the accounting standards that apply for an international Group such as Volvo.

The Audit Committee met with the external auditors without the presence of management at four occassions in connection with the Audit Committee metings. The Audit Committee has also met with the Head of Corporate Audit at the meetings of the Audit Committee.

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 2012. The attendance of Board members at Committee meetings is presented in the table to the right on this page.

## 6 Remuneration Committee

*Duties*

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.

The Remuneration Committee shall monitor and evaluate ongoing programs and programs concluded during the year covering variable remuneration for the executives, application of the policy for remuneration to senior executives on which the Annual General Meeting shall decide 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.

*Composition and work in 2012*

At the statutory Board meeting following the Annual General Meeting 2012, the following Board members were appointed members of the Remuneration Committee:

- Carl-Henric Svanberg,
- Anders Nyrén,
- Ying Yeh

Carl-Henric Svanberg was appointed Chairman of 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. The Election committee's assessment of independence prior to the Annual General Meeting 2012 is presented above under the "Independence requirements" section on pages 77–78.

The Remuneration Committee held four meetings during 2012. The attendance of Board members at Committee meetings is presented in the table to the right on this page.

### Remuneration to Board members

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 4, 2012, approved fee payments to the Board, for the time until the end of the next Annual General Meeting, as follows:

Volvo's Chairman should receive a fee of SEK 2,100,000 and each of the remaining members elected by the shareholders should receive a fee of SEK 700,000 with the exception of the President. The Chairman of the Audit Committee should receive a fee of SEK 300,000 and other members of the Audit Committee SEK 150,000 each. In addition, the Chairman of the Remuneration Committee should receive SEK 125,000 and other members of the Remuneration Committee SEK 100,000 each.

**The Board's composition and attendance at meetings January 1, 2012 – December 31, 2012**

| Member | Board (11 incl. statutory) | Audit Committee (8) | Remuneration Committee (4) |
|---|---|---|---|
| Louis Schweitzer[1] | 3 | | 1 |
| Carl-Henric Svanberg[2] | 8 | | 3 |
| Peter Bijur | 10 | 8 | |
| Jean-Baptiste Duzan | 11 | 8 | |
| Hanne de Mora | 11 | | |
| Anders Nyrén | 11 | | 4 |
| Olof Persson | 11 | | |
| Ravi Venkatesan | 10 | | |
| Lars Westerberg | 11 | 8 | |
| Ying Yeh | 10 | | 4 |
| Peteris Lauberts, employee representative | 11 | | |
| Mikael Sällström, employee representative | 11 | | |
| Berth Thulin, employee representative | 11 | | |
| **Total number of meetings** | **11** | **8** | **4** |

1 Stepped down from the Board on April 4, 2012.

2 Joined the Board on April 4, 2012

# Board of Directors

## Board members elected by the Annual General meeting

### 1. Carl-Henric Svanberg
**Chairman of the Board**
**Chairman of the Remuneration Committee**

Born 1952. Master of Science, B. Sc. Business Administration. **Board Chairman:** BP p.l.c. Chairman of the Volvo Board since April 4, 2012. **Holdings in Volvo, own and related parties:** 700,000 Series B shares.

Principal work experience: Has held various positions at Asea Brown Boveri (ABB) and Securitas AB; President and Chief Executive Officer of Assa Abloy AB; President and Chief Executive Officer of Telefonaktiebolaget LM Ericsson; member of the External Advisory Board of the Earth Institute at Columbia University and the Advisory Board of Harvard Kennedy School.

### 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.; finance director of Renault credit, 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. He was then named Group Controller. Today, he works as an independant consultant.

### 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 Svenskt Stål AB, 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 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 2011. **Board Chairman:** The German-Swedish Chamber of Commerce. **Board member:** The Confederation of Swedish Enterprise and the Swedish-American Chamber of Commerce. Member of the Volvo Board since 2011. **Holdings in Volvo, own and related parties:** 76,037 Series B Shares.

Principal work experience: Began his career at ABB; has held a number of executive positions at AdTranz and 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. Director Truepoint Center in Boston. **Board member:** Infosys Ltd., Advisory Board of Bunge Inc., Non Profit Advisory Board Harvard Business School, Babajobs Pvt. Ltd. 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 Svenskt Stål AB, Sandvik AB, Meda 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, Samsonite International S.A., InterContinental Hotels Group PLC. 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

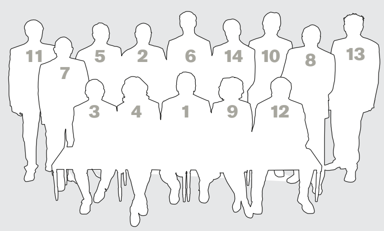
Employee representative, ordinary member. Born 1948. With Volvo since 1999. Deputy member of the Volvo Board 2010–2011, member since November 1, 2011. **Holdings in Volvo, own and related parties:** 299 Series A shares

### 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:** 549 shares, including 250 Series B shares.

### 14. Hans Hansson

Employee representative, deputy member. Born 1964. With Volvo since 1985. Deputy member of the Volvo Board since May 4, 2012. **Holdings in Volvo, own and related parties:** 5,250 shares, including 250 Series B shares.




## 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:** 64,468 shares, including 62,909 Series B shares.

## 7 External auditing

Volvo's auditors are elected by the Annual General Meeting. The current auditor is PricewaterhouseCoopers AB (PwC), which was elected at the Annual General Meeting 2010 for a period of four years. Two partners of PwC, Peter Clemedtson and Johan Rippe, are responsible for the audit of Volvo. Peter Clemedtson is Lead Auditor.

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 audit 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.

For information concerning Volvo's remuneration to the auditors, refer to Note 28 "Fees to the auditors" in the Group's notes in the Annual Report.

### Auditors

PricewaterhouseCoopers AB

**Peter Clemedtson**

Authorized Public Accountant.

Lead Partner.

Auditor since 2012.

Peter Clemedtson's other listed client is Ratos. His unlisted clients include Wallenbergstiftelserna, 3 and Proventus. Peter has previously been appointed auditor in Ericsson, SEB, Electrolux, OMX and Gambro.

Born 1956.

**Johan Rippe**

Authorized Public Accountant.

Partner

Auditor since 2010.

Johan Rippe's other clients are Getinge AB and Elanders AB.

Born 1968.

## 8 Governance and organizational structure

**Volvo's core values, vision and strategies**

Volvo's core values are quality, safety and environmental care. These values form the common base for the Group's long-term goals and vision and for the strategies and plans, the purpose of which is to contribute to achieving our goals and vision.

The Volvo Group's vision is to become the world leader in sustainable transport solutions. The vision describes the overall long-term goal for the operations. Volvo has also adopted a wanted position 2020 with the aim to achieve its long-term vision. In addition, the Board has resolved on a number of new, financial targets for the operations, primarily in relation to growth and profitability, which have been implemented as of 2012.

How Volvo will achieve the vision, the wanted position 2020 and the financial targets are defined in long-term plans for different areas such as brand positioning, product development, finance and IT, and in more short-term strategic objectives with a duration of three years. The long-term plans may be both Group-wide and business area/division specific, and even if a long-term approach is applied, they will be updated continuously. Every third year, specific focus areas and strategic objectives are formulated that are specific to the Group's various business areas and divisions. These focus areas and strategic objectives define what is to be achieved over the next three years, with the purpose of achieving the financial targets, the wanted position 2020 and also, in longtime-perspective, the vision.

The implementation of activities to reach the strategic objectives has high priority. Throughout the three-year period, monthly and quarterly follow-ups of the strategic objectives are reported to the management groups of each business area/division. Potential risks of not achieving the goals are therewith identified and discussed at an early stage, enabling efficient adjustment or action. The vision and strategies thereby become management and governance tools for the Group.

### Governance documents

Another key component of the governance and control is the Group's policies and directives, such as the Code of Conduct and policies pertaining to investments, financial risks, accounting, financial control and internal audit, which contain Group-wide operating and financial rules for the operations, as well as responsibility and authority structures.

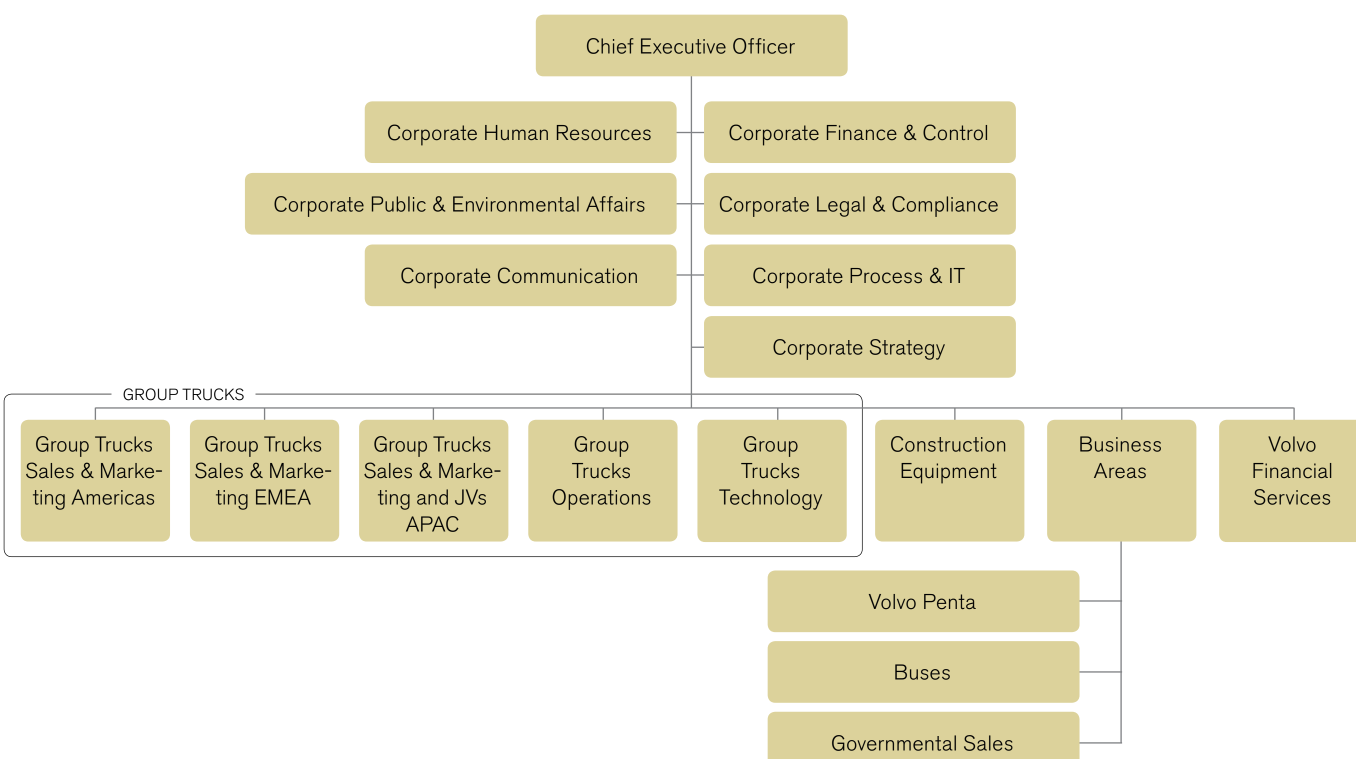
### Organizational structure

The Volvo Group's business activities are organized into six business areas: Group Trucks, Construction Equipment, Buses, Volvo Penta, Governmental Sales and Volvo Financial Services.

The Group Trucks operations, which account for almost two-thirds of the Group's total sales, are organized into five divisions. There are three sales and marketing divisions: Group Trucks Sales & Marketing Americas (with responsibility for North and South America), Group Trucks Sales & Marketing EMEA (with responsibility for Europe, the Middle East and Africa) and Group Trucks Sales & Marketing and JVs APAC (with responsibility for Asia and the Pacific region and for the Group's joint-venture truck companies). There is also a division with responsibility for product development of engines, transmissions and trucks as well as for purchasing: Group Trucks Technology (GTT). Finally, Group Trucks Operations (GTO) is a division within Group Trucks with responsibility for production of trucks and the Group's engines and transmissions. GTO is also responsible for the Group's spare parts supply and logistics operations.

There are seven Corporate Functions: Corporate Human Resources, Corporate Public & Environmental Affairs, Corporate Communication, Corporate Finance & Control, Corporate Legal & Compliance, Corporate Process & IT and Corporate Strategy, providing support to the CEO and the Group Executive Team with expertise in each Corporate Function area and developing standards for the entire organization through policies, directives and guidelines.

In addition there are more than twenty Group Functions that provide services and/or products to the entire Group, for example Volvo IT and Business Services.



## 9 Group Management

The Group Executive Team has 16 members including the CEO. In addition to the CEO, the Group Executive Team comprises the Executive Vice Presidents of the five Group Trucks divisions, the Executive Vice President Volvo Construction Equipment, the Executive Vice President Business Areas, the Executive Vice President Volvo Financial Services and the Executive Vice Presidents of the seven Corporate Functions. The members of the Group Executive Team report directly to the CEO.

The CEO leads the operations of the Group partly through the Group Executive Team but also through the Group Trucks Executive Management Team, which normally holds weekly meetings. In addition, the CEO conducts regular follow-ups with the heads of Group Functions, the other Business Areas and Corporate Functions. Further, the Busines Areas and the Group Functions have separate decision foras called Business Review Meetings and there are also cross-functional committees that manage matters concerning processes pertaining to more than one Group Function. These bodies effect control and monitoring of the Group's financial development, strategies and targets and make decisions regarding investments and other matters.

**Remuneration to the Group Executive Team**

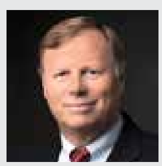
AB Volvo's Annual General Meeting annually approves a policy on remuneration to the Group Executive Team, following a proposal from the Board. The remuneration policy adopted by the Annual General Meeting 2012 states that the guiding principle is that remuneration and other terms of employment for the Group Executive Team shall be competitive in order to ensure that the Volvo Group can attract and retain competent executives.

The policy also states that the executives may receive variable salary in addition to fixed salary. The variable salary may, as regards the President, amount to a maximum of 75% of the fixed salary and, as regards the other executives, a maximum of 60% of the fixed salary. In 2012, members of

# Group Management

**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 2011. President of Volvo Construction Equipment 2008–2011. President of Volvo Aero 2006–2008. With Volvo since 2006. **Board Chairman:** The German-Swedish Chamber of Commerce. **Board member:** The Confederation of Swedish Enterprise and the Swedish-American Chamber of Commerce. Member of the Volvo Board since 2011. **Holdings in Volvo, own and related parties:** 76,037 Series B shares.



**Dennis Slagle**
**Executive Vice President Group Trucks Sales & Marketing Americas**

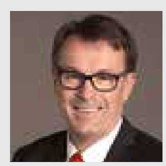
Born 1954. Bachelor of Science. President and CEO of North American Trucks 2009–2011. President and CEO of Mack Trucks, Inc. 2008–2011. President and CEO of Volvo Construction Equipment North America 2003–2008. Member of the Group Executive Team since 2008. With Volvo since 2000. **Board member:** West Virginia Wesleyan College Board of Trustees. **Holdings in Volvo, own and related parties:** 22,978 Series B shares.

**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:** 107,381 shares, including 107,082 Series B shares.

**Joachim Rosenberg**
**Executive Vice President Group Trucks Sales & Marketing and JVs 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 Executive Vice President Group Trucks Sales & Marketing APAC 2012. 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:** 14,578 Series B shares.



**Torbjörn Holmström**
**Executive Vice President Group Trucks Technology**

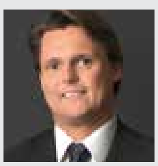
Born 1955. M. Sc. Mechanical Engineering. President of Volvo 3P 2003–2011. Prior to that he has held various senior positions at Volvo Powertrain. Member of the Group Executive Team since 2012. With Volvo since 1979. **Holdings in Volvo, own and related parties:** 42,333 Series B shares.

**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:** 85,493 shares, including 84,601 Series B shares.

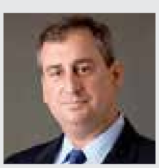
**Patrick Olney**
**Executive Vice President Volvo Construction Equipment**

Born 1968. B. Sc. Business Administration. Head of Volvo Construction Equipment since 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 1997. **Holdings in Volvo, own and related parties:** 13,795 Series B shares.



**Håkan Karlsson**
**Executive Vice President Business Areas**

Born 1961. M. Sc. Engineering. President and CEO of 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:** 49,095 shares, including 47,521 Series B shares.



**Martin Weissburg**
**Executive Vice President Volvo Financial Services**

Born 1962. Bachelor of Science, Master of Business Administration. Head of Volvo Financial Services since 2010. President of Volvo Financial Services the Americas 2005–2010. Member of the Group Executive Team 2010–2011 and since 2013. With Volvo since 2005. **Holdings in Volvo, own and related parties:** 14,675 Series B shares.

**Anders Osberg**
**CFO and Executive Vice President Corporate Finance & Control**

Born 1961. Bachelor of Science. 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. **Holdings in Volvo, own and related parties:** 18,950 Series B shares.

**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:** 64,468 shares, including 62,909 Series B shares.

**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 & Communication at Volvo Powertrain 2005–2006. Member of the Group Executive Team since 2012. With Volvo since 2005. **Holdings in Volvo, own and related parties:** 13,607 shares, including 13,447 Series B shares.

**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:** 7,304 shares, including 5,064 Series B shares.

**Mårten Wikforss**
**Executive Vice President Corporate Communication**

Born 1964. Journalism degree, Bachelor of Arts, Master of Science. Responsible within the Volvo Group for Corporate Communication since July 1, 2012. Prior to that he was Senior Vice President Media Relations & Corporate News. Member of the Group Executive Team since July 1, 2012. With Volvo since 2001. **Holdings in Volvo, own and related parties:** 20,288 shares, including 10,523 Series B shares.

**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. **Board member:** Hogia AB. Member of the Royal Swedish Academy of Engineering Sciences. **Holdings in Volvo, own and related parties:** 32,872 shares, including 32,729 Series B shares.

**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:** 53,105 shares, including 52,962 Series B shares.

the Group Executive Team were entitled to variable salary according to a program for variable remuneration determined by the Board. The performance targets defined in the program were primarily related to operating margin and operating rolling cash flow.

The purpose of the program for variable remuneration is to create an incentive for the executives to strive for the Volvo Group developing in such a manner that the defined performance targets are achieved, thereby constituting a management tool. Accordingly, the performance targets set by the Board for variable remuneration inter alia relate to the Group's financial targets for improved operating margin.

The Remuneration Committee conducts an annual evaluation of the remuneration policy and Volvo's system for variable remuneration to executives and the Board prepares a special report of this evaluation and the conclusions. The report on the evaluation for 2012 will be available on Volvo's website not later than two weeks prior to the Annual General Meeting 2013, www.volvogroup.com. For more information about remuneration to the Group Executive Team and an account of outstanding share and share-price related incentive programs to the management, refer to Note 27 in the Group's notes in the Annual Report.

**Changes to the Group Executive Team**

On July 1, 2012, Per Löjdquist retired and thereby resigned from the Group Executive Team and from his position as Executive Vice President Corporate Communication. Mårten Wikforss assumed the position on the same date.

On September 30, 2012, Pär Östberg resigned from the Group Executive Team and from his position as Executive Vice President Truck Joint Ventures. In conjunction with Pär Östberg's departure from the Volvo Group, Truck Joint Ventures organizationally became part of Group Trucks Sales & Marketing and JVs APAC, headed by Joachim Rosenberg.

On January 1, 2013, the Head of Volvo Financial Services, Martin Weissburg, joined the Group Executive Team. On January 1, 2013, Martin Weissburg thereby assumed the position as Executive Vice President Volvo Financial Services.

On April 1, 2013, Eva Persson will retire and resign from the Group Executive Team and from her position as General Counsel and Executive Vice President Corporate Legal & Compliance. Sofia Frändberg will assume this position on the same date.

## Internal control over 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 with an understanding of how internal control is organized at Volvo with regard to financial reporting. The description has been designed in accordance with the Swedish Annual Accounts Act and is thus 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. These 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, allowing them to continuously provide solid and improved internal controls relating to financial reporting. Work that is conducted through this function is primarily based on a methodology that aims to ensure compliance with directives and policies, and to create effective conditions for specific control activities in key processes related to financial reporting. The Audit Committee is informed of the results 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 Corporate 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 Corporate Audit function reports directly to the CEO, and 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 based on 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 Corporate Audit functions, is 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 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 overall supervisory bodies.

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 analyses 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 financial reporting function. The Group's shared service center is responsible for the performance of control acitvities including the responsibility for ensuring that authority structures are designed in accordance with good internal control 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. The Group's financial reporting function has direct operating responsibility for the daily financial reporting and works to ensure a uniform application of the Group's policies, principles and instructions for the financial reporting and to identify and communicate shortcomings and areas of improvement in the processes for financial reporting.

**Follow-up**

Ongoing responsibility for follow-up rests with the Group's financial reporting function. In addition, the Corporate 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 Programme," with the purpose of systematically evaluating the quality of the internal control over financial reporting on an annual basis. An annual evaluation plan is established and presented to the Audit Committee. This evaluation program comprises three main areas:

1. Group-wide controls: Self-assessment procedure carried out by management teams at business area, Group Function and company levels. The main areas evaluated are compliance with the Group's financial directives and policies found in FPP, The Volvo Way and the Group's Code of Conduct.

2. Process controls at transaction level: Processes related to the financial reporting are evaluated by testing procedures/controls based on a framework for internal control over financial reporting, Volvo Internal Control Standards (VICS). The framework focuses on the financial reporting areas deemed to have a relatively higher risk for potential errors due to factors such as complex accounting principles, complex or changed business operations.

3. General IT controls: Processes for maintenance, development and access management of financial applications are evaluated by testing procedures and controls.

The results of the evaluation activities are reported to Group management and the Audit Committee.

Gothenburg, February 21, 2013

Volvo (publ)

The Board of Directors

## Auditors 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 2012 on pages 74–88 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.

Gothenburg, February 21, 2013

PricewaterhouseCoopers AB

| | |
|---|---|
| Peter Clemedtson<br>Authorized Public Accountant<br>Lead Partner | Johan Rippe<br>Authorized Public Accountant<br>Partner |

# CONTENT
## Financial Information 2012

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2011.

# FINANCIAL PERFORMANCE
## Lower earnings

For the Volvo Group, 2012 was characterized by a strong first half of the year and a weaker second half, which resulted in lower sales and declining operating income compared to 2011. However, net sales for the year were above SEK 300 billion and operating income amounted to SEK 17.6 billion.

### INCOME STATEMENTS VOLVO GROUP

| | | Industrial operations | | Customer Finance | | Eliminations | | Volvo Group | |
|---|---|---|---|---|---|---|---|---|---|
| SEK M | | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **Net sales** | Note 6,7 | **296,031** | **303,589** | **9,783** | **8,883** | **(2,167)** | **(2,104)** | **303,647** | **310,367** |
| Cost of sales | | (231,216) | (233,097) | (6,036) | (5,693) | 2,167 | 2,104 | (235,085) | (236,685) |
| **Gross income** | | **64,815** | **70,492** | **3.747** | **3,190** | **0** | **0** | **68,562** | **73,682** |
| Research and development expenses | Note 6 | (14,794) | (13,276) | 0 | 0 | 0 | 0 | (14,794) | (13,276) |
| Selling expenses | | (26,582) | (25,181) | (1,666) | (1,618) | 0 | 0 | (28,248) | (26,799) |
| Administrative expenses | | (5,639) | (4,753) | (30) | 0 | 0 | 0 | (5,669) | (4,753) |
| Other operating income and expenses | Note 8 | (1,600) | (1,045) | (559) | (603) | 0 | 0 | (2,160) | (1,649) |
| Income from investments in associated companies | Note 5,6 | (23) | (82) | 0 | 0 | 0 | 0 | (23) | (81) |
| Income from other investments | Note 5 | (46) | (225) | 0 | 0 | 0 | 0 | (47) | (225) |
| **Operating income** | | **16,130** | **25,930** | **1,492** | **969** | **0** | **0** | **17,622** | **26,899** |
| Interest income and similar credits | | 510 | 644 | 0 | 0 | 0 | (37) | 510 | 608 |
| Interest expenses and similar charges | | (2,476) | (2,912) | 0 | 0 | 0 | 37 | (2,476) | (2,875) |
| Other financial income and expenses | Note 9 | (301) | 297 | 0 | 0 | 0 | 0 | (301) | 297 |
| **Income after financial items** | | **13,863** | **23,959** | **1,492** | **969** | **0** | **0** | **15,355** | **24,929** |
| Income taxes | Note 10 | (3,663) | (6,490) | (434) | (323) | 0 | 0 | (4,097) | (6,814) |
| **Income for the period*** | | **10,200** | **17,496** | **1,058** | **646** | **0** | **0** | **11,258** | **18,115** |
| * Attributable to: | | | | | | | | | |
| Equity holders of the parent company | | | | | | | | 11,039 | 17,751 |
| Minority interests | Note 11 | | | | | | | 219 | 364 |
| | | | | | | | | **11,258** | **18,115** |
| Basic earnings per share, SEK | Note 19 | | | | | | | 5.44 | 8.76 |
| Diluted earnings per share, SEK | Note 19 | | | | | | | 5.44 | 8.75 |

### OTHER COMPREHENSIVE INCOME

| SEK M | | 2012 | 2011 |
|---|---|---|---|
| **Income for the period** | | **11,258** | **18,115** |
| Translation differences on foreign operations | | (3,916) | (980) |
| Translation differences on hedge instruments of net investment in foreign operations | | 0 | (3) |
| Accumulated translation difference reversed to income | | (118) | (30) |
| Available-for-sale investments | | (4) | 39 |
| Change in cash flow hedge reserve | Note 19 | 8 | (144) |
| **Other comprehensive income, net of income taxes** | | **(4,030)** | **(1,118)** |
| **Total comprehensive income for the period** | | **7,228** | **16,997** |
| Attributable to: | | | |
| Equity holders of the Parent Company | | 7,092 | 16,681 |
| Minority interests | | 136 | 316 |
| | | **7,228** | **16,997** |

### Net sales

Net sales for the Volvo Group decreased by 2% to 303,647 in 2012, compared with 310,367 in the preceding year.

### Operating income

Volvo Group's operating income amounted to 17,622 (26,899).

Operating income for the Industrial Operations decreased to 16,130 compared with 25,930 in the preceding year. The Customer Finance operations' operating income rose to 1,492 (969).

### Net financial items

Net interest expense amounted to 1,966, compared with 2,267 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 of 7. During 2011 the impact was positive 544.

### Income taxes

The tax expense for the year amounted to 4,097 (6,814) corresponding to a tax rate of 27% (27).

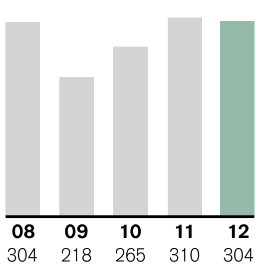
### Income for the period and earnings per share

The income for the period amounted to 11,258 (18,115), corresponding to diluted earnings per share of SEK 5.44 (8.75). The return on shareholders' equity was 12.9% (23.1).

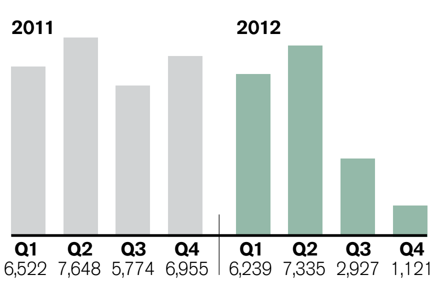
| **Net sales by business area**, SEK M | **2012** | 2011 | % |
|---|---|---|---|
| Trucks | 192,283 | 198,920 | (3) |
| Construction Equipment | 63,558 | 63,500 | 0 |
| Buses | 20,295 | 21,823 | (7) |
| Volvo Penta | 7,631 | 8,458 | (10) |
| Volvo Aero | 5,219 | 6,356 | (18) |
| Eliminations and other | 7,045 | 4,532 | – |
| **Industrial Operations[1]** | **296,031** | **303,589** | **(2)** |
| Customer Finance | 9,783 | 8,882 | 10 |
| Reclassifications and eliminations | (2,167) | (2,104) | – |
| **Volvo Group** | **303,647** | **310,367** | **(2)** |

1 Adjusted for acquired and divested units and changes in currency rates, net sales decreased by 2%.

**Net sales,** SEK bn




**Operating income,** SEK M




| **Operating margin**, % | **2012** | 2011 |
|---|---|---|
| Trucks | 5.3 | 9.2 |
| Construction Equipment | 9.1 | 10.7 |
| Buses | 0.3 | 5.1 |
| Volvo Penta | 7.1 | 9.8 |
| Volvo Aero | 14.7 | 5.7 |
| **Industrial Operations** | **5.4** | **8.5** |
| **Volvo Group** | **5.8** | **8.7** |

| **Operating income (loss) by business area**, SEK M | **2012** | 2011 |
|---|---|---|
| Trucks | 10,216 | 18,227 |
| Construction Equipment | 5,773 | 6,812 |
| Buses | 51 | 1,114 |
| Volvo Penta | 541 | 825 |
| Volvo Aero | 767 | 360 |
| Eliminations and other | (1,217) | (1,408) |
| **Industrial Operations** | **16,130** | **25,930** |
| Customer Finance | 1,492 | 969 |
| **Volvo Group** | **17,622** | **26,899** |

| **Change in operating income**, SEK bn | Change (excluding currency) | Currency impact | **Total** |
|---|---|---|---|
| **Operating income 2011** | | | **26.9** |
| Change in gross income Industrial operations[1] | (7.0) | 1.3 | (5.7) |
| Change in gross income Customer financing | 0.6 | 0 | 0.6 |
| Higher capitalization of development cost | 1.2 | (0.1) | 1.1 |
| Higher research and development expenditures | (2.7) | 0.1 | (2.6) |
| Higher selling and administrative expenses | (2.3) | 0 | (2.3) |
| Restructuring and efficiency programs in Japan and Europe | (1.6) | 0 | (1.6) |
| Profit from the sale of Volvo Aero | 0.6 | 0 | 0.6 |
| Volvo profit sharing program | 0.3 | 0 | 0.3 |
| Insurance compensation for damages from earthquake and Tsunami in Japan in 2011 | 0.1 | 0 | 0.1 |
| Provision for negative outcome in court ruling related to EPA | (0,1) | 0 | (0,1) |
| Other | 0.3 | 0 | 0.3 |
| **Operating income 2012** | | | **17.6** |

1 During 2012 gross income was affected by underabsorption of costs amounting to SEK neg 2.7 billlions and adjustment in warranty provisions amouting to SEK neg 0.5 billions. Distruptions in the Volvo Group's Japanese operations, as a consequence of earthquake and tsunami affected gross income by SEK neg 0.7 billions during 2011.

## Industrial Operations

In 2012, net sales for the Volvo Group's Industrial Operations decreased by 2% to 296,031 (303,589).

Compared with 2011, sales increased in North America, Eastern Europe and in some smaller markets, however sales decreased in Western Europe, South America and Asia.

### Lower earnings

In 2012, operating income for the Volvo Group's Industrial Operations amounted to 16,130 compared to 25,930 in the preceding year. The operating margin for the Industrial Operations amounted to 5.4% (8.5).

The lower profitability was the result of decreased sales, low capacity utilization in the industrial system and restructuring charges during the second half of the year. Income was impacted by restructuring measures amounting to 1,524 mainly refering to Trucks and to Buses. In addition, increased warranty reserves in Trucks amounted to 500. The divestment of Volvo Aero had a positive impact of 568.

In 2012, research and development expenses amounted to 14,794 (13,276). The continued high cost level is a consequence a large number of projects related to the introduction of new products in the next few years.

Selling expenses increased by 6%. Costs associated with the launch of new products increased the expenses.

### Impact of exchange rates on operating income

The combined effect of changed exchange rates had a positive effect on operating income of approximately to SEK 1.3 billion in 2012, compared with 2011. This is mainly attributable to that the USD was strong during most of 2012.

| **Income Statement Industrial Operations,** SEK M | **2012** | 2011 |
|---|---|---|
| Net sales | 296,031 | 303,589 |
| Cost of sales | (231,216) | (233,097) |
| **Gross income** | **64,815** | **70,492** |
| Gross margin, % | 21.9 | 23.2 |
| Research and development expenses | (14,794) | (13,276) |
| Selling expenses | (26,582) | (25,181) |
| Administrative expenses | (5,639) | (4,753) |
| Other operating income and expenses | (1,600) | (1,045) |
| Income from investments in associated companies | (23) | (82) |
| Income from other investments | (46) | (225) |
| **Operating income (loss) Industrial Operations** | **16,130** | **25,930** |
| Operating margin, % | 5.4 | 8.5 |

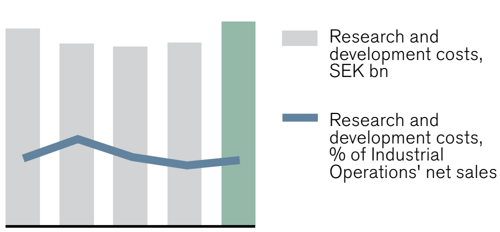
| **Net sales by market area,** SEK M | **2012** | 2011 | % |
|---|---|---|---|
| Western Europe | 88,325 | 97,925 | (10) |
| Eastern Europe | 20,751 | 20,298 | 2 |
| North America | 68,297 | 58,253 | 17 |
| South America | 27,970 | 34,013 | (18) |
| Asia | 68,500 | 73,017 | (6) |
| Other markets | 22,188 | 20,083 | 10 |
| **Total Industrial Operations** | **296,031** | **303,589** | **(2)** |

| **Impact of exchange rates on operating income**<br>Compared with preceding year, SEK M | |
|---|---|
| Net sales[1] | 1,904 |
| Cost of sales | (610) |
| Research and development expenses | (15) |
| Selling and administrative expenses | 25 |
| **Total effect of changes in exchange rates on operating income** | **1,304** |

1 The Volvo 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**<br>Local currency, million | **2012** | 2011 |
|---|---|---|
| USD | 4,421 | 3,970 |
| EUR | (158) | 57 |
| GBP | 472 | 555 |
| CAD | 600 | 397 |
| JPY (x100) | (181) | (218) |

**Research and development costs**




| **08** | **09** | **10** | **11** | **12** | |
|---|---|---|---|---|---|
| 14.3 | 13.2 | 13.0 | 13.3 | 14.8 | |
| 4.9 | 6.3 | 5.0 | 4.4 | 5.0 | |

## Customer Finance Operations

Total new financing volume in 2012 amounted to SEK 46.6 billion (44.8). Adjusted for changes in exchange rates, new business volume increased by 5.3% compared to 2011 as a result of increased penetration levels. In total, 50,994 new vehicles and machines (49,757) from the Volvo Group were financed during the year. In the markets where financing is offered, the average penetration rate was 27% (25).

As of December 31, 2012, the net credit portfolio amounted to 99,690 (94,275). The funding of the credit portfolio is matched in terms of maturity, interest rates and currencies in accordance with Volvo Group policy. » **Read more** in **Note 15**.

The operating income for the year amounted to 1,492 compared to 969 in the previous year. Return on shareholders' equity amounted to 12.5% (7.3). The equity ratio at the end of the year amounted to 8.1% (9.1). The improvement in profitability is driven mainly by higher earning assets and good margins. During the year, credit provision expenses amounted to 640 (682) while write-offs of 577 (804) were recognized. The write-off ratio for 2012 amounted to 0.58% (0.93). At the end of December 31, 2012, credit reserves amounted to 1.23% (1.33) of the credit portfolio.

| **Income Statement Customer Finance,** SEK M | **2012** | 2011 |
|---|---|---|
| Finance and lease income | 9,783 | 8,883 |
| Finance and lease expenses | (6,036) | (5,693) |
| **Gross income** | **3,747** | **3,190** |
| Selling and administrative expenses | (1,696) | (1,618) |
| Credit provision expenses | (640) | (682) |
| Other operating income and expenses | 81 | 78 |
| **Operating income (loss)** | **1,492** | **969** |
| Income taxes | (434) | (323) |
| **Income (loss) for the period** | **1,058** | **646** |
| Return on Equity | 12.5 | 7.3 |

| **Key ratios, Customer Finance**[1] | **2012** | 2011 |
|---|---|---|
| Credit portfolio net, SEK M | 99,690 | 94,275 |
| Operating income, SEK M | 1,492 | 969 |
| Return on shareholders' equity, % | 12.5 | 7.3 |
| Total penetration rate, % | 27 | 25 |
| **Penetration by business area**[1]**, %** | | |
| Volvo CE | 37 | 35 |
| Volvo Trucks | 30 | 27 |
| Renault Trucks | 23 | 19 |
| Mack Trucks | 19 | 20 |
| Buses | 21 | 15 |
| UD Trucks | 13 | 14 |

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

## Continued strong financial position

Net debt in the Volvo Group's Industrial Operations amounted to SEK 23.0 billion at December 31, 2012, equal to 29.3% of shareholders' equity. Excluding provisions for post-employment benefits the Industrial Operation's net debt amounted to SEK 19.0 billion, which was equal to 24.3% of shareholders' equity.

### BALANCE SHEETS VOLVO GROUP – ASSETS

| | | Industrial Operations | | Customer Finance | | Eliminations | | Volvo Group | |
|---|---|---|---|---|---|---|---|---|---|
| SEK M | | **Dec 31 2012** | Dec 31 2011 | **Dec 31 2012** | Dec 31 2011 | **Dec 31 2012** | Dec 31 2011 | **Dec 31 2012** | Dec 31 2011 |
| **Assets** | | | | | | | | | |
| **Non-current assets** | | | | | | | | | |
| Intangible assets | Note 12 | 40,267 | 39,385 | 106 | 122 | – | – | 40,373 | 39,507 |
| *Tangible assets* | Note 13 | | | | | | | | |
| Property, plant and equipment | | 54,145 | 53,563 | 105 | 94 | – | – | 54,250 | 53,657 |
| Investment property | | 754 | 883 | – | – | – | – | 754 | 883 |
| Assets under operating leases | | 21,263 | 16,749 | 12,543 | 11,525 | (4,784) | (4,352) | 29,022 | 23,922 |
| *Financial assets* | | | | | | | | | |
| Investments in associated companies | Note 5 | 2,045 | 684 | – | – | – | – | 2,045 | 684 |
| Other shares and participations | Note 5 | 839 | 1,187 | 6 | 3 | – | – | 845 | 1,190 |
| Non-current customer-financing receivables | Note 15 | 600 | 579 | 47,329 | 44,651 | (6,773) | (4,612) | 41,156 | 40,618 |
| Deferred tax assets | Note 10 | 10,406 | 12,480 | 760 | 358 | – | – | 11,166 | 12,838 |
| Prepaid pensions | Note 20 | 2,708 | 2,263 | 16 | 14 | – | – | 2,724 | 2,277 |
| Non-current interest-bearing receivables | Note 16 | 653 | 757 | – | – | (316) | (63) | 337 | 694 |
| Other non-current receivables | Note 16 | 3,565 | 4,500 | 127 | 50 | (373) | (235) | 3,319 | 4,315 |
| **Total non-current assets** | | **137,245** | **133,030** | **60,992** | **56,817** | **(12,246)** | **(9,262)** | **185,991** | **180,585** |
| **Current assets** | | | | | | | | | |
| Inventories | Note 17 | 40,057 | 43,828 | 352 | 771 | – | – | 40,409 | 44,599 |
| *Current receivables* | | | | | | | | | |
| Customer-financing receivables | Note 15 | 797 | 1,123 | 39,946 | 38,050 | (910) | (1,092) | 39,833 | 38,081 |
| Tax assets | | 1,173 | 1,152 | 35 | 48 | – | – | 1,208 | 1,200 |
| Interest-bearing receivables | Note 16 | 3,038 | 1,461 | – | 226 | (464) | (1,020) | 2,574 | 667 |
| Internal funding[1] | | 4,612 | 2,253 | – | – | (4,612) | (2,253) | – | – |
| Accounts receivable | Note 16 | 27,228 | 27,492 | 121 | 207 | – | – | 27,349 | 27,699 |
| Other receivables | Note 16 | 11,952 | 13,438 | 2,651 | 1,411 | (2,114) | (1,024) | 12,489 | 13,825 |
| Non interest-bearing assets held for sale | Note 3 | – | 9,344 | – | – | – | – | – | 9,344 |
| Interest-bearing assets held for sale | Note 3 | – | 4 | – | – | – | – | – | 4 |
| Marketable securities | Note 18 | 3,129 | 6,838 | 1 | 24 | – | – | 3,130 | 6,862 |
| Cash and cash equivalents | Note 18 | 24,017 | 29,113 | 2,116 | 1,593 | (374) | (327) | 25,759 | 30,379 |
| **Total current assets** | | **116,003** | **136,046** | **45,222** | **42,330** | **(8,474)** | **(5,717)** | **152,751** | **172,659** |
| **Total assets** | | **253,248** | **269,076** | **106,214** | **99,147** | **(20,720)** | **(14,979)** | **338,742** | **353,244** |

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 28.9 billion at December 31, 2012 which includes SEK 0.2 billion not available for use by the Volvo Group and SEK 9.4 billion where other limitations exist, mainly liquid funds in countries where exchange controls or other legal restrictions apply. In addition to this, granted but not utilized credit facilities amounted to SEK 33.1 billion.

Total assets in the Volvo Group amounted to SEK 338.7 billion as of December 31, 2012, a decrease of SEK 14.5 billion compared to year-end 2011. The decrease is mainly a result of changes in currency rates and the divestment of Volvo Aero which is offset by increased customer financing receivables due to portfolio growth in the Customer Finance Operations and an increase in assets under operating lease mainly related to the construction equipment rental operation.

The Volvo Group's intangible assets amounted to SEK 40.4 billion as of December 31, 2012. Investments in research and development amounted to SEK 5.4 billion in 2012, resulting in a net value of capitalized development costs of SEK 13.4 billion at the end of the year. The Volvo Group's total goodwill amounted to SEK 23.3 billion as of December 31, 2012, an decrease by SEK 0.6 billion compared to year-end 2011 as a result of translation differences.

The tangible assets increased by SEK 5.6 billion during 2012, mainly related to the expansion in the construction equipment rental operation.

The value of the inventories decreased by SEK 4.2 billion during 2012. The decrease is mainly related to finished products within trucks and construction equipment.

The net value of assets and liabilities related to pensions and similar obligations amounted to SEK 4.0 billion as of December 31, 2012, a decrease of SEK 0.4 billion compared to year-end 2011. Post-employment benefits valued at SEK 13.9 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 30.9% and in the Volvo Group 25.7%. Equity in the Volvo Group amounted to SEK 86.9 billion at December 31, 2012.

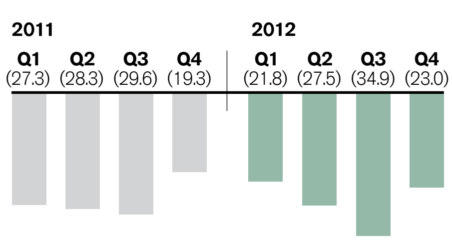
# BALANCE SHEETS VOLVO GROUP – SHAREHOLDERS’ EQUITY AND LIABILITIES

| SEK M | | Industrial Operations Dec 31 2012 | Industrial Operations Dec 31 2011 | Customer Finance Dec 31 2012 | Customer Finance Dec 31 2011 | Eliminations Dec 31 2012 | Eliminations Dec 31 2011 | Volvo Group Dec 31 2012 | Volvo Group Dec 31 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **Equity and liabilities** | | | | | | | | | |
| Equity attributable to the equity holder of the Parent Company | Note 19 | 77,055 | 75,582 | 8,593 | 8,999 | – | – | 85,648 | 84,581 |
| Minority interests | Note 11 | 1,266 | 1,100 | – | – | – | – | 1,266 | 1,100 |
| **Total equity** | | **78,321** | **76,682** | **8,593** | **8,999** | **0** | **-** | **86,914** | **85,681** |
| *Non-current provisions* | | | | | | | | | |
| Provisions for post-employment benefits | Note 20 | 6,663 | 6,635 | 34 | 30 | – | – | 6,697 | 6,665 |
| Provisions for deferred taxes | Note 10 | 3,149 | 4,171 | 1,879 | 1,465 | – | – | 5,028 | 5,636 |
| Other provisions | Note 21 | 5,588 | 5,492 | 187 | 154 | 8 | 2 | 5,783 | 5,648 |
| **Total non-current provisions** | | **15,400** | **16,298** | **2,100** | **1,649** | **8** | **2** | **17,508** | **17,949** |
| *Non-current liabilities* | Note 22 | | | | | | | | |
| Bond loans | | 43,092 | 38,192 | – | – | – | – | 43,092 | 38,192 |
| Other loans | | 33,356 | 38,848 | 11,630 | 8,974 | (6,553) | (57) | 38,433 | 47,765 |
| Internal funding[1] | | (33,990) | (35,453) | 34,298 | 33,459 | (308) | 1,994 | – | – |
| Other liabilities | | 13,828 | 12,902 | 742 | 740 | (3,856) | (3,195) | 10,714 | 10,447 |
| **Total non-current liabilities** | | **56,286** | **54,489** | **46,670** | **43,173** | **(10,717)** | **(1,258)** | **92,239** | **96,404** |
| **Current provisions** | **Note 21** | **10,916** | **9,438** | **50** | **92** | **10** | **1** | **10,976** | **9,531** |
| *Current liabilities* | Note 22 | | | | | | | | |
| Loans | | 45,760 | 38,644 | 6,393 | 6,741 | (1,836) | (863) | 50,317 | 44,522 |
| Internal funding[1] | | (33,746) | (24,837) | 38,600 | 35,373 | (4,854) | (10,536) | – | – |
| Non interest-bearing liabilities held for sale | Note 3 | – | 4,710 | – | – | – | – | – | 4,710 |
| Interest-bearing liabilities held for sale | Note 3 | – | 6 | – | – | – | – | – | 6 |
| Trade payables | | 47,205 | 56,546 | 159 | 242 | – | – | 47,364 | 56,788 |
| Tax liabilities | | 807 | 2,220 | (154) | 171 | – | – | 653 | 2,391 |
| Other liabilities | Note 22 | 32,299 | 34,880 | 3,803 | 2,707 | (3,331) | (2,325) | 32,771 | 35,262 |
| **Total current liabilities** | | **92,325** | **112,169** | **48,801** | **45,234** | **(10,021)** | **(13,724)** | **131,105** | **143,679** |
| **Total equity and liabilities** | | **253,248** | **269,076** | **106,214** | **99,147** | **(20,720)** | **(14,979)** | **338,742** | **353,244** |

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

| **Change in net financial position, Industrial Operations,** SEK bn | **2012** | 2011 |
|---|---|---|
| **Net financial position at the beginning of period** | **(19.3)** | **(24.7)** |
| Cash flow from operating activities | 12.4 | 26.9 |
| Investments in fixed assets (to)/from | (18.2) | (14.0) |
| Disposals | 0.9 | 1.2 |
| **Operating cash-flow** | **(4.9)** | **14.1** |
| Investments and divestments of shares | (1.2) | (0.1) |
| Acquired and divested operations, net | 3.7 | (3.0) |
| Capital injections (to)/from Customer Finance Operations | 0.9 | (0.1) |
| Currency effect | 3.6 | (1.9) |
| Dividend paid to AB Volvo shareholders | (6.1) | (5.1) |
| Dividend paid to minority shareholders | 0.0 | 0.0 |
| Other | 0.3 | 1.5 |
| **Total change** | **(3.7)** | **5.4** |
| **Net financial position at end of period** | **(23.0)** | **(19.3)** |

**Net debt, Industrial Operations,** SEK bn




| **Net financial position,** SEK M | Industrial Operations Dec 31 2012 | Industrial Operations Dec 31 2011 | Volvo Group Dec 31 2012 | Volvo Group Dec 31 2011 |
|---|---|---|---|---|
| Non-current interest-bearing assets | | | | |
| Non-current customer-financing receivables | – | – | 41,156 | 40,618 |
| Non-current interest-bearing receivables | 653 | 757 | 337 | 694 |
| Current interest-bearing assets | | | | |
| Customer-financing receivables | – | – | 39,833 | 38,081 |
| Interest-bearing receivables | 3,038 | 1,461 | 2,574 | 667 |
| Internal funding | 4,612 | 2,253 | – | – |
| Interest-bearing assets held for sale | – | 4 | – | 4 |
| Marketable securities | 3,129 | 6,838 | 3,130 | 6,862 |
| Cash and bank | 24,017 | 29,113 | 25,759 | 30,379 |
| **Total financial assets** | **35,449** | **40,426** | **112,789** | **117,305** |
| Non-current interest-bearing liabilities | | | | |
| Bond loans | (43,092) | (38,192) | (43,092) | (38,192) |
| Other loans | (33,356) | (38,848) | (38,433) | (47,765) |
| Internal funding | 33,990 | 35,453 | – | – |
| Current interest-bearing liabilities | | | | |
| Loans | (45,760) | (38,644) | (50,317) | (44,522) |
| Internal funding | 33,746 | 24,837 | – | – |
| Interest-bearing liabilities held for sale | – | (6) | – | (6) |
| **Total financial liabilities** | **(54,472)** | **(55,400)** | **(131,842)** | **(130,485)** |
| **Net financial position excl. post employment benefits** | **(19,023)** | **(14,974)** | **(19,053)** | **(13,180)** |
| Provision for post employment benefits, net | (3,955) | (4,372) | (3,973) | (4,388) |
| **Net financial position incl. post employment benefits** | **(22,978)** | **(19,346)** | **(23,026)** | **(17,568)** |

# CASH-FLOW STATEMENT

## Negative operating cash-flow

During 2012, operating cash flow in the Industrial Operations amounted to a negative SEK 4.8 billion (positive 14.1).

### CONSOLIDATED CASH-FLOW STATEMENTS

| | | Industrial operations | | Customer Finance | | Eliminations | | Volvo Group Total | |
|---|---|---|---|---|---|---|---|---|---|
| SEK M | | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| **Operating activities** | | | | | | | | | |
| Operating income | | 16,130 | 25,957 | 1,492 | 942 | 0 | 0 | 17,622 | 26,899 |
| Depreciation tangible assets | Note 13 | 5,928 | 6,109 | 20 | 15 | 0 | 0 | 5,948 | 6,124 |
| Amortization intangible assets | Note 12 | 3,168 | 3,227 | 23 | 20 | 0 | 0 | 3,191 | 3,247 |
| Depreciation leasing vehicles | Note 13 | 2,890 | 2,083 | 2,726 | 2,537 | 0 | 1 | 5,616 | 4,621 |
| Other non-cash items | Note 29 | 796 | 622 | 565 | 614 | 69 | 26 | 1,430 | 1,262 |
| Total change in working capital whereof | | (9,184) | (4,180) | (14,574) | (13,831) | 1,818 | 2,926 | (21,940) | (15,085) |
| *Change in accounts receivable* | | *(1,227)* | *(3,094)* | *79* | *(101)* | *0* | *0* | *(1,148)* | *(3,195)* |
| *Change in customer financing receivables* | | *228* | *(240)* | *(14,812)* | *(14,202)* | *1,883* | *3,007* | *(12,701)* | *(11,435)* |
| *Change in inventories* | | *627* | *(7,099)* | *258* | *(155)* | *0* | *0* | *885* | *(7,254)* |
| *Change in trade payables* | | *(7,552)* | *9,871* | *(81)* | *107* | *0* | *0* | *(7,633)* | *9,978* |
| *Other changes in working capital* | | *(1,260)* | *(3,618)* | *(18)* | *520* | *(65)* | *(81)* | *(1,343)* | *(3,179)* |
| Interest and similar items received | | 527 | 720 | 0 | – | 6 | (42) | 533 | 678 |
| Interest and similar items paid | | (2,825) | (3,391) | 0 | – | (75) | 12 | (2,900) | (3,379) |
| Other financial items | | (319) | (184) | 0 | – | 0 | 0 | (319) | (184) |
| Income taxes paid | | (4,668) | (4,129) | (697) | (384) | (1) | 0 | (5,366) | (4,513) |
| **Cash flow from operating activities** | | **12,443** | **26,834** | **(10,445)** | **(10,087)** | **1,817** | **2,923** | **3,815** | **19,670** |
| **Investing activities** | | | | | | | | | |
| Investments in tangible assets | | (9,308) | (8,267) | (29) | (50) | (1) | 27 | (9,338) | (8,290) |
| Investments in intangible assets | | (5,281) | (4,293) | (19) | (20) | 0 | 0 | (5,300) | (4,313) |
| Investment in leasing vehicles | | (3,566) | (1,422) | (6,496) | (6,044) | 76 | 53 | (9,986) | (7,413) |
| Disposals of fixed assets and leasing vehicles | | 911 | 1,233 | 2,205 | 2,099 | (6) | 0 | 3,110 | 3,332 |
| **Operating cash flow** | | **(4,801)** | **14,085** | **(14,784)** | **(14,102)** | **1,886** | **3,003** | **(17,699)** | **2,986** |
| Investments and divestments of shares, net | Note 5,29 | | | | | | | (1,186) | (119) |
| Acquired and divested operations, net | Note 3,29 | | | | | | | 3,390 | (1,590) |
| Interest-bearing receivables incl marketable securities | | | | | | | | 3,678 | 2,665 |
| **Cash-flow after net investments** | | | | | | | | **(11,817)** | **3,942** |
| **Financing activities** | | | | | | | | | |
| Change in loans, net | Note 29 | | | | | | | 14,075 | 8,734 |
| Dividend to AB Volvo shareholders | | | | | | | | (6,083) | (5,069) |
| Dividend to minority shareholders | | | | | | | | 0 | (2) |
| Other | | | | | | | | 2 | (30) |
| **Change in cash and cash equivalents excl. translation differences** | | | | | | | | **(3,823)** | **7,575** |
| Translation difference on cash and cash equivalents | | | | | | | | (797) | (162) |
| **Change in cash and cash equivalents** | | | | | | | | **(4,620)** | **7,413** |
| **Cash and cash equivalents, beginning of year** | Note 18 | | | | | | | **30,379** | **22,966** |
| **Cash and cash equivalents, end of year** | Note 18 | | | | | | | **25,759** | **30,379** |

The cash flow within Industrial Operations was positively affected by the operating income and negatively affected by the increased working capital. Accounts receivables increased with SEK 1.2 billion while inventories decreased SEK 0.6 billion and the trade payables decreased SEK 7.6 billion.

Financial items and paid income taxes had a SEK 7.3 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 14.8 billion (neg: SEK 14.1 billion), mainly due to increased customer financing-receivables.

### Investments

The industrial operations' investments in fixed assets and capitalized R&D during 2012 amounted to SEK 14.6 billion (12.6).

Capital expenditures in Trucks amounted to SEK 10.7 billion (8.4). As for previous year, the capital expenditures within Trucks consist to a large extent of investments related to product renewals in the product program, including emission regulations, with product development activities and required adaptations in the plants. There are also large investments in capacity for cylinder blocks and cylinder heads in Skövde, Sweden, and cab paint capacity in Curitiba, Brazil. During 2012 there were also investments in the dealer network and workshops, mainly in Europe and Asia (mainly Japan and Thailand), as well as in our joint venture VE Commercial Vehicles (VECV).

Capital expenditures for Construction Equipment amounted to SEK 1.7 billion (1.9). The major investments during 2012 continued on strategic areas such as excavator assembly plant in Kaluga, Russia, facilities (plant and sales office) in Shippensburg, US, to support the North American markets, and the Jinan Technology center in China handling development of BRIC machines for both Volvo and SDLG brand. Product related investments during the year refer to the latest emission regulations in Europe and North America (Tier 4 final), and market specific requirements for new models in the BRIC countries.

The investments in Buses were SEK 0.3 billion (0.3), and in Penta SEK 0.2 billion (0.2). For 2011 Volvo Aero was included with SEK 0.5 billion, but is not included in the comparison for 2012 due to reclassification to assets held for sale.

Investments in Volvo Rents, besides leasing assets, were SEK 0.6 billion (0.1) during 2012, and are mainly referable to delivery vehicles. These are directly related to the expansion of fleet and the additional store locations added during the year.

Investments in leasing assets amounted to SEK 3.6 billion (1.4), the increase from last year is related to the build-up phase that Volvo Rents has been in during 2012, increasing its presence and expanded the fleet through acquisitions and greenfield investments.

For 2013, the Volvo Group estimate that investments in property, plant and equipment will be more or less on the same level as for 2012. The investments will mainly cover the industrial footprint and tooling related to the product renewals, and also needs in order to deliver on the strategic objectives.

### Acquisitions and divestments

In September 2012 AB Volvo increased its shareholding in Deutz AG to just over 25% which had a negative impact on cash flow of SEK 1.1 billion.

In October 2012 the sale of Volvo Aero to the British company GKN was finalized. Acquired operations refer mainly to the acquisition of the French automotive manufacturer Panhard as well as several minor acquisitions of assets and liabilities in construction equipment rental operations.

Acquired and divested operations 2012 had a positive impact on cash flow of SEK 3.4 billion (negative 1.6).

### Financing and dividend

Net borrowings increased cash and cash equivalents by SEK 14.1 billion during 2012.

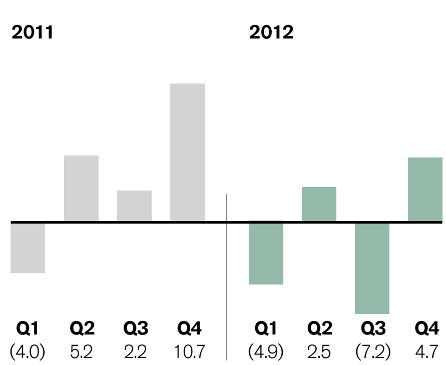
During the year dividend of SEK 6.1 billion, corresponding to SEK 3.00 per share, was paid to the shareholders of AB Volvo.

### Change in cash and cash equivalents

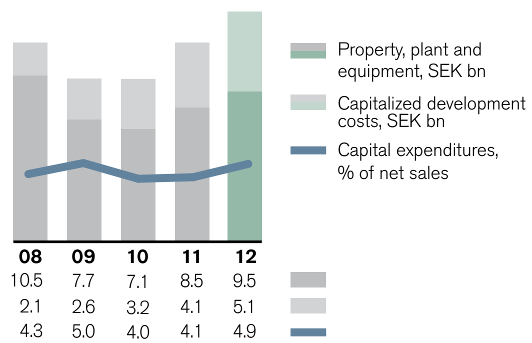
The Volvo Group's cash and cash equivalents decreased by SEK 4.6 billion during the year and amounted to SEK 25.8 billion at December 31, 2012.

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

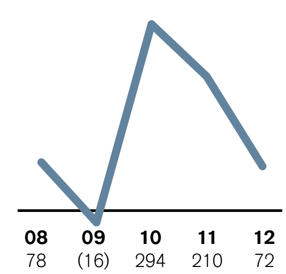
**Operating cash flow, Industrial Operations,** SEK bn




**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 | | Share capital | Other reserves[1] | Translation reserve | Retained earnings | Total | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Shareholders' equity attributable to equity holders of the Parent Company | | | | | | |
| **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** |
| Income for the period | | – | – | – | 11,039 | 11,039 | 219 | 11,258 |
| *Other comprehensive income* | | | | | | | | |
| Translation differences on foreign operations | | – | – | (3,859) | – | (3,859) | (57) | (3,916) |
| Translation differences on hedge instruments of net investments in foreign operations | | – | – | – | – | – | – | – |
| Accumulated translation differences reversed to income | | – | – | (118) | – | (118) | – | (118) |
| Available-for-sale investments: | Note 5,19 | | | | | | | |
| Gains/losses at valuation to fair value | | – | (4) | – | – | (4) | – | (4) |
| Change in cash flow hedge reserve | Note 19 | – | 8 | – | – | 8 | – | 8 |
| Other comprehensive income for the period | | – | 4 | (3,977) | – | (3,973) | (57) | (4,030) |
| Total income for the period | | – | 4 | (3,977) | 11,039 | 7,066 | 162 | 7,228 |
| *Transactions with shareholders* | | | | | | | | |
| Dividends to shareholders | | – | – | – | (6,083) | (6,083) | – | (6,083) |
| Transactions with minority interests | | – | – | – | – | – | – | – |
| Share based payments | Note 27 | – | – | – | 90 | 90 | – | 90 |
| Changes in minority interests | | – | – | – | – | – | – | – |
| Other changes | | – | – | – | (6) | (6) | 4 | (2) |
| Transactions with shareholders | | – | – | – | (5,999) | (5,999) | 4 | (5,995) |
| **Balance at December 31, 2012** | | **2,554** | **14** | **(2,801)** | **85,881** | **85,648** | **1,266** | **86,914** |

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, 2011.

## 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.

*How should the Volvo Group'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. The Volvo Group focuses on describing the accounting choices has been made within the framework of the prevailing IFRS policy and avoids repeating the actual text of the standard, unless the Volvo Group considers it particularly important to the understanding of the note's content. The following symbols I/S and B/S shows which amounts in the notes that can be found in the income statement or balance sheet. 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 |
| | 31, Changes in Volvo Group Financial Reporting 2013 | IFRS11, IAS28 |
| Investments in associates | 5, Investment in associated companies and other shares and participations | IAS 28 |
| Operating segments | 6, Segment reporting | IFRS 8 |
| Revenue | 7, Income | IAS 17, IAS 18 |
| Shares and participations | 5, Investment in associated companies and other 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 36, 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, Equity and numer of shares | IAS 33 |
| Pensions and similar obligations | 20, Provisions for post-employment benefits | IAS 19 |
| | 31, Changes in Volvo Group Financial Reporting 2013 | Amendments to IAS19 |
| 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 the Volvo Group holds more than 50% of the voting rights or in which Volvo Group otherwise has a controlling interest.
- Joint ventures are companies over which Volvo Group has joint control together with one or more external parties. Up and until December 31, 2012 joint ventures are recognized using the proportionate method of consolidation.
- Associated companies are companies in which Volvo Group has a significant influence, which is normally when Volvo Group's holding of shares 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 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 the profit or loss statement as a part of the gain/loss arising from the divestment or liquidation of such a company.

### 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 as of Dec 31 | |
|---|---|---|---|---|---|
| Country | Currency | 2012 | 2011 | 2012 | 2011 |
| Brazil | BRL | 3.4837 | 3.8850 | 3.1885 | 3.7109 |
| Euro Zone | EUR | 8.7145 | 9.0430 | 8.6259 | 8.9540 |
| Japan | JPY | 0.0851 | 0.0817 | 0.0757 | 0.0892 |
| Canada | CAD | 6.7827 | 6.5694 | 6.5536 | 6.7808 |
| China | CNY | 1.0738 | 1.0057 | 1.0456 | 1.0998 |
| Great Britain | GBP | 10.7402 | 10.4179 | 10.4977 | 10.6831 |
| South Korea | KRW | 0.0060 | 0.0059 | 0.0061 | 0.0060 |
| United States | USD | 6.7767 | 6.4982 | 6.5169 | 6.9247 |

### New accounting principles for 2012

None of the new accounting principles or interpretations effective from January 1, 2012 has had any significant impact on the Volvo Group's financial statements.

New disclosure requirements in accordance with the amendement of IFRS 7 Disclosures - Transfers of Financial Assets are presented in note 30.

The Swedish Financial Reporting Board has published an amendment in RFR 2 regarding group contribution which is effective for the annual period beginning January 1, 2013. This amendment has been early adopted by the parent company in 2012. AB Volvo applies the alternative rule and group contributions are recognized as allocations in the income statement. Previously, group contributions were recognized as income from investments in group companies. The comparative numbers in the 2011 income statement for the parent company have been adjusted.

Other amendments in RFR 2 effective from January 1, 2012 have not had any significant impact on the parent company's financial statements.

### New accounting principles for 2013 and later

When preparing the consolidated financial statements as of December 31, 2012, a number of standards and interpretations has been published, but has not yet become effective. See note 31 for information related to Amendment to IAS 19 Employee benefits and IFRS 11 Joint Arrangements and restated income statement and balance sheet for 2012 in accordance with the two above mentioned standards.

**Read more in Note 31** regarding changes in the financial reporting as from January 1, 2013.

The following is an assessment of the effect that the implementation of other new standards and statements could have on the Volvo Group's financial statements.

*IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities*
Volvo Group will apply IFRS 10 Consolidated Financial Statement, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other entities in advance as from January 1, 2013. Comparative periods 2012 are restated.

IFRS 10 replaces the consolidation instructions in IAS 27 Consolidated and Separate Financial Statements and SIC -12 Consolidation – Special Purpose Entities and introduce one basis for consolidation, that is control. If the following three criterias are fulfilled control is obtained (i) power of the investee (ii) exposure, or rights, to variable returns from its involvement with the investee, and (iii) the ability to use power over the investee to affect the amount of the return. IFRS 10 is not considered to have any significant impact on the consolidation of other companies of which the Volvo Group has ownership or is involved.

» **Refer to note 31** for further information related to IFRS 11 Joint Arrangements.

*IFRS 12 Disclosure of Interests in Other Entities*
Disclosure of Interests in Other Entities requires more detailed disclosures on subsidiaries, joint arrangements, associates and any unconsolidated structured entities in which the company is involved. The disclosures in the annual report will to some extent increase due to IFRS 12.

*IAS 27 Separate Financial Statements (revised 2011)*
IAS 27 has been amended for the issuance of IFRS 10, but retains the current guidance for separate financial statements. The amendments in IAS 27 are effective from January 1, 2013, but are not considered to have any material effect on the Volvo Group.

*IAS 28 Investments in Associates and Joint Ventures (revised 2011)*
In connection with the issuance of IFRS 10 and IFRS 11, consequential amendments have been made in IAS 28. The amendments in IAS 28 are effective from January 1, 2013. According to IFRS 11, joint ventures are recognized according to the equity method in IAS 28.

» **Read more in note 31** regarding recognition of Joint Ventures as from January 1, 2013.

*IFRS 13 Fair Value Measurement*
IFRS 13 establishes a single source of guidance for fair value measurement and disclosures of fair value measurements. IFRS 13 does not change the requirement regarding which items should be measured or disclosed at fair value. The standard is to be applied prospectively and comparative disclosures is not required. IFRS 13 requires us to take into account factors that are specific to the transations and to the asset or liability. In many cases, the transaction price will equal the fair value.

The scope of IFRS 13 applies to all transactions and balances (financial or non-financial) for which IFRSs require or permit fair value measurements, except for share-based payment transactions and leasing transactions. IFRS 13 is effective from January 1, 2013. The standard is not considered to have a material effect on Volvo Group.

*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 Group is currently conducting a review of how the implementation of IFRS 9 will impact the Volvo Group. A joint position will be taken in conjunction with the final version of all three components of the project being published.

Other new standards and amendments are not considered to have a material impact on the Volvo Group's financial statements.

* This standard has not been adopted by the EU when this Annual Report was published. The date 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 Group'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 AB 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 Group'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 the Volvo Group and which fulfill 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 uncertainty** | Note |
|---|---|
| Buy-back agreements and residual value guarantees | 7, Income |
| Deferred taxes | 10, Income taxes |
| Impairment of goodwill and other intangible assets | 12, Intangible assets |
| Impairment of tangible assets | 13, Tangible assets |
| Credit loss reserves | 15, Customer-financing receivables<br>16, Receivables |
| Inventory obsolescence | 17, Inventories |
| Assumptions when calculating 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

*Recognition of business combinations*

The Volvo Group applies IFRS 3, Business Combinations, for acquisitions. All business combinations are recognized for in accordance with the purchase method. Volvo Group measures 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 Volvo Group's share of acquired net assets is reported as goodwill. Any deficit 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 also the time 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, the Volvo Group 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*

The Volvo Group 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 Group, processes are continuously ongoing regarding the sale of assets or groups of assets at minor values. When the criteria for being classified as a non-current asset held for sale are fulfilled and the asset or group of assets are of significant 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 distributed to each segment.

AB Volvo's holding of shares in subsidiaries as of December 31, 2012 is disclosed after the notes of the Parent Company in AB Volvo's holding of shares. Significant acquisitions, formations and divestments within the Group are listed below.

**Business combinations during the period**

In the fourth quarter 2012, the Volvo Group finalized the acquisition of the French automotive manufacturer Panhard. Panhard was a private owned company specialized in manufacturing of light transport vehicles adapted for defense operations. Panhard is included in the Volvo Group's governmental sales business area. The purchase price amounted to 538 and the goodwill to 326. The acquisition is not expected to have a significant impact on the Volvo Group's earnings and financial position. In addition to that the Volvo Group has not made any acquisitions during 2012 and 2011, which solely or jointly have had a significant impact on the Volvo Group's financial statements. For acquisitions in 2012 and 2011, the fair-value adjustments to the acquisition balance sheets have not had a significant impact on 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:

| **Acquisitions** | 2012 | 2011 |
|---|---|---|
| Intangible assets | 190 | 1 |
| Property, plant and equipment | 176 | 132 |
| Assets under operating lease | 475 | 1,503 |
| Inventories | 503 | 38 |
| Current receivables | 257 | 236 |
| Cash and cash equivalents | 21 | 39 |
| Other assets | 14 | 1 |
| Minority interests | – | 387 |
| Provisions | (87) | (36) |
| Loans | (225) | (1,510) |
| Current liabilities | (622) | (191) |
| Acquired net assets | 702 | 600 |
| Goodwill | 888 | 967 |
| Negative goodwill | (42) | – |
| **Total** | **1,548** | **1,567** |
| Cash and cash equivalents paid | (1,548) | (1,567) |
| Cash and cash equivalents according to acquisition analysis | 21 | 39 |
| **Effect on Group cash and cash equivalents** | **(1,527)** | **(1,528)** |
| **Effect on Group net financial position** | **(1,714)** | **(2,248)** |

**Divestments**

In the fourth quarter 2012, AB Volvo finalized the sale of Volvo Aero to the global engineering company, GKN, for the equivalent of SEK 6.9 billion on a debt-free basis. The total capital gain amount to 568. The adjusted purchase price is expected to be paid during 2013. In addition to that the Volvo Group has not made any divestments during 2012 or 2011, which solely or jointly have had a significant impact on the Volvo Group's financial statements.

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 | 2012 | 2011 |
|---|---|---|
| Intangible assets | (3,220) | (5) |
| Property, plant and equipment | (1,786) | (4) |
| Assets under operating lease | (244) | 0 |
| Shares and participations | (17) | 0 |
| Inventories | (2,505) | (45) |
| Other receivables | (1,395) | (130) |
| Cash and cash equivalents | (323) | (21) |
| Other provisions | 1,108 | 17 |
| Other liabilities | 3,385 | 143 |
| Divested net assets | (4,997) | (45) |
| Goodwill | (300) | 0 |
| **Total** | **(5,297)** | **(45)** |
| **Additional purchase price** | **653** | – |
| Cash and cash equivalents received | 5,240 | (41) |
| Cash and cash equivalents, divested companies | (323) | (21) |
| **Effect on Group cash and cash equivalents** | **4,917** | **(62)** |
| **Effect on Group net financial position** | **5,594** | **(62)** |

**Acquisitions and divestments after the end of the period**

The Volvo Group 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**

As of December 31, 2012 there were no assets or liabilities classified as held for sale. For the comparison year 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 was included in other comprehensive income. This referred to the divestment of Volvo Aero.

| Assets and liabilities held for sale | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Intangible assets | – | 3,316 |
| Tangible assets | – | 1,984 |
| Inventories | – | 2,216 |
| Accounts receivable | – | 566 |
| Other current receivables | – | 982 |
| Other assets | – | 284 |
| B/S **Total assets** | **-** | **9,348** |
| Trade payables | – | 1,025 |
| Other current liabilities | – | 3,691 |
| B/S **Total liabilities** | **-** | **4,716** |

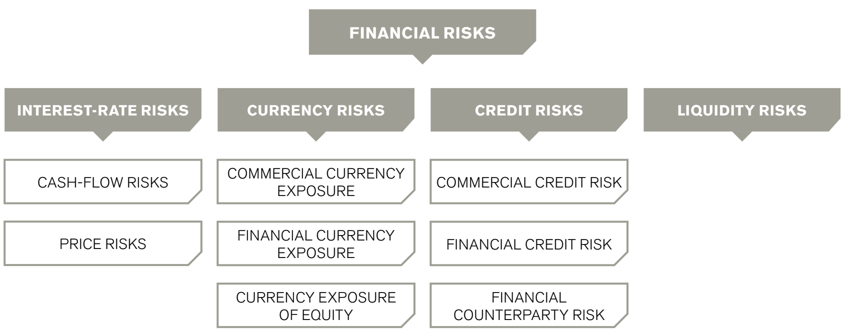
NOTES TO FINANCIAL STATEMENTS

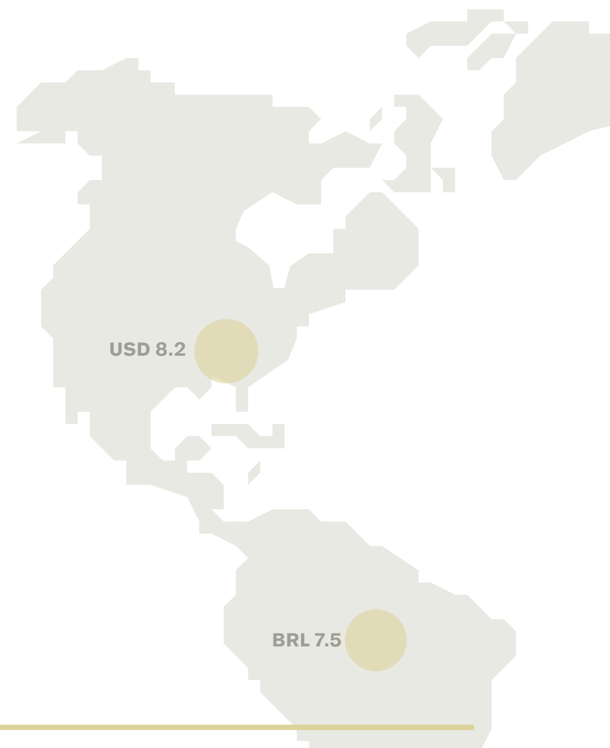
# NOTE 4 | GOALS AND POLICIES IN FINANCIAL RISK MANAGEMENT

The Volvo Group'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 the Volvo Group'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 the Volvo Group's established policies in these areas.

The Volvo Group's risk management related to specific balance sheet items are thus also described in other areas of the Annual Report, see references in the Notes.

» **Read more** about accounting principles for financial instruments in **Note 30**, Financial Instruments.




## 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 the Volvo Group's financial assets and liabilities. Currency interest-rate swaps enable borrowing in foreign currencies from different markets without introducing currency risk. The Volvo Group 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 Volvo 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 2012, the degree of such matching was 99% (97), which was in line with the Volvo Group's policy. At year-end 2012, in addition to the assets in its customer-financing operations, the Volvo Group'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 the Volvo Group's industrial operations through the use of derivatives. On December 31, 2012, after taking derivatives into account, the average interest on these assets was 1.1% (1.9). 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 3.2% (4.1), including the Volvo Group's credit costs.

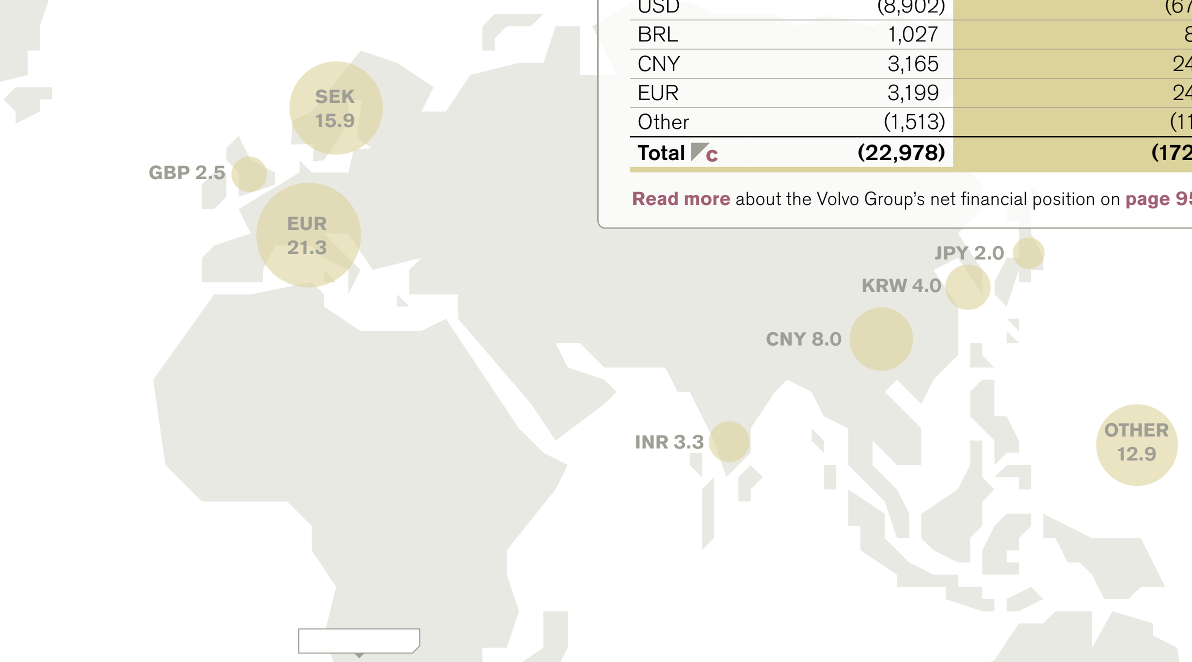
### Price risks C

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

**The Volvo Group'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 | (19,954) | (150) | 1,995 |
| USD | (8,902) | (67) | 890 |
| BRL | 1,027 | 8 | (103) |
| CNY | 3,165 | 24 | (317) |
| EUR | 3,199 | 24 | (320) |
| Other | (1,513) | (11) | 39 |
| **Total** C | **(22,978)** | **(172)** | **2,184** |

**Read more** about the Volvo Group's net financial position on **page 95.** »

D

## CURRENCY RISKS B

The content in the balance sheet may be affected by changes in different exchange rates. Currency risks in the Volvo Group'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 equity).

## POLICY

The aim of the Volvo Group'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 Group's balance sheet. Below is a presentation on how this work is conducted for commercial and financial currency exposure, and for currency exposure of equity.

### Commercial currency exposure

*Transaction exposure from commercial flows*

Volvo Group uses forward contracts and currency options to hedge the value of future payment flows in foreign currencies. Volvo Group 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 Group'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 | SGD | Net SEK | |
| Due date 2013 | 509 | (41) | 8 | |
| Due date 2014 | 6 | (41) | – | |
| Due date 2015 | – | (13) | – | |
| **Total local currency** | **515** | **(95)** | **8** | |
| Average contract rate | 6.76 | 5.33 | | |
| **Market value of outstanding forward contracts, SEK M** | **112** | **31** | **(2)** | **141** |

F

## NOTES TO FINANCIAL STATEMENTS

### » *Goals and policies in financial risk management (cont.)*

The table F shows outstanding forward and option contracts for the hedging of commercial currency risks. The table Operating net flow per currency on page 92 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, the Volvo Group's earnings are impacted if currency rates change. The Volvo Group does not hedge this risk. For more information on currency hedging of equity see below.

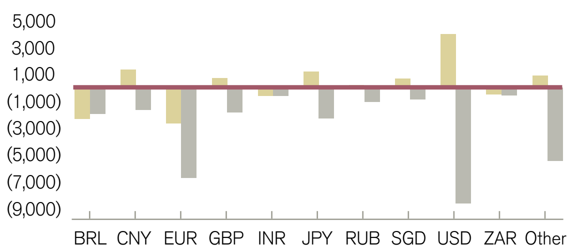
*Sensitivity analysis – currencies**
The tables below show the impact on sales and operating income for the Volvo Group if key currencies fluctuate. The sensitivity analysis include the transaction impact from commercial flows and the translation impact during the consolidation of foreign subsidiaries.

**Financial currency exposure**
Loans and investments in the Volvo 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 the Volvo Group companies that conduct their operations using different currencies.

The Impact on Net financial position table D disloses 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%.

**Currency exposure of equity**
The consolidated carrying amounts 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 2012 to SEK 69.8 billion (67.8). The remaining loans used as hedging instruments have expired in 2011. For more information on hedging of net investments in foreign 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.

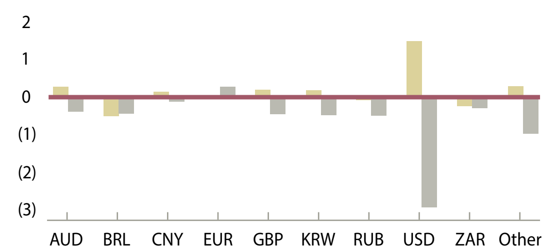
*Sensitivity analysis*
**Currency effect on net sales from inflows in foreign currency and translation effect when consolidating net sales in foreign subsidiaries.**




Changes in currency exchange rates compared to 2011 (Total SEK pos 1.9 bn)
Strengthen in value of SEK by 10% (Total SEK neg 31.2 bn)

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 2011 (Total SEK pos 1,5 bn)
Strengthen in value of SEK by 10% (Total SEK neg 6.2)

H

**The Volvo Group's currency review** When the Volvo Group communicates the currency impact on operating income for Industrial operations, the following factors are included:

| **Currency impact on operating income,** SEK billion | 2012 | 2011 | Change |
|---|---|---|---|
| Net flows in foreign currency | | | 1.6 |
| Realized gains and losses on hedging contracts | 0.0 | 0.2 | (0.2) |
| Unrealized gains and losses on hedging contracts | 0.3 | (0.3) | 0.6 |
| Unrealized gains and losses on receivables and liabilities in foreign currency | (0.2) | 0.3 | (0.6) |
| Translation effect on operating income in foreign subsidiaries | | | (0.1) |
| **Total currency impact on operating income** | | | **1.3** |

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.

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 Group's does not receive payment for recognized accounts receivable and customer-financing receivables (commercial credit risk), that Volvo Group'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 Group's credit granting is steered by Group-wide policies and customer-classification rules. The credit portfolio should contain a 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 customer-financing receivables in the Volvo Group's customer-financing operations amounted at December 31, 2012, to approximately net SEK 81 billion (79). 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 the Volvo Group 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.**

The Volvo Group's accounts receivables amounted as of December 31, 2012 to approximately net SEK 27 billion (28).

### 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 Group'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.

Liquid funds and marketable securites amounted as of December 31, 2012 to approximately SEK 29 billion (37).

**Read more** about Volvo Group's Marketable securities and liquid funds in **Note 18.**

### 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 derivatives amounted as of December 31, 2012, to 1,144 (281), 2,507 (2,757), 10 (284) and 23 (68).

## *Goals and policies in financial risk management (cont.)*

LIQUIDITY RISKS

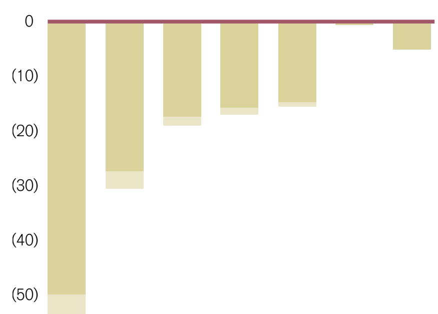
### LIQUIDITY RISKS

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

### POLICY

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

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




| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|
| Capital flow, SEK bn | (50.3) | (27.6) | (17.5) | (16.0) | (14.9) | (0.5) | (5.0) |
| Interest flow, SEK bn | (4.6) | (3.2) | (1.7) | (1.1) | (0.7) | (0.2) | (0.3) |

The adjacent graph discloses 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 recognized as assets, which are expected to give a future capital flow of SEK 0.8 billion and a future interest flow of SEK 3.2 billion.

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

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

# NOTE 5 INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER SHARES AND PARTICIPATIONS

## ACCOUNTING POLICIES

*Joint ventures*
Joint ventures are companies over which the Volvo Group has controlling influence together with one or more external parties. Joint ventures are up to and including December 31, 2012, recognized by applying the proportionate consolidation method, in accordance with IAS 31 Interests in Joint ventures.

**Read more** about changes in the Volvo Group's accouting for Joint Ventures as from January 1, 2013 in **Note 31.**

*Associated companies*
Associated companies are companies in which the Volvo Group has a significant influence, normally when the Group'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 Volvo Group's share of recognized income in such companies is included in the consolidated statement of profit or loss under Income from investments 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 Group's 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, investments in associated companies are affected by the Volvo Group's share of the company's net income, less depreciation of surplus values and dividends received.

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

***Joint ventures***
The Volvo Group's investments in joint ventures are listed below.

| **Shares in joint ventures** | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| | Holding percentage | 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] |

1 Direct equity holding amounts to 45,6% and indirect equity holding amounts to 4,6%.

| **Volvo Group's share of joint ventures' income statements** | VE Commercial Vehicles, Ltd. | Other joint ventures | Total 2012 | VE Commercial Vehicles, Ltd. | Other joint ventures | Total 2011 |
|---|---|---|---|---|---|---|
| Net sales | 3,302 | 902 | 4,204 | 3,453 | 743 | 4,196 |
| Operating income | 148 | (4) | 144 | 246 | 77 | 323 |
| Income after financial items | 202 | (22) | 180 | 310 | 69 | 379 |
| Income taxes | (47) | 2 | (45) | (72) | (1) | (73) |
| **Volvo Group's share of joint ventures' income for the period** | **155** | **(20)** | **135** | **238** | **68** | **306** |

| **Volvo Group's share of joint ventures' balance sheets** | VE Commercial Vehicles, Ltd. | Other joint ventures | Total as of Dec 31, 2012 | VE Commercial Vehicles, Ltd. | Other joint ventures | Total as of Dec 31, 2011 |
|---|---|---|---|---|---|---|
| Non-current assets | 1,925 | 256 | 2,181 | 1,746 | 169 | 1,915 |
| Current assets | 1,329 | 766 | 2,095 | 1,521 | 727 | 2,248 |
| **The Volvo Group's share of joint ventures' assets** | **3,254** | **1,022** | **4,276** | **3,267** | **896** | **4,163** |
| Shareholders' equity | 2,140 | 240 | 2,380 | 2,231 | 274 | 2,505 |
| Provisions | 232 | 3 | 235 | 271 | 3 | 274 |
| Long-term liabilities | 3 | 2 | 5 | 3 | 3 | 6 |
| Current liabilities | 879 | 777 | 1,656 | 762 | 616 | 1,378 |
| **The Volvo Group's share of joint ventures' equity and liabilities** | **3,254** | **1,022** | **4,276** | **3,267** | **896** | **4,163** |

Net financial position for the joint ventures (excluding post-employment benefits) amounted to 244 as of December 31, 2012.
As of December 31, Volvo Group's share of contingent liabilities in its joint ventures totaled 61 (38).

NOTES TO FINANCIAL STATEMENTS

*Joint Ventures (cont.)*

| Volvo Group's share of total number of employees | 2012 | | 2011 | |
|---|---|---|---|---|
| | Number of employees | of which women, % | Number of employees | of which women, % |
| Shanghai Sunwin Bus Corp. | 577 | 14 | 453 | 16 |
| Dong Feng Nissan Diesel Motor Co., Ltd. | 158 | 15 | 152 | 13 |
| VE Commercial Vehicles, Ltd. | 4,880 | 1 | 3,600 | 1 |
| **Volvo Group's share of total number of employees** | **5,615** | **3** | **4,205** | **3** |

*Associated companies*

| Investments in associated companies | Registration number | Percentage holding | Dec 31, 2012 Carrying value | Dec 31, 2011 Carrying value |
|---|---|---|---|---|
| Deutz AG, Germany[1] | – | 25 | 1,359 | – |
| Blue Chip Jet II HB, Sweden | 969717–2105 | 50 | 386 | 405 |
| UD Trucks Doto Corporation, Japan | – | 38 | 90 | 103 |
| UD Trucks Niigata Corporation, Japan | – | 34 | 59 | 69 |
| Shanghai Green Bus Drive Systems Co.,Ltd, China | – | 40 | 43 | – |
| JV Fonderie Venissieux, France | | 49 | 36 | 35 |
| Merkavim Metal Works Ltd, Israel | – | 27 | 20 | 17 |
| Powercell Sweden AB, Sweden | 556759–8353 | 32 | 10 | 17 |
| Blue Chip Jet HB, Sweden | 969639–1011 | 50 | 9 | 8 |
| Quingdao Sunwin Bus Corp, China | – | 43 | 9 | 9 |
| Arabian Vehicle & Truck Industry Ltd, Saudi Arabia | – | 25 | 9 | 9 |
| Other holdings | – | – | 15 | 12 |
| B/S **Total shares and participations in associated companies** | | | **2,045** | **684** |

1 In 2012 an additional 18% of the shares in Deutz AG was acquired and thereby the company is recognized as an associated company. In 2011 the holding in Deutz AG was 7% and recognized as other shares and participations. The fair value of investments in Deutz AG amounted to 924 as of December 31, 2012.

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

| Income statement | Deutz AG[1] | Other associated companies | Total 2012 | Total 2011 |
|---|---|---|---|---|
| Net sales | 8,448 | 3,208 | 11,656 | 2,543 |
| Cost of sales | (8,242) | (3,144) | (11,386) | (2,491) |
| Financial income and expense | (87) | (33) | (120) | (29) |
| **Income before taxes** | **119** | **31** | **150** | **23** |
| Income taxes | (21) | (120) | (141) | (23) |
| **Income of the period** | **98** | **(89)** | **9** | **0** |

1 For 2012, income statement and balance sheet are presented from January until September since Deutz AG is recognized in the Volvo Group with a time lag of one quarter. During 2011 Deutz AG was recognized as other shares and participations, as the Volvo Group's investment was below 20%.

| Balance sheet | Deutz AG | Other associated companies | Total Dec 31, 2012 | Total Dec 31, 2011 |
|---|---|---|---|---|
| Non-current assets | 5,612 | 1,979 | 7,591 | 2,094 |
| Current assets | 3,644 | 1,654 | 5,297 | 1,485 |
| **Total assets** | **9,256** | **3,633** | **12,889** | **3,579** |
| Shareholders' equity | 4,090 | 1,603 | 5,693 | 1,605 |
| Provisions | 1,502 | 43 | 1,545 | 53 |
| Non-current liabilities | 1,333 | 624 | 1,957 | 621 |
| Current liabilities | 2,331 | 1,363 | 3,694 | 1,300 |
| **Total equity and liabilities** | **9,256** | **3,633** | **12,889** | **3,579** |

*Income from investments in associated companies*

| **Income/loss** | 2012 | 2011 |
|---|---|---|
| UD Trucks Niigata Co | 8 | 5 |
| JV Fonderie Venissieux | 2 | 4 |
| Merkavim Metal Works Ltd | 9 | 17 |
| Blue Chip Jet I & II HB | 1 | (46) |
| Holdings of Volvo Group Venture Capital | (13) | (6) |
| Other companies | 3 | 2 |
| **Subtotal** | **10** | **(24)** |
| **Revaluation and write-down of shares** | | |
| Blue Chip Jet I & II HB | (19) | – |
| Holdings of Volvo Group Venture Capital | (1) | (48) |
| Other companies | (12) | (4) |
| **Subtotal** | **(32)** | **(52)** |
| **Gains (losses) on divestment of shares in associated companies** | | |
| Holdings of Volvo Group Venture Capital | – | (5) |
| **Subtotal** | **-** | **(5)** |
| I/S **Total income (loss) from investments in associated companies** | **(23)** | **(81)** |

| **Changes in Volvo Group's investments in associated companies** | 2012 | 2011 |
|---|---|---|
| Investments in associated companies as of December 31, preceding year | 684 | 684 |
| Acquisitions and divestments | 1,102 | 111 |
| Write-downs | – | (52) |
| Capital contribution | 7 | 15 |
| Share of income in associated companies | 10 | (24) |
| Revaluation of shares to fair value | (32) | – |
| Translation differences | (27) | 1 |
| Dividends | (8) | (35) |
| Reclassifications | 308 | (16) |
| Other | 1 | – |
| B/S **Investments in associated companies as of December 31** | **2,045** | **684** |

*Other shares and participations*

The carrying amount of the Volvo Group's holding of shares and participations in other companies as of December 31, 2012, is disclosed in the table below.

| **Holding of shares in listed companies** | Dec 31, 2012 Percentage holding | Dec 31, 2012 Carrying value | Dec 31, 2011 Carrying value |
|---|---|---|---|
| Deutz AG, Germany[1] | – | – | 299 |
| Nippon Express Co.,Ltd., Japan | 0.4 | 116 | 93 |
| TBK Co.,Ltd., Japan | 6.7 | 69 | 61 |
| Sankyu Inc., Japan | 0.5 | 42 | 44 |
| Senko Co.,Ltd., Japan | 0.9 | 35 | 32 |
| Yamato Holdings Co.,Ltd., Japan | 0.1 | 23 | 25 |
| Tonami Transportation Co.,Ltd., Japan | 1.1 | 15 | 15 |
| Fukuyama Transporting Co.,Ltd., Japan | 0.2 | 14 | 16 |
| Holdings in other listed companies | – | 33 | 50 |
| **Holding of shares in listed companies** | | **347** | **635** |
| Holding of shares in non-listed companies[2] | | 498 | 555 |
| B/S **Other shares and participations** | | **845** | **1,190** |

1 In 2012 an additional 18% of the shares in Deutz AG was acquired and thereby the company is recognized as an associated company.
2 Unlisted shares and participations, for which a fair value cannot reasonably be determined, are measured at cost less any impairment losses.

*Income from other shares and participations*

| **Dividends received** | 2012 | 2011 |
|---|---|---|
| Deutz AG | – | 2 |
| Holdings in Japanese companies | 16 | 13 |
| Other | 4 | 6 |
| **Subtotal** | **20** | **21** |
| **Write-downs of shares** | | |
| Holdings of Volvo Group Venture Capital | (75) | (43) |
| Holdings in Japanese companies | (14) | (226) |
| Other | – | (1) |
| **Subtotal[1]** | **(89)** | **(270)** |
| **Gain on divestment of shares** | | |
| Holdings of Volvo Group Venture Capital | 12 | 11 |
| Holdings in Japanese companies | (1) | 5 |
| Other | 11 | 8 |
| **Subtotal** | **22** | **24** |
| I/S **Income from other investments** | **(47)** | **(225)** |

1 Write-downs of shares refer mainly to financial assets available for sale for which a reliable market value can be calculated.

| **Changes in Volvo Group's holding of other shares and participations** | 2012 | 2011 |
|---|---|---|
| Holding of other shares and participations as of December 31, preceding year | 1,190 | 1,414 |
| Change in Group structure | – | (19) |
| Acquisitions and divestments | 93 | (19) |
| Write-downs | – | (43) |
| Capital contribution | 6 | 8 |
| Revaluation of shares to fair value | (89) | (203) |
| Translation differences | (87) | 32 |
| Reclassifications | (308) | 16 |
| Other | 40 | 4 |
| B/S **Holding of other shares and participations as of December 31** | **845** | **1,190** |

NOTES TO FINANCIAL STATEMENTS

# NOTE 6 SEGMENT REPORTING

**New organization**

As of January 1, 2012, the Volvo Group introduced a new functional organization which better utilizes the global potential of the Group's brands and products and a new financial framework to reflect the changes in the organization. The re-organization and the new framework impacts to some extent how revenues and expenses are reported in the income statement and between the different reportable segments.

In the new organization from January 1, 2012, the Trucks operations have been structured according to a functional approach, whereby the entire Trucks business is managed as one single business area consisting of five different functional organizations: Group Trucks Sales & Marketing EMEA (Europe, Middle East, Africa), Group Trucks Sales & Marketing Americas, Group Trucks Sales & Marketing APAC (Asia Pacific), Group Trucks Operations and Group Trucks Technology. In addition, a separate unit for Truck Joint Ventures is included in business area Trucks. Business areas Buses, Construction Equipment, Volvo Penta and Customer Finance remain as separate business areas. Governmental Sales and Volvo Rents are treated as separate business areas in the new organization. The Volvo Group is thereby organized in seven business areas after the divestment of Volvo Aero in October 2012. As from October 1, 2012 the separate unit Truck Joint Ventures is included in Group Truck Sales & Marketing APAC. As a result of this change, Group Truck Sales & Marketing APAC is renamed Group Trucks Sales & Marketing and JV's APAC.

Former business units Volvo Powertrain, Volvo 3P, Volvo Logistics and Volvo Parts are included in business area Trucks from 2012. The costs of these operations are shared between the different business based on utilization according to the principles of the new financial framework. As from January 1, 2012 Volvo IT, Group Business Services and Volvo Real Estate are treated as business support functions and costs of operations are shared by the business areas based on utilization according to the principles of the financial framework. As from January 1, 2013, Volvo Real Estate is included in Group Business Services.

The segment information for 2011 have been restated due to the new organization.

» **Read more** about the impact on segment reporting 2011 due to the new organization in **Note 32.**

| **2012** | Trucks | Construction Equipment | Buses | Volvo Penta | Volvo Aero | Group functions and other incl. eliminations | Industrial Operations | Customer Finance | Eliminations | Volvo Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales, external customers | 190,247 | 62,449 | 19,646 | 7,470 | 5,219 | 9,485 | 294,516 | 9,131 | – | 303,647 |
| Net sales, internal | 2,036 | 1,109 | 649 | 161 | – | (2,440) | 1,515 | 652 | (2,167) | 0 |
| I/S **Net sales** | **192,283** | **63,558** | **20,295** | **7,631** | **5,219** | **7,045** | **296,031** | **9,783** | **(2,167)** | **303,647** |
| Expenses | (182,079) | (57,785) | (20,253) | (7,090) | (4,452) | (8,220) | (279,878) | (8,291) | 2,167 | (286,002) |
| I/S Income from investments in associated companies | 12 | – | 9 | – | – | (43) | (23) | – | – | (23) |
| I/S **Operating income** | **10,216** | **5,773** | **51** | **541** | **767** | **(1,218)** | **16,130** | **1,492** | **0** | **17,622** |
| I/S Interest income and similar credits | | | | | | | 510 | – | – | 510 |
| I/S Interest expense and simliar charges | | | | | | | (2,476) | – | – | (2,476) |
| I/S Other financial income and expense | | | | | | | (301) | – | – | (301) |
| I/S **Income after financial items** | | | | | | | **13,863** | **1,492** | **0** | **15,355** |
| **Other segment information** | | | | | | | | | | |
| Depreciation and amortization | (8,359) | (1,751) | (354) | (309) | – | (1,214) | (11,987) | (2,768) | – | (14,755) |
| Restructuring costs | (1,343) | (13) | (107) | (17) | – | (29) | (1,509) | (15) | – | (1,524) |
| Gains/losses from divestments | – | 28 | – | – | – | 568 | 596 | – | – | 596 |
| Capital expenditure | 11,228 | 1,712 | 315 | 171 | 0 | 5,232 | 18,658 | 6,544 | (76) | 25,126 |
| B/S Investments in associated companies (the equity method) | 209 | – | 71 | – | – | 1,765 | – | – | – | 2,045 |

| 2011 | Trucks | Con-struction Equipment | Buses | Volvo Penta | Volvo Aero | Group functions and other incl. elimi-nations | Industrial Operations | Customer Finance | Elimina-tions | Volvo Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales, external customers | 196,999 | 62,894 | 21,297 | 8,318 | 6,356 | 5,958 | 301,822 | 8,545 | – | 310,367 |
| Net sales, internal | 1,921 | 606 | 526 | 140 | 0 | (1,426) | 1,767 | 337 | (2,104) | 0 |
| I/S **Net sales** | **198,920** | **63,500** | **21,823** | **8,458** | **6,356** | **4,532** | **303,589** | **8,882** | **(2,104)** | **310,367** |
| Expenses | (180,703) | (56,688) | (20,722) | (7,633) | (5,996) | (5,835) | (277,577) | (7,913) | 2,104 | (283,386) |
| I/S Income from investments in associated companies | 10 | – | 13 | – | 0 | (105) | (82) | 0 | 0 | (82) |
| **Operating income** | **18,227** | **6,812** | **1,114** | **825** | **360** | **(1,408)** | **25,930** | **969** | **0** | **26,899** |
| I/S Interest income and similar credits | | | | | | | 644 | – | (37) | 608 |
| I/S Interest expense and simliar charges | | | | | | | (2,912) | – | 37 | (2,875) |
| I/S Other financial income and expense | | | | | | | 297 | – | – | 297 |
| I/S **Income after financial items** | | | | | | | **23,959** | **969** | **0** | **24,929** |
| **Other segment information** | | | | | | | | | | |
| Depreciation and amortization | (8,531) | (1,903) | (472) | (474) | (504) | 464 | (11,419) | (2,572) | | (13,992) |
| Restructuring costs | (22) | (10) | (5) | (2) | 0 | (49) | (88) | (6) | 0 | (94) |
| Gains/losses from divestments | – | – | – | – | – | (19) | (19) | – | – | (19) |
| Capital expenditure | 9,138 | 2,231 | 367 | 332 | 797 | 1,293 | 14,159 | 6,112 | (52) | 20,220 |
| B/S Investments in associated companies (the equity method) | 228 | – | 23 | – | 1 | 432 | – | 0 | – | 684 |
| B/S Assets held for sale (total assets) | | | | | | 9,348 | 9,348 | | | 9,348 |
| B/S Assets held for sale (total liabilities) | – | – | – | – | – | (4,716) | (4,716) | – | – | (4,716) |

Internal sales between segments 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 price.

| **Reporting by market** | **Net sales** | | **Non-current assets [1]** | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Europe | 111,606 | 120,828 | 71,350 | 65,522 |
| *of which Sweden* | *12,133* | *14,108* | *28,245* | *26,315* |
| *of which France* | *24,273* | *27,061* | *17,207* | *15,214* |
| North America | 71,101 | 60,560 | 23,908 | 19,999 |
| *of which USA* | *56,441* | *46,984* | *19,923* | *16,288* |
| South America | 29,164 | 35,142 | 1,872 | 1,447 |
| *of which Brazil* | *18,662* | *26,056* | *1,515* | *1,166* |
| Asia | 69,278 | 73,586 | 26,271 | 30,018 |
| *of which China* | *19,990* | *22,952* | *2,265* | *2,194* |
| *of which Japan* | *18,987* | *17,865* | *17,992* | *22,472* |
| **Other markets** | **22,498** | **20,251** | **998** | **982** |
| I/S B/S **Total** | **303,647** | **310,367** | **124,399** | **117,968** |

1 Non-current assets include intangible and tangible assets.
The reporting of net sales by market is based on where the customers are located.

# NOTE 7 INCOME

## ACCOUNTING POLICY

The Volvo 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 Group. Revenue is then recognized over the period of the residual value commitment. If the residual value risk commitment is not significant or the sale was made to an independent party before Volvo Group is committed to the residual value risk 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). If sale is in combination with a commitment from the customer to buy a new Volvo product in connection to a buy-back option, revenue is recognized at the time of the sale.

Revenue from the sale of workshop services is recognized when the service is provided. Interest income in conjunction with finance leasing or instalment contracts are 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

*Buy-back agreements and residual value guarantees*

In certain cases, Volvo Group enters into a buy-back agreement or residual value guarantee after Volvo Group has sold the product to an independent party or in combination with an undertaking from the customer to purchase a new product 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, the Volvo Group'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. As from January 1, 2012 hard products also include sale of used vehicles and machines, trailers, superstructures and special vehicles. As from January 1, 2012 Soft products include services and aftermarket products.

**Refer to page 28** for more information 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 Volvo Group within an amount of 745 (770).

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

| Other operating income and expense | 2012 | 2011 |
|---|---|---|
| Gains/losses on divestment of Group companies[1] | 596 | (19) |
| Write down of assets held for sale | – | (54) |
| Reversal of write down of assets held for sale | – | 60 |
| Change in allowances and write-offs for doubtful receivables, customer financing | (640) | (682) |
| Change in allowances and write-offs for doubtful receivables, other | (105) | (88) |
| Damages and litigations | (175) | (227) |
| Restructuring costs[2] | (1,524) | (94) |
| Volvo profit sharing program | (200) | (523) |
| Other income and expenses | (112) | (22) |
| I/S **Total** | **(2,160)** | **(1,649)** |

1 Gains/losses on divestment of Group companies include capital gain from the sale of Volvo Aero of 568.
2 Restructuring costs are mainly related to restructuring and efficiency programs in Europe and Japan.

## 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 in the Income Statement of 8 (544).

| Other financial income and expense | 2012 | 2011 |
|---|---|---|
| Financial instruments at fair value through profit or loss | 8 | 544 |
| Exchange rate gains and losses on financial assets and liabilities | (9) | 25 |
| Financial income and expenses related to taxes | (34) | 18 |
| Costs for Treasury function, credit facilities, etc | (266) | (290) |
| I/S **Total[1]** | **(301)** | **297** |

1 Other financial income and expenses attributable to financial amounted to neg 1 (pos 569).

**Refer to Note 30** for Information regarding Financial Instruments.

NOTES TO FINANCIAL STATEMENTS

# 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.

## SOURCES OF ESTIMATION UNCERTAINTY

The Volvo Group 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. As of December 31, 2012, the valuation allowance amounted to 191 (263) 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 18,386 (18,552) were recognized in the Volvo Group's balance sheet.

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

Income taxes were distributed as follows:

| | 2012 | 2011 |
|---|---|---|
| Current taxes relating to the period | (3,566) | (5,331) |
| Adjustment of current taxes for prior periods | (144) | 76 |
| Deferred taxes originated or reversed during the period | (568) | (1,584) |
| Remeasurements of deferred tax assets | 180 | 25 |
| I/S **Total income taxes** | **(4,097)** | **(6,814)** |

Provisions have been made for estimated tax charges that may arise as a result of prior tax audits. Tax processes are evaluated on a regular basis and provisions are made for possible outcome when it is probable that the Volvo Group 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 0 (1) have been recognized in other comprehensive income, attributable to fair value of derivative instruments.

At year-end 2012, the Volvo Group's unused tax-loss carryforwards amounted to 18,396 (22,462). These loss carryforwards expire according to the table below:

| **Due date** | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| after 1 year | 76 | 40 |
| after 2 years | 148 | 77 |
| after 3 years | 267 | 180 |
| after 4 years | 950 | 434 |
| after 5 years | 466 | 2,302 |
| after 6 years or more | 16,489 | 19,429 |
| **Total** | **18,396** | **22,462** |

The Swedish corporate income tax rate amounted 26.3% in 2012. The table below discloses the principal reasons for the difference between this rate and the Volvo Group's tax rate, based on income after financial items.

| | 2012, % | 2011, % |
|---|---|---|
| Swedish corporate income tax rate | 26 | 26 |
| Difference in tax rate in various countries | 3 | 3 |
| Other non-taxable income | (3) | (3) |
| Other non-deductible expenses | 1 | 1 |
| Current taxes attributable to prior years | 1 | 0 |
| Remeasurement of deferred tax assets | (1) | 0 |
| **Income tax rate for the Group** | **27** | **27** |

From 2013 the Swedish corporate income tax rate is 22% as of December 31, 2012. Deferred tax assets and tax liabilities in the Swedish companies have been valued at the new tax rate which has affected income taxes in the income statement positively by 213.

| Specification of deferred tax assets and tax liabilities | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Deferred tax assets: | | |
| Unused tax-loss carryforwards | 5,232 | 6,907 |
| Other unused tax credits | 171 | 141 |
| Intercompany profit in inventories | 1,026 | 780 |
| Allowance for inventory obsolescence | 443 | 368 |
| Valuation allowance for doubtful receivables | 568 | 482 |
| Provisions for warranties | 2,257 | 2,067 |
| Provisions for residual value risks | 302 | 288 |
| Provisions for post-employment benefits[2] | 1,850 | 1,188 |
| Provisions for restructuring measures | 219 | 42 |
| Adjustment to fair value during corporate acquisitions | 1 | 0 |
| Market value of derivative instruments | 33 | 28 |
| Land | 1,872 | 2,204 |
| Other deductible temporary differences | 4,602 | 4,320 |
| **Deferred tax assets before deduction for valuation allowance** | **18,577** | **18,815** |
| Valuation allowance | (191) | (263) |
| **Deferred tax assets after deduction for valuation allowance** | **18,386** | **18,552** |
| Netting of deferred tax assets/liabilities | (7,220) | (5,714) |
| B/S **Deferred tax assets, net** | **11,166** | **12,838** |
| Deferred tax liabilities: | | |
| Accelerated depreciation on property, plant and equipment | 3,176 | 3,811 |
| Accelerated depreciation on leasing assets | 2,064 | 1,959 |
| LIFO valuation of inventories | 362 | 270 |
| Capitalized product and software development | 3,393 | 3,721 |
| Adjustment to fair value at company acquisitions | 0 | 31 |
| Untaxed reserves | 92 | 92 |
| Market value of derivative instruments | 0 | 1 |
| Provisions for post-employment benefits[2] | 686 | – |
| Other taxable temporary differences | 2,476 | 1,464 |
| **Deferred tax liabilities** | **12,248** | **11,349** |
| Netting of deferred tax assets/liabilities | (7,220) | (5,714) |
| B/S **Deferred tax liabilities, net** | **5,028** | **5,636** |
| **Deferred tax assets/liabilities, net[1]** | **6,138** | **7,203** |

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.

2 From 2012 provisions for post-employment benefits are accounted gross. For 2011 the gross amounts were 1,773 (deferred tax assets) and 585 (deferred tax liabilities).

The total deferred tax assets attributable to unused tax-loss carryforwards amounted to 5,232 (6,907) of which 1,815 (2,914) pertains to Sweden, with an indefinite period of utilization, 1,409 (2,128) to Japan and 1,278 (1,174) to France.

The cumulative amount of undistributed earnings in foreign subsidiaries, which the Volvo Group currently intends to indefinitely reinvest outside of Sweden and upon which deferred income taxes have not been provided is SEK 60 billion (62) 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 the Volvo Group 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. 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. 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.

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

NOTES TO FINANCIAL STATEMENTS

# NOTE 12 | INTANGIBLE ASSETS

## ACCOUNTING POLICIES

*Intangible assets*
The Volvo Group applies the cost method for recognition 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 the Volvo Group in certain cases pays an entrance fee to participate. These entrance fees are capitalized as intangible assets.

*Research and development expenses*
The Volvo Group 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 recognized in the Income Statement as incurred.

The Volvo Group 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.

The Volvo Group'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 business areas, are measured. The Trucks segment is considered one single cash-generating unit under the new organization. Goodwill related to the area Trucks is therefore evaluated based on the cash generation capacity of the overall Trucks segment from 2012.

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 of 2% (2), in relation to the performance of the Volvo Group's operations. In the model, the Volvo Group is expected to maintain stable capital efficiency over time. Other parameters considered in the calculation are gross margin, product mix, expenses and capital needs. Measurements are based on nominal values and utilize a general rate of inflation in line with the European target. The Volvo Group uses a discounting factor calculated to 12% (12) before tax for 2012.

In 2012, 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 any business area except Volvo Rents. For Volvo Rents the recovery value, calculated based on discounted cash flows, exceeded the carrying amount of 8,643 with 1,088. A reduction of the dollar utilization rate with 0.9 percentage points or an increase of the discounting factor to 13% would eliminate the surplus value.

Since the surplus values differ between the business areas, they are to a varying degree sensitive to changes in the assumptions described above. Therefore, the Volvo Group continuously follows the performance of the business areas whose overvalue is dependent on the fulfillment of the Volvo Group'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 the Volvo Group are described in the Volvo Group business area section, as well as in the Risk management section.

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

| Amortization periods | |
|---|---|
| Trademarks | 20 years |
| Distribution networks | 10 years |
| Product and software development | 3 to 8 years |

## 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 the Volvo Group'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 Group has performed similar impairment reviews since 2002. No need for impairment losses was required for the period 2002 until 2012.

| Intangible assets, acquisition costs | Goodwill[1] | Entrance fees, industrial programs | Capitalized product and software development | Other intangible assets[2] | **Total intangible assets** |
|---|---|---|---|---|---|
| **Acquisition cost as of Dec 31, 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 others | (2) | (3) | 6 | 54 | **55** |
| **Acquisition cost as of Dec 31, 2011** | **23,899** | **224** | **29,902** | **6,650** | **60,675** |
| Capital expenditures[3] | – | 93 | 5,385 | 101 | **5,579** |
| Sales/scrapping | – | (14) | (1,738) | (12) | **(1,764)** |
| Acquired and divested operations | 588 | (3,182) | (2,109) | 52 | **(4,651)** |
| Translation differences | (1,446) | (11) | (1,479) | (592) | **(3,528)** |
| Reclassified from assets held for sale | 297 | 3,198 | 1,958 | 60 | **5,513** |
| Reclassifications and other | 0 | (19) | (23) | (55) | **(97)** |
| **Acquisition cost as of Dec 31, 2012** | **23,338** | **289** | **31,896** | **6,204** | **61,727** |

| Accumulated amortization and impairment | Goodwill[1] | Entrance fees, industrial programs | Capitalized product and software development | Other intangible assets[2] | **Total intangible assets** |
|---|---|---|---|---|---|
| **Accumulated amortization and impairment as of Dec 31, 2010** | – | 1,820 | 16,271 | 2,671 | **20,762** |
| Amortization and impairment[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)** |
| **Accumulated amortization and impairment as of Dec 31, 2011** | **-** | **33** | **18,396** | **2,739** | **21,168** |
| Amortization and impairment[5] | – | 55 | 2,749 | 387 | **3,191** |
| Sales/scrapping | – | 0 | (1,734) | (12) | **(1,746)** |
| Acquired and divested operations | – | (1,633) | (547) | (29) | **(2,209)** |
| Translation differences | – | (1) | (942) | (188) | **(1,131)** |
| Reclassified from assets held for sale | – | 1,602 | 572 | 24 | **2,198** |
| Reclassifications and other | – | (6) | (38) | (73) | **(117)** |
| **Accumulated amortization and impairment as of Dec 31, 2012** | **-** | **50** | **18,456** | **2,848** | **21,354** |
| **B/S Net value in balance sheet as of December 31, 2011[4]** | **23,899** | **191** | **11,506** | **3,911** | **39,507** |
| **B/S Net value in balance sheet as of December 31, 2012[4]** | **23,338** | **239** | **13,440** | **3,356** | **40,373** |

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 295 (112).
4 Costs less accumulated, amortization and impairments.
5 Of which impairments 83 (74).

| Goodwill per Business Area | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Trucks | 12,759 | 13,828 |
| Construction Equipment | 7,462 | 7,764 |
| Buses | 1,145 | 1,169 |
| Volvo Rents | 1,469 | 990 |
| Other business areas | 503 | 148 |
| **Total goodwill value** | **23,338** | **23,899** |

NOTES TO FINANCIAL STATEMENTS

# NOTE 13 TANGIBLE ASSETS

## ACCOUNTING POLICIES

*Tangible assets*
The Volvo Group 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 recognized at cost. Information regarding the estimated fair value of investment properties is based on discounted cash flow projections The required return is based on current property market conditions for comparable properties in comparable locations.

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

Depreciation is recognized 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 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 balance-sheet date, 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 cost** | 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** |
|---|---|---|---|---|---|---|---|
| **Acquisition costs as of Dec 31, 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)** |
| **Acquisition costs as of Dec 31, 2011** | **32,129** | **13,258** | **70,756** | **6,452** | **122,595** | **32,565** | **155,160** |
| Capital expenditures[1] | 848 | 348 | 3,296 | 5,031 | **9,523** | 9,986 | **19,509** |
| Sales/scrapping | (234) | (32) | (2,121) | (13) | **(2,400)** | (5,229) | **(7,629)** |
| Acquired and divested operations | (661) | (9) | (4,244) | (92) | **(5,006)** | 69 | **(4,937)** |
| Translation differences | (1,775) | (1,276) | (3,875) | (179) | **(7,105)** | (1,438) | **(8,543)** |
| Reclassified from assets held for sale | 706 | 49 | 4,584 | 57 | **5,396** | 219 | **5,615** |
| Reclassifications and other | 1,211 | 260 | 1,855 | (3,592) | **(266)** | 2,196 | **1,930** |
| **Acquisition costs as of Dec 31, 2012** | **32,224** | **12,598** | **70,251** | **7,664** | **122,737** | **38,368** | **161,105** |

| **Tangible assets, Accumulated depreciation** | Buildings | Land and land improve-ments | Machinery and equipment[3] | Construction in progress, including advance payments | **Total investment property, property, plant and equipment** | Assets under operating leases[6] | **Total tangible assets** |
|---|---|---|---|---|---|---|---|
| **Accumulated depreciation as of Dec 31, 2010** | 15,567 | 1,066 | 49,473 | – | **66,106** | 9,448 | **75,554** |
| Depreciation[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)** |
| **Accumulated depreciation as of Dec 31,2011** | **16,316** | **1,135** | **50,604** | **-** | **68,055** | **8,643** | **76,698** |
| Depreciation[4] | 1,176 | 91 | 4,681 | – | **5,948** | 5,616 | **11,564** |
| Sales/scrapping | (102) | (13) | (1,835) | – | **(1,950)** | (2,577) | **(4,527)** |
| Acquired and divested operations | (499) | (24) | (2,873) | – | **(3,396)** | (162) | **(3,558)** |
| Translation differences | (1,131) | (81) | (3,078) | – | **(4,290)** | (385) | **(4,675)** |
| Reclassified from assets held for sale | 496 | 23 | 3,003 | – | **3,522** | 109 | **3,631** |
| Reclassifications and other | (73) | (18) | (65) | – | **(156)** | (1,898) | **(2,054)** |
| **Accumulated depreciation as of Dec 31, 2012** | **16,183** | **1,113** | **50,437** | **-** | **67,733** | **9,346** | **77,079** |
| B/S **Net value in balance sheet as of Dec 31, 2011[2, 5]** | **15,813** | **12,123** | **20,152** | **6,452** | **54,540** | **23,922** | **78,462** |
| B/S **Net value in balance sheet as of Dec 31, 2012[2, 5]** | **16,041** | **11,485** | **19,814** | **7,664** | **55,004** | **29,022** | **84,026** |

1 Includes capitalized borrowing costs of 134 (83).
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 195 (28).
5 Of which, investment property 754 (883) and property, plant and equipment 54,250 (53,657).
6 The increase is mainly explained by capital expenditure in the rental business.

Reclassifications and other mainly consist of assets under operating lease 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 amounted to 1,474 (1,625) at year-end. Capital expenditures during 2012 amounted to 22 (39). Accumulated depreciation amounted to 720 (742) at year-end, of which 45 (53) refers 2012. The estimated fair value of investment properties amounted to SEK 2.3 billion (2.5) at year-end. 95% of the investment properties were leased out during the year (91). Net income for the year was affected by 220 (235) in rental income from investment properties and of 44 (53) in direct costs.

# NOTE 14 LEASING

## ACCOUNTING POLICIES

*Volvo Group 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 Group 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 the Volvo Group, so-called financial leases, Volvo Group 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 the Volvo Group'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 Group as the lessor

As of December 31, 2012, future rental income from non-cancellable financial and operational leases (minimum leasing fees) amounted to 52,322 (50,704). Future rental income is distributed as follows:

| | Finance leases | Operating leases |
|---|---|---|
| 2013 | 14,844 | 4,511 |
| 2014–2017 | 22,576 | 9,121 |
| 2018 or later | 726 | 544 |
| **Total** | **38,146** | **14,176** |
| Allowance for uncollectible future rental income | (436) | |
| Unearned rental income | (2,847) | |
| Present value of future rental income related to non-cancellable leases | 34,863 | |

### Volvo Group as a lessee

As of December 31, 2012, future rental payments (minimum leasing fees) related to non-cancellable leases amounted to 3,817 (3,799).

Future rental payments are distributed as follows:

| | Finance leases | Operating leases |
|---|---|---|
| 2013 | 124 | 950 |
| 2014–2017 | 224 | 1,875 |
| 2018 or later | 139 | 505 |
| **Total** | **487** | **3,330** |

Rental expenses amounted to:

| | 2012 | 2011 |
|---|---|---|
| Finance leases: | | |
| Contingent rents | (10) | (12) |
| Operating leases: | | |
| Contingent rents | (36) | (20) |
| Rental payments | (1,113) | (1,035) |
| Sublease payments | 7 | 5 |
| **Total** | **(1,152)** | **(1,062)** |

Carrying amount of assets subject to financial leases:

| | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Costs: | | |
| Buildings | 226 | 92 |
| Land and land improvements | 41 | 53 |
| Machinery and equipment | 627 | 1,901 |
| Assets under operating lease[1] | 57 | 194 |
| **Total** | **951** | **2,240** |
| Accumulated depreciation: | | |
| Buildings | (58) | (30) |
| Land and land improvements | (1) | – |
| Machinery and equipment | (288) | (1,231) |
| Assets under operating lease[1] | (14) | (68) |
| **Total** | **(361)** | **(1,329)** |
| Carrying amount in the balance sheet: | | |
| Buildings | 168 | 62 |
| Land and land improvements | 40 | 53 |
| Machinery and equipment | 339 | 670 |
| Assets under operating lease[1] | 43 | 126 |
| **Total** | **590** | **911** |

1 Refer to assets leased by the Volvo Group as financial lease which are later leased to customers as operating lease.

# NOTE 15 CUSTOMER-FINANCING RECEIVABLES

Non-current and current receivables recognized in the Volvo Group's customer financing operations.

**! SOURCES OF ESTIMATION UNCERTAINTY**

*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. As of December 31, 2012, the total credit loss reserves in the Customer Finance segment amounted to 1.23% (1.33) 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.

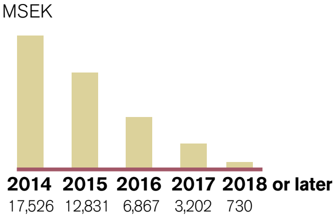
### *Non-current customer-financing receivables*

| **Allocation of non-current customer-financing receivables** | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Installment credits | 19,314 | 17,457 |
| Financial leasing | 21,115 | 22,454 |
| Other receivables | 727 | 707 |
| **B/S Non-current customer financing recivables as of December 31** | **41,156** | **40,618** |

The effective interest rate for non-current customer-financing receivables amounted to 6.31% as of December 31, 2012.

**Non-current customer-financing receivables maturities**

MSEK




### *Current customer-financing receivables*

| **Allocation of current customer-financing receivables** | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Installment credits | 10,884 | 11,079 |
| Financial leasing | 13,748 | 11,425 |
| Dealer financing | 14,079 | 13,820 |
| Other receivables | 1,122 | 1,757 |
| **B/S Current customer financing receivables as of December 31** | **39,833** | **38,081** |

The effective interest rate for current customer-financing receivables amounted to 6.06% as of December 31, 2012.

### *Credit risk in the customer-financing operations*

| **Customer-financing receivables** | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Customer-financing receivables gross | 82,080 | 79,849 |
| Valuation allowance for doubtful customer-financing receivables | (1,091) | (1,150) |
| *Whereof specific reserve* | *(258)* | *(374)* |
| *Whereof other reserve* | *(833)* | *(776)* |
| **Customer-financing receivables, net** | **80,989** | **78,699** |

| **Customer-financing receivables (days/MSEK) payments due** | Dec 31, 2012 | | | | | Dec 31, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Not due | 1–30 | 31–90 | >90 | **Total** | Not due | 1–30 | 31–90 | >90 | **Total** |
| Overdue amount | – | 407 | 331 | 404 | **1,142** | – | 391 | 230 | 648 | **1,269** |
| Valuation allowance for doubtful customer financing receivables | (64) | (42) | (43) | (109) | **(258)** | (99) | (63) | (40) | (172) | **(374)** |
| **Customer-financing receivables, net book value** | **(64)** | **365** | **288** | **295** | **884** | **(99)** | **328** | **190** | **476** | **895** |

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 1–30 days.

### *Customer-financing receivables (cont.)*

| Change of valuation allowance for doubtful customer-financing receivables | 2012 | 2011 |
|---|---|---|
| Valuation allowance for doubtful customer-financing receivables as of December 31, preceding year | 1,150 | 1,325 |
| New valuation allowance charged to income | 835 | 910 |
| Reversal of valuation allowance charged to income | (252) | (250) |
| Utilization of valuation allowance related to actual losses | (575) | (821) |
| Translation differences | (67) | (14) |
| **Valuation allowance for doubtful customer-financing receivables as of December 31** | **1,091** | **1,150** |

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 833 (776). 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.

Collaterals taken in possession that meet the recognition criteria amounted to 200 (412) as of December 31, 2012.

| Customer financing receivables total exposure | Dec 31, 2012 | | | | | Dec 31, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Not due | 1–30 | 31–90 | >90 | **Total** | Not due | 1–30 | 31–90 | >90 | **Total** |
| **Customer financing receivables** | 72,068 | 7,221 | 2,161 | 630 | **82,080** | 70,085 | 6,828 | 1,971 | 965 | **79,849** |

### Concentration of credit risk

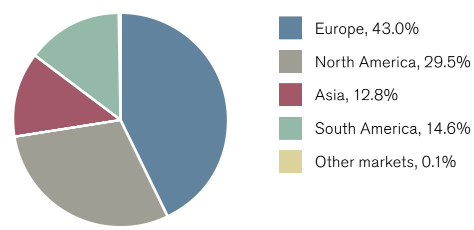
Customer concentration

The ten largest customers in Customer Finance account for 6.2 % (5.6) 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 many markets and among many customers.

Concentration by geographical market

The adjacent table discloses the concentration of the customer-financing portfolio divided into geographical markets.

**Geographic market, percentage of customer-financing portfolio (%).**




» **Read more about** the Volvo Group's overall description credit risks in **Note 4**, Financial-risk management.

» **Read more about** Volvo Financial Services' trend during the year on **page 66.**

## NOTE 16 RECEIVABLES

**! SOURCES OF ESTIMATION UNCERTAINTY**

*Credit loss reserves*

The establishment of credit loss provisions for account receivables is recognized 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. As of December 31, 2012, the total credit loss reserves for account receivables amounted to 2.41% (2.57) of total account receivables.

» **Refer to Note 4** regarding credit risk.

| Non-current receivables | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Other interest-bearing loans to external parties | 76 | 98 |
| Other interest-bearing financial receivables | 261 | 596 |
| Other financial receivables | 767 | 2,131 |
| Other receivables | 2,552 | 2,184 |
| **Non-current receivables as of December 31**[1] | **3,656** | **5,009** |

1 Of non-current receivables 1,190 (2,822) pertains to financial instruments.

| Current receivables | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Loans to external parties | – | 1 |
| Other interest-bearing financial receivables | 2,574 | 666 |
| Accounts receivable | 27,349 | 27,699 |
| Prepaid expenses and accrued income | 2,392 | 2,761 |
| VAT receivables | 3,573 | 3,387 |
| Other financial receivables | 1,220 | 1,746 |
| Other receivables | 5,304 | 5,932 |
| **Current receivables, after deduction of valuation allowances for doubtful accounts receivable[1]** | **42,412** | **42,191** |

1 Of current receivables, 31,143 (30,133) pertains to financial instruments.

*Credit risks in accounts receivable*

| Change of valuation allowance for doubtful accounts receivable | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Valuation allowance for doubtful accounts recivables as of December 31, preceding year | 731 | 721 |
| New valuation allowance charged to income | 219 | 175 |
| Reversal of valuation allowance charged to income | (147) | (126) |
| Utilization of valuation allowance related to actual losses | (88) | (100) |
| Acquired and divested operations | 8 | 33 |
| Translation differences | (40) | 5 |
| Reclassifications, etc. | (8) | 24 |
| **Valuation allowance for doubtful accounts receivables as of December 31** | **675** | **731** |

**Refer to Note 4** for more information regarding the Volvo Group's financial risks.

**Refer to Note 15** for more information regarding credit risk in customer financing receivables.

**Refer to Note 30** for information regarding goals and policies for financial instruments.

| Age analysis of portfolio value – Accounts receivable | Dec 31, 2012 | | | | | Dec 31, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Not Due | 1–30 | 31–90 | >90 | **Total** | Not Due | 1–30 | 31–90 | >90 | **Total** |
| Accounts receivable gross | 25,327 | 1,246 | 533 | 918 | **28,024** | 26,152 | 1,102 | 465 | 711 | **28,430** |
| Provision for doubtful accounts receivable | (156) | (3) | (25) | (491) | **(675)** | (155) | (30) | (57) | (490) | **(731)** |
| **Accounts receivable net** | **25,171** | **1,243** | **508** | **427** | **27,349** | **25,997** | **1,073** | **408** | **221** | **27,699** |

# 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.

## SOURCES OF ESTIMATION UNCERTAINTY

*Inventory obsolescence*

If the net realizable value is lower than cost, a valuation allowance is established for inventory obsolescence. The total inventory value, net of inventory obsolescence allowance, was 40,409 (44,599) as of December 31, 2012.

| Inventory | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Finished products | 26,013 | 28,985 |
| Production materials, etc. | 14,396 | 15,614 |
| **B/S Inventory as of December 31** | **40,409** | **44,599** |

Inventories recognized as cost of sold products during the period amounted to SEK 212,469 (219,946) billion.

| Increase (decrease) in allowance for inventory obsolescence | 2012 | 2011 |
|---|---|---|
| Allowance for inventory obsolescence as of December 31, preceding year | 2,624 | 3,382 |
| Increase in allowance for inventory obsolescence charged to income | 456 | (213) |
| Scrapping | (390) | (264) |
| Translation differences | (92) | (23) |
| Reclassifications, etc. | 13 | (258) |
| **Allowance for inventory obsolescence as of December 31** | **2,611** | **2,624** |

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:

| | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Government securities | 131 | 136 |
| Banks and financial institutions | 494 | 521 |
| Real estate financial institutions | 2,505 | 6,205 |
| **B/S Marketable securities as of December 31** | **3,130** | **6,862** |

### *Cash and cash equivalents*

| | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Cash in banks | 22,712 | 21,206 |
| Bank certificates[1] | 1,019 | 1,492 |
| Time deposits in banks | 2,028 | 7,681 |
| **B/S Cash and cash equivalents as of December 31** | **25,759** | **30,379** |

1 Bank certificates which matures within three months of the date of acquisition.

Cash and cash equivalents as of December 31, 2012, include SEK 0.2 billion (0.7) that is not available for use by the Volvo Group and SEK 9.4 billion (9.3) 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 Volvo Group, however normally there is no limitation for use for the Volvo Group's operation in the respective country.

# NOTE 19 EQUITY AND NUMBER OF SHARES

### 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 2012 was SEK 3.00 (2.50) per share or total of SEK 6,082.3 million (5,068.6).

During 2012 AB Volvo transferred, free of consideration, 250,922 treasury B-shares, with a total quota value of 301,106.40 SEK, to participants of Volvo Group's long-term, share-based incentive program for Group and senior executives 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 as of December 31, 2012 amounted to SEK 31,346 million (32,268).

| **Information regarding number of shares** | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Own Series A shares | 20,728,135 | 20,728,135 |
| Own Series B shares | 80,013,209 | 80,264,131 |
| **Total own shares** | **100,741,344** | **100,992,266** |
| Own shares in % of total registered shares | 4.73 | 4.74 |
| Outstanding Series A shares | 525,816,240 | 642,766,887 |
| Outstanding Series B shares | 1,501,862,636 | 1,384,661,067 |
| **Total outstanding shares** | **2,027,678,876** | **2,027,427,954** |
| Total registered Series A shares | 546,544,375 | 663,495,022 |
| Total registered Series B shares | 1,581,875,845 | 1,464,925,198 |
| **Total registered shares** | **2,128,420,220** | **2,128,420,220** |
| Average number of outstanding shares | 2,027,521,257 | 2,027,427,172 |

**Earnings per share**

The long-term share-based incentive programs decided by the Annual General Meeting 2011 create a dilution effect.

No other transactions have occurred that affected, or will have an effect on, the compilation of the reported number of shares.

| **Information regarding shares (other)** | 2012 | 2011 |
|---|---|---|
| Number of shares, December 31, in millions | 2,028 | 2,027 |
| Average number of shares before dilution in millions | 2,028 | 2,027 |
| Average number of shares after dilution in millions | 2,030 | 2,028 |
| Average share price, SEK | 88.44 | 94.84 |
| Net income attributable to Parent Company shareholders | 11,039 | 17,751 |
| Basic earnings per share, SEK | 5.44 | 8.76 |
| Diluted earnings per share, SEK | 5.44 | 8.75 |

| **Change in other reserves** | Hedge reserve | Available-for-sale reserve | Total |
|---|---|---|---|
| Balance as of January 1, 2012 | (57) | 67 | 10 |
| Change in fair value of commodity contracts | 4 | – | 4 |
| Other changes | 4 | – | 4 |
| Reclassification of shares in Deutz[1] | – | (35) | (35) |
| Fair value adjustments regarding holdings in Japanese companies | – | 32 | 32 |
| Fair value adjustments regarding other holdings | – | (1) | (1) |
| **Balance as of December 31, 2012** | **(49)** | **63** | **14** |

1 In 2012 an additional 18% of the shares in Deutz AG was acquired and thereby the company is recognized as an associated company.

The Volvo Group's acumulative amount of exchange difference deferred to equity relating to assets held for sale amount to SEK 0 million (33).

» **Read more** about investments in associated companies in **Note 5**.

# NOTE 20 PROVISIONS FOR POST-EMPLOYMENT BENEFITS

Volvo Group'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

The Volvo Group 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 the Volvo Group'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 Group 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.

» **Read more** about new accounting principles 2012 and later in **Note 1** and changes in Volvo Group financial reporting in **Note 31**.

* 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 ESTIMATION UNCERTAINTY

*Assumptions when calculating pensions and other post-employment benefits*

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 the Volvo Group's operations which result in obligations for postemployment benefits.

NOTES TO FINANCIAL STATEMENTS

### *Assumptions when calculating pensions and other post-employment benefits (cont.)*

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 a reconciliation of obligations and plan assets during the year and the difference between fair values and carrying amounts at the balance-sheet date.

| **Summary of provision for post-employment benefits** | 2012 | 2011 |
|---|---|---|
| Obligations | (42,472) | (40,358) |
| Fair value of plan assets | 24,618 | 23,873 |
| **Funded status** | **(17,854)** | **(16,485)** |
| Unrecognized actuarial (gains) and losses | 13,633 | 11,939 |
| Unrecognized past service costs | 248 | 222 |
| **Net provisions for post-employment benefits** | **(3,973)** | **(4,324)** |
| Whereof related to Assets held for sale | – | 64 |
| **Net provision for post-employment benefits excluding Assets held for sale** | **(3,973)** | **(4,388)** |

| **Assumptions applied for actuarial calculations, %** | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| **Sweden** | | |
| Discount rate[1] | 3.25 | 3.50 |
| 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] | 1.75–3.75 | 3.00–4.75 |
| Expected return on plan assets[2] | 7.65 | 7.65 |
| Expected salary increase | 3.50 | 3.00 |
| Inflation | 2.00 | 2.00 |
| **France** | | |
| Discount rate[1] | 3.75 | 4.50 |
| Expected salary increase | 3.00 | 3.00 |
| Inflation | 1.50 | 1.50 |
| **Great Britain** | | |
| Discount rate[1] | 4.25–4.60 | 4.75–5.00 |
| Expected return on plan assets[2] | 3.30–4.20 | 3.60–4.50 |
| Expected salary increases | 3.20–3.30 | 3.30–3.40 |
| Inflation | 2.70 | 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 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 3.00–3.75% (4.25–4.75).

| **Pension costs** | 2012 | 2011 |
|---|---|---|
| Current year service costs | 1,071 | 867 |
| Interest costs | 1,415 | 1,448 |
| Expected return on plan assets | (1,437) | (1,405) |
| Actuarial gains and losses[1] | 654 | 326 |
| Past service costs | | |
| – Unvested | 9 | 9 |
| – Vested | 3 | 60 |
| Curtailments and settlements | 35 | 50 |
| Termination benefits | 20 | 84 |
| **Pension costs for the period, defined-benefit plans** | **1,770** | **1,439** |
| Pension costs for defined-contribution plans | 2,356 | 2,032 |
| **Total pension costs for the period** | **4,126** | **3,471** |

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.

| Costs for the period, post-employment benefits other than pensions | 2012 | 2011 |
|---|---|---|
| Current year service costs | 141 | 85 |
| Interest costs | 142 | 148 |
| Expected return on plan assets | (2) | – |
| Actuarial gains and losses[1] | 19 | 9 |
| Past service costs | | |
| – Unvested | 4 | 5 |
| – Vested | 1 | – |
| Curtailments and settlements | 6 | (35) |
| Termination benefits | 6 | 25 |
| **Total costs for the period, post-employment benefits other than pensions** | **317** | **237** |

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, 2012 by approximately 166, 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 approximately 141 and reduce costs for the period by approximately 6. Calculations made as of December 31, 2012 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 | US Pensions | France Pensions | Great Britain Pensions | US Other benefits | Other plans | Total |
|---|---|---|---|---|---|---|---|
| **Obligations at January 1, 2011** | **9,144** | **12,998** | **1,605** | **4,226** | **3,441** | **4,707** | **36,121** |
| 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 as of 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** |
| Acquisitions, divestments and other changes | (1,362) | (9) | 84 | 0 | (3) | (45) | **(1,335)** |
| Current year service costs | 442 | 299 | 59 | 22 | 131 | 259 | **1,212** |
| Interest costs | 419 | 576 | 78 | 215 | 138 | 131 | **1,557** |
| Past service costs | – | – | – | – | – | – | **-** |
| – Unvested | – | – | 1 | – | – | (1) | **0** |
| – Vested | – | – | – | – | 1 | – | **1** |
| Termination benefits | 21 | – | – | – | – | 11 | **32** |
| Curtailments and settlements | (7) | (1) | – | – | 2 | (122) | **(128)** |
| Employee contributions | – | – | 1 | 10 | – | 3 | **14** |
| Actuarial (gains) and losses | 1,315 | 1,546 | 169 | 390 | 312 | 382 | **4,114** |
| Exchange rate translation | – | (879) | (67) | (81) | (237) | (298) | **(1,562)** |
| Benefits paid | (330) | (763) | (88) | (185) | (184) | (241) | **(1,791)** |
| **Obligations as of December 31, 2012** | **12,510** | **15,129** | **2,002** | **4,740** | **3,737** | **4,354** | **42,472** |
| of which | | | | | | | |
| Funded defined-benefit plans | 10,934 | 14,645 | 6 | 4,740 | – | 2,675 | **33,000** |

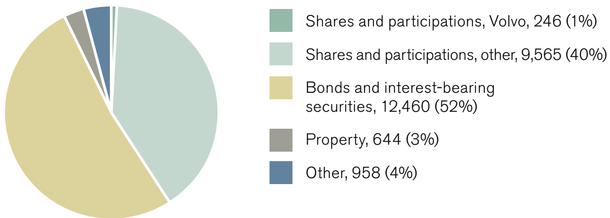
## NOTES TO FINANCIAL STATEMENTS

| Fair value of plan assets in funded plans | Sweden Pensions | US Pensions | France Pensions | Great Britain Pensions | US Other benefits | Other plans | Total |
|---|---|---|---|---|---|---|---|
| **Plan assets at January 1, 2011** | **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 as of December 31, 2011** | **7,580** | **9,842** | **-** | **4,680** | **24** | **1,747** | **23,873** |
| Acquisitions, divestments and other changes | (938) | 1 | 6 | – | – | (25) | **(956)** |
| Expected return on plan assets | 440 | 733 | – | 188 | – | 78 | **1,439** |
| Actuarial gains and (losses) | 133 | 391 | – | 147 | – | 27 | **698** |
| Employer contributions | 25 | 1,022 | – | 87 | 139 | 209 | **1,482** |
| Employee contributions | – | – | – | 10 | – | 18 | **28** |
| Exchange rate translation | – | (624) | – | (86) | (1) | (39) | **(750)** |
| Benefits paid | (1) | (773) | – | (189) | (139) | (94) | **(1,196)** |
| **Plan assets as of December 31, 2012** | **7,239** | **10,592** | **6** | **4,837** | **23** | **1,921** | **24,618** |

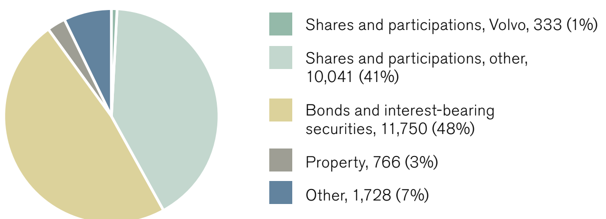
| Net provisions for post-employment benefits | Sweden Pensions | US Pensions | France Pensions | Great Britain Pensions | US Other benefits | Other plans | Total |
|---|---|---|---|---|---|---|---|
| **Funded status at December 31, 2011** | **(4,432)** | **(4,518)** | **(1,765)** | **311** | **(3,553)** | **(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 as of December 31, 2011** | **137** | **937** | **(1,156)** | **652** | **(3,119)** | **(1,775)** | **(4,324)** |
| Whereof related to Assets held for sale[1] | 77 | – | – | – | – | (13) | **64** |
| **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)** |
| **Funded status as of December 31, 2012** | **(5,271)** | **(4,537)** | **(1,996)** | **97** | **(3,714)** | **(2,433)** | **(17,854)** |
| Unrecognized actuarial (gains) and losses | 5,049 | 5,984 | 478 | 572 | 638 | 912 | **13,633** |
| Unrecognized past service costs | – | (44) | 257 | (5) | (2) | 42 | **248** |
| **Net provisions for post-employment benefits as of December 31, 2012** | **(222)** | **1,403** | **(1,261)** | **664** | **(3,078)** | **(1,479)** | **(3,973)** |
| of which reported as | | | | | | | |
| B/S Prepaid pensions | 57 | 1,818 | – | 670 | 89 | 90 | **2,724** |
| B/S Provisions for post-employment benefits | (279) | (415) | (1,261) | (6) | (3,167) | (1,569) | **(6,697)** |

1 As of 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 2011**




**Plan assets by category 2012**




Actual return on plan assets amounted to 2,124 (81).

| **Actuarial gains and losses** | 2012 | 2011 |
|---|---|---|
| Experience-based adjustments in obligations | (412) | (3,492) |
| Experience-based adjustments in plan assets | 698 | (1,324) |
| Effects of changes in actuarial assumptions | (3,702) | (209) |
| **Actuarial gains and (losses), net** | **(3,416)** | **(5,025)** |

The Volvo Group'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 2,253, whereof 25 during 2012, have been made to the foundation. The plan assets in the Volvo Group'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. As of December 31, 2012, the fair value of the foundation's plan assets amounted to 7,217 (7,554), of which 31% (31) was invested in shares or mutual funds. At the same date, retirement pension obligations attributable to the ITP plan amounted to 12,140 (11,624).

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 the Volvo Group 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 2012, the Volvo Group 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 129% (113).

The Volvo Group's subsidiaries in the United States mainly secure their pension obligations through transfer of funds to pension plans. At the end of 2012, the total value of pension obligations secured by pension plans of this type amounted to 14,645 (13,925). At the same point in time, the total value of the plan assets in these plans amounted to 10,592 (9,842), of which 54% (54) 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 2012, Volvo Group contributed 1,022 (829) to the American pension plans.

During 2012, the Volvo Group has made extra contributions to the pension plans in Great Britain in the amount of 87 (91).

In 2013, the Volvo Group estimates to transfer an amount of about SEK 1 billion to pension plans.

# NOTE 21 OTHER PROVISIONS

## ACCOUNTING POLICY

*Provisions*

Provisions are recognized 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 the Volvo Group 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 the Volvo Group'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 the Volvo Group's balance sheet, these risks are reflected under the line item current provisions.

» **Refer to Note 7** for more information regarding 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.

## NOTES TO FINANCIAL STATEMENTS

### SOURCES OF ESTIMATION UNCERTAINTY

*Residual value risks*

In the course of its operations, the Volvo Group is exposed to residual value risks through operating lease agreements and sales combined with repurchase agreements. Residual value commitments amount to 15,906 (14,349) at December 31, 2012. Residual value risks are reflected in different ways in the the Volvo Group consolidated financial statements depending on the extent to which the risk remains with the Volvo Group.

In cases where significant risks pertaining to the product remain with the Volvo Group, the products, primarily trucks, are generally recognized in the balance sheet as assets under operating leases. Depreciation for these products are recognized on a straight-line basis over the term of the commitment and the depreciable amount is adjusted to agree with 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 Volvo Group's 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 division are more. Additional depreciations and estimated impairment losses are immediately recognized in the Income Statement.

The total risk exposure for assets under operating lease is regognized as current and non-current residual value liabilities.

» **Read more** about residual value risks for liabilities 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 product in connection to a buy-back option, the asset is not recognized on the balance-sheet. 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** about contingent liabilities 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 recognized as 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 Group's warranty costs, are recognized to the extent these are considered to be certain. As of December 31, 2012 warranty cost provisions amounted to 8,889 (8,652).

*Legal proceedings*

The Volvo Group recognizes obligations as provisions or other liabilities only in cases where Volvo Group has a present obligation from a past event, where a financial responsibility is probable and Volvo Group can make a reliable estimate of the size of the amount. When these criteria are not met, a contingent liability may be recognized.

The Volvo Group regularly reviews the development of significant outstanding legal disputes in which the Volvo 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 Group 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 Group's management as to how the Volvo Group 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 Volvo Group's results of operation, financial position and liquidity.

» **Read more** about the Volvo Group's gross exposure for contingent liabilities in **Note 24.**

| | Carrying value as of Dec 31, 2011 | Provisions | Reversals | Utilizations | Acquired and divested companies | Translation differences | Other reclassifications | Carrying value as of Dec 31, 2012 | Of which due within 12 months | Of which due after 12 months |
|---|---|---|---|---|---|---|---|---|---|---|
| Warranties | 8,652 | 7,687 | (738) | (6,036) | (3) | (326) | (347) | 8,889 | 5,530 | 3,359 |
| Provisions in insurance operations | 488 | 160 | (17) | (232) | 0 | (22) | 0 | 377 | 377 | 0 |
| Restructuring measures | 199 | 1,300 | (60) | (305) | 0 | (38) | 10 | 1,106 | 718 | 388 |
| Provisions for residual value risks | 741 | 220 | (67) | (157) | 0 | (19) | 14 | 732 | 308 | 424 |
| Provisions for service contracts | 380 | 321 | (64) | (217) | 0 | (9) | (22) | 389 | 213 | 176 |
| Dealer bonus | 2,033 | 3,359 | (105) | (2,893) | 0 | (63) | (60) | 2,271 | 2,189 | 82 |
| Other provisions | 2,686 | 3,400 | (733) | (2,609) | 97 | (166) | 320 | 2,995 | 1,641 | 1,354 |
| B/S **Total** | **15,179** | **16,447** | **(1,784)** | **(12,449)** | **94** | **(643)** | **(85)** | **16,759** | **10,976** | **5,783** |

Long-term provisions as above is expected to be settled within 2 to 3 years.

» **Read more** in **Note 8** regarding restructuring.

# NOTE 22 LIABILITIES

*Non-current liabilities*

The tables below disclose the Volvo Group's non-current liabilities in which the largest loans are listed by currency. The main part are issued by Volvo Treasury AB. Information regarding loan terms refer to December 31, 2012. The Volvo Group hedges foreign-exchange and interest-rate risks using derivative instruments.

» **Refer to Note 4** Goals and policies in financial risk management and **Note 30** Financial Instruments for more information.

| **Bond loans** | Actual interest rate Dec 31, 2012, % | Effective interest rate Dec 31, 2012, % | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|---|---|
| EUR 2007–2012/2014–2024 | 0.74–9.89 | 0.74–9.89 | 20,725 | 16,591 |
| SEK 2007–2012/2014–2017 | 1.90–5.71 | 1.91–5.71 | 15,131 | 15,904 |
| USD 2009/2015 | 5.98 | 5.98 | 4,861 | 5,165 |
| GBP 2009/2014 | 6.04 | 6.18 | 523 | 532 |
| CNY 2012/2015 | 3.80–5.93 | 3.80–6.06 | 1,852 | – |
| B/S **Bond loans as of December 31**[1] | | | **43,092** | **38,192** |

1 Of which loans raised to finance the credit portfolio of the customer financing operations totalled 29,044 (24,501).

| **Other loans** | Actual interest rate Dec 31, 2012, % | Effective interest rate Dec 31, 2012, % | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|---|---|
| USD 2008–2012/2015–2018 | 0.56–7.50 | 0.56–7.76 | 7,902 | 8,883 |
| EUR 2005–2012/2014–2027 | 1.49–6.50 | 1.50–6.50 | 2,127 | 2,409 |
| GBP 2011/2014 | 1.98 | 1.99 | 902 | 925 |
| SEK 2007–2011/2015–2017 | 1.52–3.22 | 1.53–3.22 | 4,270 | 5,457 |
| CAD 2012/2015 | 3.06 | 3.10 | 675 | 1,439 |
| MXN 2009–2012/2014–2016 | 5.74–8.99 | 5.89–9.37 | 1,673 | 1,470 |
| JPY 2007–2012/2014–2017 | 0.60–1.40 | 0.60–1.41 | 7,837 | 13,132 |
| CHF 2011/2013 | 1.07 | 1.07 | – | 736 |
| BRL 2007/2020 | 4.15 | 4.28 | 5,807 | 5,081 |
| AUD 2012/2015 | 4.81 | 6.05 | 690 | 1,054 |
| Other loans | | | 4,617 | 5,509 |
| Revaluation of outstanding derivatives to SEK | | | 1,933 | 1,670 |
| B/S **Other loans as of December 31**[1] | | | **38,433** | **47,765** |
| **Bond loans and other loans as of December 31** | | | **81,525** | **85,957** |
| Deferred leasing income | | | 2,247 | 2,000 |
| Residual value liabilities | | | 4,439 | 3,608 |
| Accrued expenses service contracts | | | 2,548 | 1,996 |
| Other non-current financial liabilities | | | 609 | 701 |
| Other non-current liabilities | | | 871 | 2,142 |
| B/S **Other liabilities as of December 31** | | | **10,714** | **10,447** |
| **Non-current liabilities as of December 31** | | | **92,239** | **96,404** |

1 Of which loans raised to finance the credit portfolio of the customer financing operations 16,874 (24,517). Volvo Treasury employs cross-currency interest swaps to be able to offer lending and borrowing in various currencies without increasing Volvo Group's risk. The table on page 95 presents Industrial operations financial net position, including pensions, listed by currency. Of non-current liabilities, 82,153 (87,923) pertains to financial instruments. » **Refer also to Note 30** Financial instruments.

Of the above loans, 3.723 (516) was secured.

» **Refer to Note 23** for an explanation of changes to assets pledged.

| | Non-current loans mature as follows: |
|---|---|
| 2014 | 27,617 |
| 2015 | 17,518 |
| 2016 | 16,071 |
| 2017 | 14,856 |
| 2018 | 450 |
| 2019 or later | 5,013 |
| **Total** | **81,525** |

» **Refer to Note 15** for maturities of non-current customer financing receivables.

The major part of other non-current liabilities will mature within five years.

At year-end 2012, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 33,1 billion (33.6). These facilities consisted of stand-by facilities for loans with varying maturities through 2013 to 2017. 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*

| Current liabilities | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Bank loans | 9,172 | 12,639 |
| Other loans | 41,145 | 31,883 |
| **B/S Current liabilities as of December 31**[1] | **50,317** | **44,522** |

1 Of which loans raised to finance the credit portfolio of the customer financing operations amount to 39,259 (31,844) and financial derivatives at fair value 43 (1,362).

Bank loans include current maturities of non-current loans 2,586 (5,803). Other loans include current maturities of non-current loans, 22,173 (17,681), and commercial paper, 13,535 (8,393). Non-interest-bearing current liabilities accounted for 80,788 (99,152), or 62% (69) of the Volvo Group's total current liabilities.

| Other current liabilities | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Advances from customers | 3,959 | 3,642 |
| Wages, salaries and withholding taxes | 7,901 | 8,041 |
| VAT liabilities | 1,785 | 2,099 |
| Accrued expenses and prepaid income | 10,925 | 12,528 |
| Deferred leasing income | 1,793 | 1,683 |
| Residual value liability | 1,705 | 1,783 |
| Other financial liabilities | 254 | 367 |
| Other liabilities | 4,449 | 5,120 |
| **B/S Other current liabilities as of December 31** | **32,771** | **35,263** |

Current liabilities also include trade payables of 47,364 (56,788), current tax liabilities of 653 (2,391) and non interest-bearing and interest-bearing liabilities held for sale, as disclosed in Note 3. Secured bank loans at year-end 2012 totalled 113 (127). The corresponding amount for other current liabilities amounted to 1,581 (584). Of current liabilities including trade payables, 97,992 (102,331) pertains to financial instruments.

**Refer to Note 23** for an explanation of changes to assets pledged.

## NOTE 23 ASSETS PLEDGED

| | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Property, plant and equipment – mortgages | 97 | 128 |
| Assets under operating leases | 150 | 265 |
| Receivables | 3,781 | 1,333 |
| Cash, loans and marketable securities | 32 | 78 |
| Other assets pledged | 39 | 28 |
| **Total** | **4,099** | **1,832** |

At year-end, liabilities for which the above assets were pledged totalled 3,722 (1,227).

In 2012 an asset-backed securitization was completed. Under the terms of the transaction, 4,361 of securities were issued tied to US-based loans, secured by Customer Finance receivables recognized on the balance-sheet with trucks and construction equipment assets as collaterals.

## 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.

| Contingent liabilities | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Credit guarantees issued for customers and others | 9,540 | 8,970 |
| Tax claims | 861 | 521 |
| Residual value guarantees | 3,317 | 2,969 |
| Other contingent liabilities | 4,045 | 4,694 |
| **Contingent liabilities as of December 31** | **17,763** | **17,154** |

Tax claims amounting to 861 (521) 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. As of December 31, 2012, the estimated value of counter guarantees received and other collaterals, for example the estimated net selling price of used products, amounted to 4,216 (3,726) and mainly pertains to credit guarantees and residual value guarantees.

**For more** information regarding residual value guarantees, see **note 21.**

**Legal proceedings**

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. On April 13, 2012, The United District Court of the District of Colombia handed down a decision in favor of EPA, and ordered Volvo Powertrain to pay penalties and interest of approximatley USD 72 M. Volvo Powertrain has appealed the decision. As of December 31, 2012, an amount of SEK 65 M has been set as a provision and SEK 404 M has been retained as a contingent liability.

Volvo Group is subject to investigations by competition authorities. 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 Office of Fair Trading (OFT), the British competition authority. In June 2012, OFT decided to close its investigation on the grounds that it considers the European Commission to be best placed to act in the matter. The OFT has reserved its right to reopen 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.

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 investigation 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 the investigation initiated in Europe. Concerning the investigation initiated in Korea, a contingent liability has however been recongnized.

In May 2011 Volvo Penta became part of an investigation by the European Commission regarding a possible violation of EU antitrust rules. In June 2012, the European Commission closed the investigation without further actions.

Global companies such as the Volvo Group are occasionally involved in tax processes of varying scope and in various stages. Volvo Group 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 Group is also involved in a number of other legal proceedings. Volvo Group 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

Transactions between AB Volvo and its subsidiaries and joint ventures, which are related parties to AB Volvo, have been eliminated in the group and are not disclosed in this note.

The Volvo Group engages in transactions with some of its associated companies. The transactions consist mainly of sales of vehicles to dealers and purchases of engines.

| | 2012 | 2011 |
|---|---|---|
| Sales to associated companies | 1,670 | 1,296 |
| Purchase from associated companies | 702 | 60 |
| Receivables from associated companies, Dec 31 | 242 | 186 |
| Liabilities to associated companies, Dec 31 | 632 | 129 |

The increase in purchases and liabilities is explained by Deutz AG, which is an associated company from September 2012. Commercial terms and market prices apply for the supply of goods and services to/from associated companies.

Until December 2012 Renault s.a.s was a related party to the Volvo Group due to its holding in AB Volvo. In December 2012 Renault s.a.s sold their Volvo shares. Sales to and purchases from Renault s.a.s. and its subsidiaries amounted to 29 (53) and 1,719 (2,321). Receivables from and liabilities to Renault s.a.s. is not included for 2012 and totalled 11 and 372, respectively, as of 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.

During the year AB Volvo divested an apartment to a former member of Group management to market value for 10.

» **Refer to Note 5** regarding the Volvo Group's share in associated companies.

## NOTE 26 GOVERNMENT GRANTS

In 2012, government grants of 675 (783) were received, and 525 (775) was recognized in income statement. The amount includes tax credits of 348 (545) related to product development, which were primarily received in France and India. Other grants were mainly received from the Swedish government and the European Commission.

## NOTE 27 PERSONNEL

### ACCOUNTING POLICY

*Share-based payments*

The Volvo Group applies IFRS2, Share-based payments for share-based incentive programs. IFRS 2 distinguishes between "cash-settled" and "equity-settled" payments. The Volvo Group 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 in 2012**

The Annual General Meeting of 2012 decided upon a policy on remuneration and other employment terms for the members of the Volvo Group Executive Team. The decided principles can be summarized as follows:

The guiding principle is that remuneration and other employment terms for the Group Executives, shall be competitive to ensure that the Volvo Group can attract and retain skilled persons to the Group Executive Team. 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 members of the Group Executive Team, a maximum of 60% of the fixed salary.

The variable salary shall be based on the fulfillment of improvement targets or certain financial targets for the Volvo Group and/or the organizational unit where the member of Group Executive Team is employed. These targets are decided by the Board of AB Volvo and can be related, for example, to operating income, operating margin and/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 senior executives.

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 for Group Executives and senior executives in the Volvo Group 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, members of the Group Executive Team domiciled in Sweden can be offered two different defined-contribution plans with annual premiums whereby the amount of the individual's pensions comprises the premium paid and any return, without any guaranteed level of pension. No defined retirement date is set in the two plans but premiums will be paid for the employee until his or her 65th birthday. Members of the Group Executive Team 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 Group Executives 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. Group Executives 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 Group Executives are or have been resident or to which the member of Group Executives 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.

**Fee paid to the Board of Directors**

According to a resolution adopted at the Annual General Meeting 2012, the fee to the Board of Directors appointed at the Annual General Meeting for the period until the close of the Annual General Meeting 2013 shall be paid as follows: The Chairman of the Board should be awarded SEK 2,100,000 and each of the other members SEK 700,000 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 125,000 to the chairman of the remuneration committee and SEK 100,000 to each of the members of the remuneration committee.

**Terms of employment and remuneration to the CEO**

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 margin and six months moving cash flow. The variable salary amounts to a maximum of 75% of the fixed annual salary. For the financial year 2012, Olof Persson received a fixed salary of SEK 11,520,000 and a variable salary of SEK 1,728,000. The variable salary corresponded to 15% of the fixed salary. Other benefits, mainly pertaining to car and housing, amounted to SEK 803,238 in 2012.

Olof Persson is covered both by pension benefits provided under collective bargain agreements and by the Volvo Management Pension (VMP) and Volvo Executive Pension (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. 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 2012 the premium amounted to SEK 536 a month. Pension premiums 2012 for Olof Persson amounted to SEK 4,970,422. Olof Persson is also participating in the long-term share-based incentive program decided by the Annual General Meeting 2011. Based on ROE for 2012, Olof Persson will receive 62,230 shares during 2015/2016 related to 2012 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 Group Executives**

*Fixed and variable salaries*

Members of Group Executive Team 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, operating margin and/or cash flow for a six month rolling period. During 2012, a variable salary, for Group Executives excluding CEO, could amount to a maximum of 60% of the fixed annual salary.

For the financial year 2012, fixed salaries amounted to SEK 56,619,640 and variable salaries amounted to SEK 5,787,136 for Group Executives excluding the CEO. Group Executives comprised, in addition to the CEO, 15 members at the beginning of the year and 14 members at the end of the year. Other benefits, mainly pertaining to car and housing, amounted to SEK 6,127,427 in 2012. Group Executives, excluding the CEO, also participate in the long-term incentive program which was approved by the Annual General Meeting held in 2011 and is based on ROE outcome. For 2012, they will during 2015/2016 receive 257,942 shares related to 2012 if all program conditions are met (see further information under Long-term incentive program below).

*Severance payments*

The employment contracts for Group 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 the event the employee gains employment during the severance period, severance pay is reduced 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.

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, preferably solutions corresponding to what is present for in Sweden.

*Pensions*

Previous pension agreements for certain Group 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 for Group Executives excluding CEO amounted to SEK 28,018,216 in 2012

Group 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.

**Volvo Group's total costs for remuneration and benefits to Group Executives**

Costs for total remuneration and benefits to Group Executives in 2012 are pertaining to the following: fixed salary SEK 87 million (110); variable salary SEK 10 million (43); other benefits SEK 10 million (12) and pensions SEK 38 million (46). The cost related to the long-term share-based incentive program is reflected over the vesting period and amounted to SEK 27 million (26) for 2012. Total costs for Group Executives 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 Group and senior executives 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 allotted 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%, a number of performance shares. Maximum allotment of performance shares corresponds to seven shares for the CEO, six shares for other members of Group Executives and five shares for other participants in the program for each invested share, subject to ROE reaching 25%. ROE for 2012 was 12.9% (23.1), which means that number of performance shares reached about 35% (90) 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.

## NOTES TO FINANCIAL STATEMENTS

| Long term incentive program (share settled plan version) | Vesting year | Shares granted conditional under the plan but not yet alloted (in thousand shares) Beginning of the year | Granted 2012 | Cancelled/ forfeited 2012 | Allotments during 2012 | End of the year | Cost 2012 (SEK M)[1] |
|---|---|---|---|---|---|---|---|
| **Year 2011 incentive program** | 2014/2015 | **2,476** | 1 | (18) | (251) | **2,208** | 87.5 |
| **Year 2012 incentive program** | 2015/2016 | **0** | 1,324 | (4) | 0 | **1,320** | 37.5 |

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 12 (4) including social security cost during 2012, and the total liability amouned to 16 (4) as of Decmber 31, 2012.

A number of program participants that are leaving the company have been determined to be "good leavers" and are therefore entitled to accumulated allotment of shares. During 2012, including both the share settled plan and and the cash-settled plan, a total of 250,922 shares (929) have been allotted to participants, and an additional 246,917 shares (203,520) will be allotted to participants when the employees leave the company. For the cash-settled plan, a total of 1 (0) has been allotted during 2012.

The total cost for the 2012 incentive program over the period 2012 to 2015 is estimated to 148 including social security cost. Actual cost will be impacted by changes in the share price.

| **Average number of employees** | 2012 Number of employees | 2012 of which women, % | 2011 Number of employees | 2011 of which women, % |
|---|---|---|---|---|
| **AB Volvo** | | | | |
| Sweden | 236 | 44 | 171 | 49 |
| **Subsidiaries** | | | | |
| Sweden | 23,028 | 20 | 24,793 | 20 |
| Western Europe (excl. Sweden) | 22,116 | 18 | 24,241 | 17 |
| Eastern Europe | 6,603 | 21 | 6,220 | 21 |
| North America | 16,481 | 18 | 15,380 | 18 |
| South America | 6,150 | 14 | 6,080 | 14 |
| Asia | 24,798 | 10 | 22,915 | 11 |
| Other countries | 2,670 | 17 | 2,448 | 17 |
| **Group total** | **102,082** | **17** | **102,248** | **18** |

| **Board members[1] and other senior executives** | 2012 Number at year-end | 2012 of which women, % | 2011 Number at year-end | 2011 of which women, % |
|---|---|---|---|---|
| **AB Volvo** | | | | |
| Board members[1] | 12 | 17 | 14 | 14 |
| CEO and other senior executives | 16 | 19 | 17 | 6 |
| **Volvo Group** | | | | |
| Board members[1] | 691 | 14 | 898 | 13 |
| Presidents and other senior executives | 893 | 19 | 1,034 | 17 |

1 Excluding deputy Board members.

| **Wages, salaries and other remunerations** SEK M | 2012 Board and Presidents[1] | 2012 of which variable salaries | 2012 Other employees | 2011 Board and Presidents[1] | 2011 of which variable salaries | 2011 Other employees |
|---|---|---|---|---|---|---|
| AB Volvo | 24.6 | 5.1 | 270.2 | 31.5 | 9.9 | 199.2 |
| Subsidiaries | 745.3 | 109.2 | 38,406.3 | 770.9 | 175.5 | 36,036.9 |
| **Group total** | **769.9** | **114.3** | **38,676.5** | **802.4** | **185.4** | **36,236.1** |

| **Wages, salaries and other remunerations and social costs** SEK M | 2012 Wages, salaries remun | 2012 Social costs | 2012 Pension costs | 2011 Wages, salaries remun | 2011 Social costs | 2011 Pension costs |
|---|---|---|---|---|---|---|
| AB Volvo[2] | 294.8 | 90.2 | 83.9 | 230.7 | 68.1 | 34.0 |
| Subsidiaries | 39,151.6 | 9,590.0 | 4,041.9 | 36,807.8 | 8,583.5 | 3,437.0 |
| **Group total[3]** | **39,446.4** | **9,680.2** | **4,125.8** | **37,038.5** | **8,651.6** | **3,471.0** |

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 Volvo Group's pension costs, 92,4 (96.8) pertain to Board members and Presidents, including current and former Board members, Presidents and Executive Vice Presidents. The Volvo Group's outstanding pension obligations to these individuals amount to 368.4 (337.7).

The cost for non-monetary benefits in the Volvo Group amounted to 2,100.0 (1,876.8) of which 66.1 (68.8) to Board members and Presidents.

The cost for non-monetary benefits in the Parent Company amounted to 12.8 (9.6) of which 1.7 (1.9) to Board members and Presidents.

## NOTE 28 FEES TO THE AUDITORS

| Fees to the auditors | 2012 | 2011 |
|---|---|---|
| PricewaterhouseCoopers AB | | |
| – Audit fees | 102 | 97 |
| – Audit-related fees | 6 | 4 |
| – Tax advisory services | 17 | 18 |
| – Other fees | 31 | 8 |
| **Total** | **156** | **127** |
| Audit fees to others | 2 | 1 |
| **Volvo Group Total** | **158** | **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: | 2012 | 2011 |
|---|---|---|
| Risk provisions and losses related to doubtful accounts receivable/customer-financing receivables | 764 | 801 |
| Capital gains/losses on the sale of subsidiaries and other business units | (596) | 19 |
| Unrealized exchange rate gains/losses on accounts receivable and payable | 224 | (249) |
| Provision for global profit sharing program | 200 | 550 |
| Fair value commercial derivatives | (316) | 276 |
| R&D tax credit | – | (283) |
| Write-down of assets held for sale | – | 54 |
| Reversal of write-down of assets held for sale | – | (60) |
| Provision for restructuring reserves | 914 | – |
| Other non-cash items | 240 | 154 |
| **Total Other items not affecting cash flow** | **1,430** | **1,262** |

| Acquired and divested shares and participations, net | 2012 | 2011 |
|---|---|---|
| New issue of shares | (6) | (9) |
| Capital contribution | (6) | (15) |
| Acquisitions | (1,212) | (165) |
| Divestments | 39 | 69 |
| Other | (1) | 1 |
| **Total cash flow from acquired and divested shares and participations, net** | **(1,186)** | **(119)** |

During 2012 AB Volvo acquired additional shares in Deutz AG, which had a negativ impact on cash-flow of SEK 1.1 billion.

| Acquired and divested subsidiaries and other business units: | 2012 | 2011 |
|---|---|---|
| Acquired subsidiaries and other business units | (1,527) | (1,528) |
| Divested subsidiaries and other business units | 4,917 | (62) |
| **Total cash flow from acquired and divested subsidiaries and other business units** | **3,390** | **(1,590)** |

**Important increase/decrease in bond loans and other loans**

In 2012, the Volvo Group increased its borrowings as a consequence of a negative operational cash flow and higher 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 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.

Financial assets at fair value through profit and loss

All of the Volvo Group's financial assets that are recognized at fair value through profit and loss are classified as held for trading. This includes derivatives to which Volvo Group 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 these are disclosed 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, the Volvo Group will hereafter consider the application of hedge accounting for these kinds of instruments. The Volvo Group 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 recongnized 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. As from January 1, 2013 there will be a change in the presentation of the income statement regarding financial instruments used for hedging currency risks arising from future commercial cashflows, from operating income to other financial income and expenses.

» **Refer to note 31** Changes in Volvo Group Financial reporting.

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 Group 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 Group'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 Group 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 Group 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 Group'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 2012, 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. The table Changes in other reserves in Note 19, Equity and number of shares disclose 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 Volvo Group's operating income.

During 2012, Volvo Group 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.

In previous years, Volvo Group has applied hedge accounting for certain net investments in foreign operations. The ongoing result of such hedges is recognized as a separate item in other comprehensive income. In the event of a divestment, the accumulated result from the hedge is recognized in profit and loss.

» **Refer to page 143** for supplementary information on hedge accounting and to **Note 4** for information regarding Goals and policies in financial risk management.

**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.

| SEK M | | Dec 31, 2012 Carrying value | Dec 31, 2012 Fair value | Dec 31, 2011 Carrying value | Dec 31, 2011 Fair value |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Financial assets at fair value through profit and loss**[1] | | | | | |
| The Volvo Group's outstanding currency risk derivatives - commercial exposure | Note 16 | 146 | 146 | 107 | 107 |
| The Volvo Group's outstanding raw materials derivatives | Note 16 | 23 | 23 | 68 | 68 |
| The Volvo Group's outstanding interest and currency risk derivatives – financial exposure | Note 16 | 3,525 | 3,525 | 3,215 | 3,215 |
| B/S Marketable securities | Note 18 | 3,130 | 3,130 | 6,862 | 6,862 |
| | | 6,824 | 6,824 | 10,252 | 10,252 |
| **Loans receivable and other receivables** | | | | | |
| B/S Accounts receivable | Note 16 | 27,349 | – | 27,699 | – |
| Customer financing receivables[2] | Note 15 | 80,989 | – | 78,699 | – |
| Other interest-bearing receivables | Note 16 | 1,291 | – | 564 | – |
| | | 109,629 | – | 106,962 | – |
| **Financial assets available for sale**[1] | | | | | |
| Holding of shares in listed companies | Note 5 | 347 | 347 | 635 | 635 |
| Holding of shares in non-listed companies | Note 5 | 498 | – | 555 | – |
| | | 845 | 347 | 1,190 | 635 |
| B/S **Cash and cash equivalents** | Note 18 | 25,759 | 25,759 | 30,379 | 30,379 |
| **Liabilities** | Note 22 | | | | |
| **Financial liabilities at fair value through profit and loss**[1] | | | | | |
| The Volvo Group's commodity derivatives - commercial exposure | | 5 | 5 | 279 | 279 |
| The Volvo Group's outstanding raw materials derivatives | | 84 | 84 | 134 | 134 |
| The Volvo Group's outstanding interest and currency risk derivatives – financial exposure[3] | | 2,827 | 2,827 | 4,341 | 4,323 |
| | | 2,916 | 2,916 | 4,754 | 4,736 |
| **Financial liabilities valued at amortized cost** | | | | | |
| Long term bond loans and other loans | | 79,592 | 85,060 | 84,286 | 90,174 |
| Short term bank loans and other loans | | 50,274 | 49,455 | 43,159 | 41,884 |
| | | 129,866 | 134,515 | 127,445 | 132,058 |
| B/S **Trade Payables** | | 47,364 | – | 56,788 | – |

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.

3 Includes a fair value of a loan related to hedge accounting neg 1,495 (neg 1,285), netted against the derivative used to hedge the risk pos 1,477 (1,267). For further information on hedging of currency and interest rate risks on loans see page 143.

NOTES TO FINANCIAL STATEMENTS

**Derecognition of financial assets**

Volvo Group is involved in cash enhancement activities such as factoring and discounting. Financial assets that have been transferred are included in full or in part in the reported assets of the Volvo Group dependent on the risk and rewards related to the asset have been transferred to the recipient. In accordance 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 the Volvo Group concludes this is not the case, the portion of the financial assets corresponding to the Volvo Group's continuous involvement is recognized. When all the risk and rewards are not considered to be transferred the amount is kept on the balance sheet. Transferred financial asset that does not fulfill the requirements for derecognition amount to SEK 0.3 billion (0.6).

Transferred financial assets for which substantially all risks and rewards have been transferred are derecognized. Continuing involvements in these assets are reflected in the Volvo Group's balance sheet. External credit guarantees relating to these financial assets are recognized to fair value as provisions in the balance sheet and amount to 118.

Volvo Group's maximum exposure to loss is considered being the total recourse relating to the transferred assets, i.e. the total amount Volvo Group would have to pay in case of default of the customers. This risk exposure is considered not to be material for the Volvo Group as it does not exceed SEK 0.3 billion. This is the total exposure for the Volvo Group but the likelihood for all customers being in default at the same time is considered to be immaterial.

See note 24 Contingent Liabilities for information regarding contingent liabilities for credit guarantees.

**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] | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| 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] | 272 | – | – | (91) | – | – |
| **Loans receivable and other receivables** | | | | | | |
| Accounts receivables / trade payables | (125) | – | – | 65 | – | – |
| Customer financing receivables VFS | 23 | 5,037 | – | 68 | 4,862 | – |
| **Financial assets available for sale** | | | | | | |
| Shares and participations for which a market value can be calculated | 15 | – | – | 20 | – | – |
| Shares and participations for which a market value cannot be calculated | 27 | – | – | 25 | – | – |
| **Financial liabilities valued at amortized cost**[4] | – | – | (2,373) | – | – | (2,456) |
| **Effect on operating income** | **212** | **5,037** | **(2,373)** | **87** | **4,862** | **(2,456)** |

| **Reported in net financial items**[5] | | | | | | |
|---|---|---|---|---|---|---|
| **Financial assets and liabilities at fair value through profit and loss** | | | | | | |
| Marketable securities | 154 | – | – | 224 | – | – |
| Interest and currency rate risk contracts- financial exposure[6] | 294 | – | – | (409) | – | – |
| **Loans receivable and other receivables** | – | 3 | – | – | 3 | – |
| Cash and Cash equivalents | – | 390 | – | – | 545 | – |
| **Financial liabilities valued at amortized cost**[6] | (227) | – | (2,464) | 771 | – | (2,642) |
| **Effect on net financial items** | **221** | **393** | **(2,464)** | **586** | **548** | **(2,642)** |

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, neg 1 (569) 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, 117 (191) 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 218 (neg 746) and neg 227 (771) for financial liabilities valued at amortized cost. Refer to Note 9, Other financial income and expenses for further information.

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, 2012 | | Dec 31, 2011 | |
|---|---|---|---|---|
| SEK M | Notional amount | Carrying value | Notional amount | Carrying value |
| Interest-rate swaps | | | | |
| – receivable position | 64,825 | 2,507 | 76,383 | 2,757 |
| – payable position | 74,247 | (1,169) | 68,046 | (2,183) |
| Forwards and futures | | | | |
| – receivable position | – | 10 | 7,155 | – |
| – payable position | 7,470 | (34) | 6,908 | – |
| Foreign exchange derivative contracts | | | | |
| – receivable position | 21,743 | 1,003 | 18,520 | 227 |
| – payable position | 19,224 | (127) | 33,005 | (642) |
| Options purchased | | | | |
| – receivable position | 367 | 5 | 991 | 231 |
| – payable position | 74 | – | 104 | – |
| Options written | | | | |
| – receivable position | – | – | 89 | – |
| – payable position | 130 | (2) | 978 | (231) |
| **Total** | | **2,193** | | **159** |

| **Outstanding forward contracts and options contracts for hedging of currency risk and interest risk of commercial receivables and liabilities** | Dec 31, 2012 | | Dec 31, 2011 | |
|---|---|---|---|---|
| SEK M | Notional amount | Carrying value | Notional amount | Carrying value |
| Foreign exchange derivative contracts | | | | |
| – receivable position | 3,682 | 141 | 2,444 | 54 |
| – payable position | 303 | (4) | 5,145 | (200) |
| Options purchased | | | | |
| – receivable position | 352 | 5 | 3,521 | 53 |
| – payable position | – | – | – | – |
| Options written | | | | |
| – receivable position | – | – | – | – |
| – payable position | 352 | (1) | 3,532 | (79) |
| **Subtotal** | | **141** | | **(172)** |
| Raw materials derivative contracts | | | | |
| – receivable position | (120) | 23 | (227) | 68 |
| – payable position | 467 | (84) | 693 | (134) |
| **Total** | | **80** | | **(238)** |

**Hedge accounting – supplementary information**

*Hedging of forecast electricity consumption*
In 2012, the Volvo Group recognized neg 1 (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 1,697 (1,484). Changes in fair value of the loan related to hedge accounting amounts to negative 1,495 (neg 1,285). The changes in the fair value of the hedge instruments outstanding and the changes in the fair value of the loan are recognized in net financial positions in profit and loss.

*Hedging of net investments in foreign operations*
A total of neg 205 (neg 205) was recognized in other comprehensive income relating to hedging of net investments in foreign operations as of December 31, 2012. The loans used as hedging instruments expired during 2011.

# NOTE 31 | CHANGES IN VOLVO GROUP FINANCIAL REPORTING 2013

As from January 1, 2013 Volvo applies the following accounting standards, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interest in Other Entities amendments in IAS 27 Separate Financial Statements, amendments in IAS 28 Investments in Associates and Joint Ventures and the amendment in IAS 19 Employee Benefits. These standards are applied retrospectively and hence the income statement and balance sheet for 2012 are adjusted to reflect the changes in these new and amended accounting standards. IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosures of Interest in Other Entities and the amendments in IAS 27 Separate Financial Statements, see note 1, will not have a material effect on the Volvo Group and are not included in the restated numbers for 2012.

*Restatement Joint ventures*

IFRS 11 replaces IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures. A joint operation is a joint arrangement whereby the parties to the arrangement have rights to the assets, and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties to the arrangement have rights to the net assets of the arrangement. Volvo Group's joint arrangements are classified as joint ventures. Volvo Group has previously accounted for joint ventures using the proportional method and consolidated the assignable part item by item in the income statement and balance sheet.

Under IFRS 11, the option of proportional consolidation of joint ventures included in IAS 31 has been removed, and joint ventures shall be accounted for using the equity method in accordance with IAS 28. Investments in Associates and Joint Ventures (revised 2011). Assets and liabilities relating to the joint ventures are derecognized and a carrying amount corresponding to the net assets derecognized and including goodwill is recognized in the balance sheet, impairment test has been performed in accordance with the transition rules in IFRS 11. In accordance with the equity method, Volvo Group's share of the joint venture's profit or loss will be recognized as a one line item in the income statement, i.e. "Income from investments in joint ventures and associates". The corresponding amount will be recognized in the balance sheet as "Investment in joint ventures and associates".

» **Read more** about Volvo Group's Joint Ventures in **Note 5**.

*Restatement Employee benefits*

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

The amended standard removes the option to use the corridor method which is used by the Volvo Group up to and including the financial year 2012. According to the revised IAS 19, discount rate is used when calculating the net interest income or expense on the net defined benefit liability (asset), hence the expected return is no longer used. All changes in the net defined liability or asset is recognized when they occur. Service cost and net interest is recognized in profit and loss, while remeasurements such as actuarial gains and losses is recognized in other comprehensive income. Special payroll tax is recognized as pension liability, special payroll tax is applicable for Sweden and Belgium. Amortization of actuarial gains and losses will cease with the removal of the corridor method.

» **Read more** about provision for post-employment benefit in **Note 20**.

*Restatement hedging of firm flows*

As from January 1, 2013 there will be a change of the presentation in the income statement of financial instruments related to hedging of commercial flows, from Operating income to Other financial income and expenses. Financial instruments related to hedging of commercial flows will be presented in Other financial income and expenses to be able to enhance the possibility to net all internal flows before entering into external hedging contracts.

» **Read more** about hedging of firm flows **Note 30**.

Below you will find the effect from the restatements on net sales, operating income and operating margin divíded by segment and quarter. Further is a presentation on the opening balance sheet, income statement and balance sheet per quarter, full year income statement and net financial position at December 31, 2012.

*Segment reporting*

| Net sales | Quarter 1/2012 | | | Quarter 2/2012 | | | Quarter 3/2012 | | | Quarter 4/2012 | | | **Year 2012** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK M | Previously reported | Restatement | **After restatement** | Previously reported | Restatement | **After restatement** | Previously reported | Restatement | **After restatement** | Previously reported | Restatement | **After restatement** | Previously reported | Restatement | **After restatement** |
| Trucks | 48,911 | (897) | 48,014 | 51,331 | (813) | 50,518 | 44,309 | (675) | 43,634 | 47,732 | (742) | 46,990 | 192,283 | (3,127) | 189,156 |
| Construction Equipment | 17,999 | – | 17,999 | 19,715 | – | 19,715 | 13,272 | – | 13,272 | 12,572 | – | 12,572 | 63,558 | – | 63,558 |
| Buses | 5,224 | (138) | 5,086 | 5,189 | (149) | 5,040 | 4,256 | (180) | 4,076 | 5,626 | (242) | 5,384 | 20,295 | (705) | 19,590 |
| Volvo Penta | 1,933 | – | 1,933 | 2,224 | – | 2,224 | 1,720 | – | 1,720 | 1,754 | – | 1,754 | 7,631 | – | 7,631 |
| Volvo Aero | 1,682 | – | 1,682 | 1,945 | – | 1,945 | 1,592 | – | 1,592 | – | – | – | 5,219 | – | 5,219 |
| Group functions and other including eliminations | 1,284 | 1 | 1,285 | 1,535 | 1 | 1,536 | 1,994 | 1 | 1,995 | 2,232 | 1 | 2,233 | 7,045 | 3 | 7,048 |
| **Industrial operations** | **77,034** | **(1,035)** | **75,999** | **81,938** | **(961)** | **80,977** | **67,143** | **(854)** | **66,289** | **69,916** | **(982)** | **68,934** | **296,031** | **(3,832)** | **292,199** |
| Customer Finance | 2,367 | – | 2,367 | 2,487 | – | 2,487 | 2,422 | – | 2,422 | 2,507 | – | 2,507 | 9,783 | – | 9,783 |
| Eliminations | (563) | – | (563) | (522) | – | (522) | (452) | – | (452) | (630) | – | (630) | (2,167) | – | (2,167) |
| **Volvo Group** | **78,838** | **(1,035)** | **77,803** | **83,904** | **(961)** | **82,943** | **69,111** | **(854)** | **68,256** | **71,793** | **(982)** | **70,811** | **303,647** | **(3,832)** | **299,814** |

| Operating income | Quarter 1/2012 | | | Quarter 2/2012 | | | Quarter 3/2012 | | | Quarter 4/2012 | | | **Year 2012** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK M | Previously reported | Restatement | **After restatement** | Previously reported | Restatement | **After restatement** | Previously reported | Restatement | **After restatement** | Previously reported | Restatement | **After restatement** | Previously reported | Restatement | **After restatement** |
| Trucks | 3,521 | 156 | 3,677 | 4,120 | 164 | 4,284 | 1,695 | 120 | 1,815 | 880 | 122 | 1,002 | 10,216 | 563 | 10,779 |
| Construction Equipment | 2,131 | (42) | 2,089 | 2,629 | 113 | 2,742 | 650 | (48) | 602 | 363 | (128) | 235 | 5,773 | (106) | 5,667 |
| Buses | 62 | (16) | 46 | 176 | 12 | 188 | (58) | (6) | (64) | (129) | (3) | (132) | 51 | (14) | 37 |
| Volvo Penta | 112 | 2 | 114 | 268 | 11 | 279 | 147 | (3) | 144 | 14 | (1) | 13 | 541 | 8 | 549 |
| Volvo Aero | 235 | (2) | 233 | 305 | 10 | 315 | 227 | 1 | 228 | – | – | – | 767 | 8 | 775 |
| Group functions and other | (157) | (98) | (255) | (549) | 63 | (486) | (116) | (70) | (186) | (396) | 89 | (307) | (1,217) | (17) | (1,235) |
| **Industrial operations** | **5,906** | **0** | **5,906** | **6,949** | **373** | **7,322** | **2,544** | **(8)** | **2,536** | **731** | **78** | **809** | **16,130** | **443** | **16,573** |
| Customer Finance | 333 | 1 | 334 | 386 | 1 | 387 | 383 | 1 | 384 | 390 | 1 | 391 | 1,492 | 4 | 1,496 |
| **Volvo Group** | **6,239** | **1** | **6,240** | **7,335** | **374** | **7,709** | **2,927** | **(7)** | **2,920** | **1,121** | **79** | **1,200** | **17,622** | **447** | **18,069** |

NOTES TO FINANCIAL STATEMENTS

| Operating margin | Quarter 1/2012 | | Quarter 2/2012 | | Quarter 3/2012 | | Quarter 4/2012 | | Year 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|
| % | Previously reported | After restate-ment | Previously reported | After restate-ment | Previously reported | After restate-ment | Previously reported | After restate-ment | Previously reported | After restate-ment |
| Trucks | 7.2 | 7.7 | 8.0 | 8.5 | 3.8 | 4.2 | 1.8 | 2.1 | 5.3 | 5.7 |
| Construction Equipment | 11.8 | 11.6 | 13.3 | 13.9 | 4.9 | 4.5 | 2.9 | 1.9 | 9.1 | 8.9 |
| Buses | 1.2 | 0.9 | 3.4 | 3.7 | (1.4) | (1.6) | (2.3) | (2.5) | 0.3 | 0.2 |
| Volvo Penta | 5.8 | 5.9 | 12.1 | 12.5 | 8.5 | 8.4 | 0.8 | 0.7 | 7.1 | 7.2 |
| Volvo Aero | 14.0 | 13.9 | 15.7 | 16.2 | 14.3 | 14.3 | – | – | 14.7 | 14.9 |
| **Industrial Operations** | **7.7** | **7.8** | **8.5** | **9.0** | **3.8** | **3.8** | **1.0** | **1.2** | **5.4** | **5.7** |
| **Volvo Group** | **7.9** | **8.0** | **8.7** | **9.3** | **4.2** | **4.3** | **1.6** | **1.7** | **5.8** | **6.0** |

## *Balance sheets, January 1, 2012*

| Balance sheets<br>SEK M | Volvo Group<br>Previously reported as of Jan 1, 2012 | Restatement Joint Ventures | After restatement Joint Ventures | Restatement post-employment benefits | After post-employment benefit restatement |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 39,507 | (1,729) | 37,778 | – | 37,778 |
| *Tangible assets* | | | | | |
| Property, plant and equipment | 54,540 | (636) | 53,904 | – | 53,904 |
| Assets under operating leases | 23,922 | – | 23,922 | – | 23,922 |
| *Financial assets* | | | | | |
| Investments in Joint Venturs and associated companies | 684 | 2,612 | 3,296 | – | 3,296 |
| Other shares and participations | 1,190 | 419 | 1,609 | – | 1,609 |
| Non-current customer-financing receivables | 40,618 | – | 40,618 | – | 40,618 |
| Deferred tax assets | 12,838 | (19) | 12,819 | 3,980 | 16,799 |
| Prepaid pensions | 2,277 | – | 2,277 | (2,277) | 0 |
| Non-current interest-bearing receivables | 694 | (51) | 643 | – | 643 |
| Other non-current receivables | 4,315 | (11) | 4,304 | – | 4,304 |
| **Total non-current assets** | **180,585** | **585** | **181,170** | **1,703** | **182,873** |
| **Current assets** | | | | | |
| Inventories | 44,599 | (363) | 44,236 | – | 44,236 |
| *Current receivables* | | | | | |
| Customer-financing receivables | 38,081 | – | 38,081 | – | 38,081 |
| Tax assets | 1,200 | (180) | 1,020 | – | 1,020 |
| Interest-bearing receivables | 667 | – | 667 | – | 667 |
| Internal funding | 0 | – | 0 | – | 0 |
| Accounts receivable | 27,699 | (768) | 26,931 | – | 26,931 |
| Other receivables | 13,825 | (114) | 13,711 | – | 13,711 |
| Non interest-bearing assets held for sale | 9,344 | – | 9,344 | 117 | 9,461 |
| Interest-bearing assets held for sale | 4 | – | 4 | – | 4 |
| Marketable securities | 6,862 | – | 6,862 | – | 6,862 |
| Cash and cash equivalents | 30,379 | (822) | 29,557 | – | 29,557 |
| **Total current assets** | **172,659** | **(2,248)** | **170,411** | **117** | **170,528** |
| **Total assets** | **353,244** | **(1,663)** | **351,581** | **1,820** | **353,401** |
| **Shareholders' equity and liabilities** | | | | | |
| Equity attributable to the equity holders of the parent company | 84,581 | (5) | 84,576 | (8,821) | 75,755 |
| Minority interests | 1,100 | – | 1,100 | – | 1,100 |
| **Total shareholders' equity** | **85,681** | **(5)** | **85,676** | **(8,821)** | **76,855** |
| *Non-current provisions* | | | | | |
| Provisions for post-employment benefits | 6,665 | (10) | 6,655 | 10,078 | 16,733 |
| Provisions for deferred taxes | 5,636 | (175) | 5,461 | – | 5,461 |
| Other provisions | 5,648 | (89) | 5,559 | – | 5,559 |
| *Non-current liabilities* | | | | | |
| Bond loans | 38,192 | – | 38,192 | – | 38,192 |
| Other loans | 47,765 | (5) | 47,760 | – | 47,760 |
| Other liabilities | 10,447 | (1) | 10,446 | – | 10,446 |
| Current provisions | 9,531 | – | 9,531 | – | 9,531 |
| *Current liabilities* | | | | | |
| Loans | 44,522 | (236) | 44,286 | – | 44,286 |
| Non interest-bearing liabilities held for sale | 4,710 | – | 4,710 | – | 4,710 |
| Interest-bearing liabilities held for sale | 6 | – | 6 | 532 | 538 |
| Trade payables | 56,788 | (688) | 56,100 | – | 56,100 |
| Tax liabilities | 2,391 | – | 2,391 | – | 2,391 |
| Other liabilities | 35,262 | (453) | 34,809 | 31 | 34,840 |
| **Total shareholders' equity and liabilities** | **353,244** | **(1,663)** | **351,581** | **1,820** | **353,401** |

NOTES TO FINANCIAL STATEMENTS

### *Quarter 1, 2012*

| **Income statement**<br>Quarter 1, 2012<br>SEK M | Volvo Group<br>**Previously reported 2012** | Restatement Joint ventures | **After Joint venture restatement** | Restatement post-employment benefits | **After post-employment benefit restatement** | Restatement hedging of firm flows | **After restatements** |
|---|---|---|---|---|---|---|---|
| **Net sales** | **78,838** | **(1,035)** | **77,803** | **–** | **77,803** | **–** | **77,803** |
| Cost of sales | (60,335) | 860 | (59,475) | 103 | (59,372) | (156) | (59,528) |
| **Gross income** | **18,503** | **(175)** | **18,328** | **103** | **18,431** | **(156)** | **18,275** |
| Research and development expenses | (3,708) | 18 | (3,690) | 20 | (3,670) | – | (3,670) |
| Selling expenses | (6,899) | 39 | (6,860) | 44 | (6,816) | – | (6,816) |
| Administrative expenses | (1,241) | 25 | (1,216) | 4 | (1,212) | – | (1,212) |
| Other operating income and expenses | (423) | 18 | (405) | 1 | (404) | – | (404) |
| Income from investments in Joint Ventures and associated companies | 8 | 54 | 62 | – | 62 | – | 62 |
| Income from other investments | 0 | 6 | 6 | – | 6 | – | 6 |
| **Operating income** | **6,239** | **(15)** | **6,224** | **172** | **6,396** | **(156)** | **6,240** |
| Interest income and similar credits | 142 | (17) | 125 | – | 125 | – | 125 |
| Interest expenses and similar charges | (695) | 3 | (692) | (123) | (815) | – | (815) |
| Other financial income and expenses | (84) | 0 | (84) | – | (84) | 156 | 72 |
| **Income after financial items** | **5,602** | **(29)** | **5,573** | **49** | **5,622** | **0** | **5,622** |
| Income taxes | (1,510) | 29 | (1,481) | (16) | (1,497) | – | (1,497) |
| **Income for the period** | **4,092** | **0** | **4,092** | **33** | **4,125** | **0** | **4,125** |

| **Consolidated other comprehensive income** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Income for the period** | 4,092 | 0 | 4,092 | 33 | 4,125 | 0 | 4,125 |
| Exchange differences on translation of foreign operations | (1,373) | 15 | (1,358) | 111 | (1,247) | – | (1,247) |
| Share of OCI related to Joint Ventures and associated companies | – | (15) | (15) | – | (15) | – | (15) |
| Exchange differences on hedge instruments of net investment in foreign operations | 0 | – | 0 | – | 0 | – | 0 |
| Accumulated translation difference reversed to income | (66) | – | (66) | – | (66) | – | (66) |
| Available for sale investments | 91 | 149 | 240 | – | 240 | – | 240 |
| Cash flow hedges | (7) | – | (7) | – | (7) | – | (7) |
| Remeasurements of defined benefit plan | – | – | – | 1,070 | 1,070 | – | 1,070 |
| **Other comprehensive income, net of income taxes** | **(1,355)** | **149** | **(1,206)** | **1,181** | **(25)** | **–** | **(25)** |
| **Total comprehensive income for the period*** | **2,737** | **149** | **2,885** | **1,214** | **4,099** | **–** | **4,099** |
| * Attributable to | | | | | | | |
| Equity holders of the parent company | 2,702 | – | – | – | – | – | 4,064 |
| Minority interests | 35 | – | – | – | – | – | 35 |
| | 2,737 | – | – | – | – | – | 4,099 |

**Balance sheets**
March 31, 2012

| SEK M | Previously reported 2012 | Restatement Joint ventures | After Joint venture restatement | Restatement post-employment benefits | After post-employment benefit restatement | Restatement hedging of firm flows | After restatements |
|---|---|---|---|---|---|---|---|
| | Volvo Group | | | | | | |
| **Assets** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Intangible assets | 38,768 | (1,755) | 37,013 | – | 37,013 | – | 37,013 |
| *Tangible assets* | | | | | | | |
| Property, plant and equipment | 53,160 | (655) | 52,505 | – | 52,505 | – | 52,505 |
| Assets under operating leases | 24,175 | – | 24,175 | – | 24,175 | – | 24,175 |
| *Financial assets* | | | | | | | |
| Investments in Joint Ventures | 688 | 2,603 | 3,291 | – | 3,291 | – | 3,291 |
| Other shares and participations | 1,266 | 577 | 1,843 | – | 1,843 | – | 1,843 |
| Non-current customer-financing receivables | 41,482 | – | 41,482 | – | 41,482 | – | 41,482 |
| Deferred tax assets | 12,509 | – | 12,509 | 3,492 | 16,001 | – | 16,001 |
| Prepaid pensions | 2,196 | – | 2,196 | (2,196) | 0 | – | 0 |
| Non-current interest-bearing receivables | 620 | – | 620 | – | 620 | – | 620 |
| Other non-current receivables | 4,469 | (175) | 4,294 | – | 4,294 | – | 4,294 |
| **Total non-current assets** | **179,333** | **595** | **179,928** | **1,296** | **181,224** | **-** | **181,224** |
| **Current assets** | | | | | | | |
| Inventories | 47,129 | (392) | 46,737 | – | 46,737 | – | 46,737 |
| *Current receivables* | | | | | | | |
| Customer-financing receivables | 38,474 | – | 38,474 | – | 38,474 | – | 38,474 |
| Tax assets | 1,488 | (182) | 1,306 | – | 1,306 | – | 1,306 |
| Interest-bearing receivables | 1,469 | – | 1,469 | – | 1,469 | – | 1,469 |
| Internal funding | 0 | – | 0 | – | 0 | – | 0 |
| Accounts receivable | 30,623 | (755) | 29,868 | – | 29,868 | – | 29,868 |
| Other receivables | 14,793 | (92) | 14,701 | – | 14,701 | – | 14,701 |
| Non interest-bearing assets held for sale | 9,124 | – | 9,124 | 117 | 9,241 | – | 9,241 |
| Interest-bearing assets held for sale | 8 | – | 8 | – | 8 | – | 8 |
| Marketable securities | 9,140 | – | 9,140 | – | 9,140 | – | 9,140 |
| Cash and cash equivalents | 27,971 | (830) | 27,141 | – | 27,141 | – | 27,141 |
| **Total current assets** | **180,219** | **(2,251)** | **177,968** | **117** | **178,085** | **-** | **178,085** |
| **Total assets** | **359,552** | **(1,656)** | **357,896** | **1,413** | **359,309** | **-** | **359,309** |
| **Shareholders' equity and liabilities** | | | | | | | |
| Equity attributable to the equity holder of the Parent Company | 87,295 | 143 | 87,438 | (7,607) | 79,831 | – | 79,831 |
| Minority interests | 1,135 | – | 1,135 | – | 1,135 | – | 1,135 |
| **Total shareholders' equity** | **88,430** | **143** | **88,573** | **(7,607)** | **80,966** | **-** | **80,966** |
| *Non-current provisions* | | | | | | | |
| Provisions for post-employment benefits | 6,580 | (10) | 6,570 | 8,457 | 15,027 | – | 15,027 |
| Provisions for deferred taxes | 5,491 | (173) | 5,318 | – | 5,318 | – | 5,318 |
| Other provisions | 5,592 | (81) | 5,511 | – | 5,511 | – | 5,511 |
| *Non-current liabilities* | | | | | | | |
| Bond loans | 37,695 | – | 37,695 | – | 37,695 | – | 37,695 |
| Other loans | 49,577 | (4) | 49,573 | – | 49,573 | – | 49,573 |
| Other liabilities | 10,734 | (1) | 10,733 | – | 10,733 | – | 10,733 |
| Current provisions | 9,783 | 0 | 9,783 | – | 9,783 | – | 9,783 |
| *Current liabilities* | | | | | | | |
| Loans | 48,286 | – | 48,286 | – | 48,286 | – | 48,286 |
| Non interest-bearing liabilities held for sale | 4,246 | – | 4,246 | – | 4,246 | – | 4,246 |
| Interest-bearing liabilities held for sale | 3 | – | 3 | 532 | 535 | – | 535 |
| Trade payables | 56,496 | (815) | 55,681 | – | 55,681 | – | 55,681 |
| Tax liabilities | 2,184 | 0 | 2,184 | – | 2,184 | – | 2,184 |
| Other liabilities | 34,455 | (714) | 33,741 | 31 | 33,772 | – | 33,772 |
| **Total shareholders' equity and liabilities** | **359,552** | **(1,656)** | **357,896** | **1,413** | **359,309** | **-** | **359,309** |

NOTES TO FINANCIAL STATEMENTS

*Quarter 2, 2012*

| **Income statement** Quarter 2, 2012 | Volvo Group | | | | | | |
|---|---|---|---|---|---|---|---|
| SEK M | **Previously reported 2012** | Restatement joint ventures | **After joint venture restatement** | Restatement post-employment benefits | **After post-employment benefit restatement** | Restatement hedging of firm flows | **After restatements** |
| **Net sales** | **83,904** | **(961)** | **82,943** | **-** | **82,943** | **-** | **82,943** |
| Cost of sales | (63,566) | 831 | (62,735) | 103 | (62,632) | 207 | (62,425) |
| **Gross income** | **20,338** | **(130)** | **20,208** | **103** | **20,311** | **207** | **20,518** |
| Research and development expenses | (3,923) | 21 | (3,902) | 20 | (3,882) | – | (3,882) |
| Selling expenses | (7,283) | 44 | (7,239) | 44 | (7,195) | – | (7,195) |
| Administrative expenses | (1,518) | 19 | (1,499) | 4 | (1,495) | – | (1,495) |
| Other operating income and expenses | (248) | 16 | (232) | 1 | (231) | – | (231) |
| Income from investments in Joint Ventures and associated companies | (7) | 24 | 17 | – | 17 | – | 17 |
| Income from other investments | (26) | 1 | (25) | – | (25) | – | (25) |
| **Operating income** | **7,335** | **(5)** | **7,330** | **172** | **7,502** | **207** | **7,709** |
| Interest income and similar credits | 51 | (16) | 35 | – | 35 | – | 35 |
| Interest expenses and similar charges | (586) | 6 | (580) | (123) | (703) | – | (703) |
| Other financial income and expenses | (36) | (1) | (37) | – | (37) | (207) | (244) |
| **Income after financial items** | **6,764** | **(17)** | **6,747** | **49** | **6,796** | **0** | **6,796** |
| Income taxes | (1,820) | 13 | (1,807) | (16) | (1,823) | – | (1,823) |
| **Income for the period** | **4,943** | **(4)** | **4,939** | **33** | **4,972** | **0** | **4,972** |

| **Consolidated other comprehensive income** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Income for the period** | 4,943 | (4) | 4.939 | 33 | 4,972 | 0 | 4,972 |
| Exchange differences on translation of foreign operations | 159 | 97 | 256 | (13) | 243 | – | 243 |
| Share of OCI related to Joint Ventures and associated companies | - | (87) | (87) | – | (87) | | (87) |
| Exchange differences on hedge instruments of net investment in foreign operations | 0 | – | 0 | – | 0 | – | 0 |
| Accumulated translation difference reversed to income | 0 | – | 0 | – | 0 | – | 0 |
| Available for sale investments | (90) | (36) | (126) | – | (126) | – | (126) |
| Cash flow hedges | 8 | – | 8 | – | 8 | – | 8 |
| Remeasurements of defined benefit plan | – | – | – | (1,682) | (1,682) | – | (1,682) |
| **Other comprehensive income, net of income taxes** | **77** | **(27)** | **50** | **(1,695)** | **(1,645)** | **-** | **(1,645)** |
| **Total comprehensive income for the period*** | **5,020** | **(30)** | **4,990** | **(1,662)** | **3,328** | **-** | **3,328** |
| * Attributable to | | | | | | | |
| Equity holders of the parent company | 4,894 | – | – | – | – | – | 3,202 |
| Minority interests | 126 | – | – | – | – | – | 126 |
| | 5,020 | – | – | – | – | – | 3,328 |

| **Balance sheets**<br>June 30, 2012 | Volvo Group | | | | | | |
|---|---|---|---|---|---|---|---|
| SEK M | **Previously reported 2012** | Restatement joint ventures | **After joint venture restatement** | Restatement post-employment benefits | **After post-employment benefit restatement** | Restatement hedging of firm flows | **After restatements** |
| **Assets** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Intangible assets | 40,440 | (1,677) | 38,763 | – | 38,763 | – | 38,763 |
| *Tangible assets* | | | | | | | |
| Property, plant and equipment | 54,851 | (736) | 54,115 | – | 54,115 | – | 54,115 |
| Assets under operating leases | 26,354 | – | 26,354 | – | 26,354 | – | 26,354 |
| *Financial assets* | | | | | | | |
| Investments in Joint Ventures and associated companies | 679 | 2,531 | 3,210 | – | 3,210 | – | 3,210 |
| Other shares and participations | 1,173 | 540 | 1,713 | – | 1,713 | – | 1,713 |
| Non-current customer-financing receivables | 39,348 | – | 39,348 | – | 39,348 | – | 39,348 |
| Deferred tax assets | 13,672 | – | 13,672 | 4,246 | 17,918 | – | 17,918 |
| Prepaid pensions | 2,699 | – | 2,699 | (2,699) | 0 | – | 0 |
| Non-current interest-bearing receivables | 584 | – | 584 | – | 584 | – | 584 |
| Other non-current receivables | 4,654 | (180) | 4,474 | – | 4,474 | – | 4,474 |
| **Total non-current assets** | **184,454** | **478** | **184,932** | **1,547** | **186,479** | **-** | **186,479** |
| **Current assets** | | | | | | | |
| Inventories | 47,941 | (467) | 47,474 | – | 47,474 | – | 47,474 |
| *Current receivables* | | | | | | | |
| Customer-financing receivables | 43,843 | – | 43,843 | – | 43,843 | – | 43,843 |
| Tax assets | 1,187 | (175) | 1,012 | – | 1,012 | – | 1,012 |
| Interest-bearing receivables | 1,404 | – | 1,404 | – | 1,404 | – | 1,404 |
| Internal funding | 0 | – | 0 | – | 0 | – | 0 |
| Accounts receivable | 31,257 | (785) | 30,472 | – | 30,472 | – | 30,472 |
| Other receivables | 15,515 | (115) | 15,400 | – | 15,400 | – | 15,400 |
| Non interest-bearing assets held for sale | 9,468 | – | 9,468 | 117 | 9,585 | – | 9,585 |
| Interest-bearing assets held for sale | 2 | – | 2 | – | 2 | – | 2 |
| Marketable securities | 5,023 | – | 5,023 | – | 5,023 | – | 5,023 |
| Cash and cash equivalents | 26,068 | (585) | 25,483 | – | 25,483 | – | 25,483 |
| **Total current assets** | **181,708** | **(2,127)** | **179,581** | **117** | **179,698** | **-** | **179,698** |
| **Total assets** | **366,162** | **(1,650)** | **364,512** | **1,664** | **366,176** | **-** | **366,176** |
| **Shareholders' equity and liabilities** | | | | | | | |
| Equity attributable to the equity holder of the Parent Company | 86,120 | 104 | 86,224 | (9,269) | 76,955 | – | 76,955 |
| Minority interests | 1,262 | – | 1,262 | – | 1,262 | – | 1,262 |
| **Total shareholders' equity** | **87,382** | **104** | **87,486** | **(9,269)** | **78,217** | **-** | **78,217** |
| *Non-current provisions* | | | | | | | |
| Provisions for post-employment benefits | 7,012 | (13) | 6,999 | 10,370 | 17,369 | – | 17,369 |
| Provisions for deferred taxes | 6,515 | (162) | 6,353 | – | 6,353 | – | 6,353 |
| Other provisions | 5,598 | (71) | 5,527 | – | 5,527 | – | 5,527 |
| *Non-current liabilities* | | | | | | | |
| Bond loans | 37,089 | – | 37,089 | – | 37,089 | – | 37,089 |
| Other loans | 47,710 | (4) | 47,706 | – | 47,706 | – | 47,706 |
| Other liabilities | 11,182 | – | 11,182 | – | 11,182 | – | 11,182 |
| Current provisions | 10,556 | – | 10,556 | – | 10,556 | – | 10,556 |
| *Current liabilities* | | | | | | | |
| Loans | 54,076 | – | 54,076 | – | 54,076 | – | 54,076 |
| Non interest-bearing liabilities held for sale | 4,466 | – | 4,466 | – | 4,466 | – | 4,466 |
| Interest-bearing liabilities held for sale | 39 | – | 39 | 532 | 571 | – | 571 |
| Trade payables | 56,092 | (698) | 55,394 | – | 55,394 | – | 55,394 |
| Tax liabilities | 2,115 | (179) | 1,936 | – | 1,936 | – | 1,936 |
| Other liabilities | 36,330 | (625) | 35,705 | 31 | 35,736 | – | 35,736 |
| **Total shareholders' equity and liabilities** | **366,162** | **(1,650)** | **364,512** | **1,664** | **366,176** | **-** | **366,176** |

NOTES TO FINANCIAL STATEMENTS

### *Quarter 3, 2012*

| **Income statement** Quarter 3, 2012 | Volvo Group | | | | | | |
|---|---|---|---|---|---|---|---|
| SEK M | **Previously reported 2012** | Restatement joint ventures | **After joint venture restatement** | Restatement post-employment benefits | **After post-employment benefit restatement** | Restatement hedging of firm flows | **After restatements** |
| **Net sales** | **69,111** | **(855)** | **68,256** | **–** | **68,256** | **–** | **68,256** |
| Cost of sales | (54,136) | 743 | (53,393) | 103 | (53,290) | (178) | (53,468) |
| **Gross income** | **14,975** | **(112)** | **14,863** | **103** | **14,966** | **(178)** | **14,788** |
| Research and development expenses | (3,316) | 19 | (3,297) | 19 | (3,278) | – | (3,278) |
| Selling expenses | (6,608) | 46 | (6,562) | 43 | (6,519) | – | (6,519) |
| Administrative expenses | (1,336) | 21 | (1,315) | 5 | (1,310) | – | (1,310) |
| Other operating income and expenses | (803) | 15 | (788) | 1 | (787) | – | (787) |
| Income from investments in Joint Ventures and associated companies | (7) | 12 | 5 | – | 5 | – | 5 |
| Income from other investments | 23 | (2) | 21 | – | 21 | – | 21 |
| **Operating income** | **2,927** | **0** | **2,927** | **171** | **3,098** | **(178)** | **2,920** |
| Interest income and similar credits | 22 | (13) | 9 | – | 9 | – | 9 |
| Interest expenses and similar charges | (487) | 5 | (482) | (123) | (605) | – | (605) |
| Other financial income and expenses | (133) | 0 | (133) | – | (133) | 178 | 45 |
| **Income after financial items** | **2,329** | **(7)** | **2,322** | **48** | **2,370** | **0** | **2,370** |
| Income taxes | (947) | 5 | (942) | (16) | (958) | – | (958) |
| **Income for the period** | **1,382** | **(2)** | **1,380** | **32** | **1,412** | **0** | **1,412** |

| **Consolidated other comprehensive income** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Income for the period** | 1,382 | (2) | 1,380 | 32 | 1,412 | 0 | 1,412 |
| Exchange differences on translation of foreign operations | (2,774) | 4 | (2,778) | 221 | (2,549) | – | (2,549) |
| Share of OCI related to Joint Ventrues and associated companies | – | (5) | (5) | – | (5) | – | (5) |
| Exchange differences on hedge instruments of net investment in foreign operations | 0 | – | 0 | – | 0 | – | 0 |
| Accumulated translation difference reversed to income | 0 | – | 0 | – | 0 | – | 0 |
| Available for sale investments | (37) | 101 | 64 | – | 64 | – | 64 |
| Remeasurements of defined benefit plan | (3) | – | (3) | – | (3) | – | (3) |
| Cash flow hedges | – | – | – | (2,418) | (2,418) | – | (2,418) |
| **Other comprehensive income, net of income taxes** | **(2,814)** | **100** | **(2,714)** | **(2,197)** | **(4,911)** | **0** | **(4,911)** |
| **Total comprehensive income for the period*** | **(1,432)** | **98** | **(1,334)** | **(2,165)** | **(3,499)** | **0** | **(3,499)** |
| * Attributable to | | | | | | | |
| Equity holders of the parent company | (1,410) | – | – | – | – | – | (3,477) |
| Minority interests | (22) | – | – | – | – | – | (22) |
| | (1,432) | – | – | – | – | – | (3,499) |

| **Balance sheets**<br>September 30, 2012<br><br>SEK M | Volvo Group<br>**Previously reported 2012** | Restatement joint ventures | **After joint venture restatement** | Restatement post-employment benefits | **After post-employment benefit restatement** | Restatement hedging of firm flows | **After restatements** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Intangible assets | 39,908 | (1,713) | 38,195 | – | 38,195 | – | 38,195 |
| *Tangible assets* | | | | | | | |
| Property, plant and equipment | 54,277 | (789) | 53,488 | – | 53,488 | – | 53,488 |
| Assets under operating leases | 26,516 | – | 26,516 | – | 26,516 | – | 26,516 |
| *Financial assets* | | | | | | | |
| Investments in Joint Ventures and associated companies | 2,020 | 2,539 | 4,559 | – | 4,559 | – | 4,559 |
| Other shares and participations | 899 | 641 | 1,540 | – | 1,540 | – | 1,540 |
| Non-current customer-financing receivables | 39,082 | – | 39,082 | – | 39,082 | – | 39,082 |
| Deferred tax assets | 11,739 | – | 11,739 | 5,103 | 16,842 | – | 16,842 |
| Prepaid pensions | 2,699 | – | 2,699 | (2,699) | 0 | – | 0 |
| Non-current interest-bearing receivables | 667 | – | 667 | – | 667 | – | 667 |
| Other non-current receivables | 4,650 | (185) | 4,465 | – | 4,465 | – | 4,465 |
| **Total non-current assets** | **182,457** | **493** | **182,950** | **2,404** | **185,354** | **-** | **185,354** |
| **Current assets** | | | | | | | |
| Inventories | 45,585 | (426) | 45,159 | – | 45,159 | – | 45,159 |
| *Current receivables* | | | | | | | |
| Customer-financing receivables | 40,804 | – | 40,804 | – | 40,804 | – | 40,804 |
| Tax assets | 1,180 | (193) | 987 | – | 987 | – | 987 |
| Interest-bearing receivables | 1,671 | – | 1,671 | – | 1,671 | – | 1,671 |
| Internal funding | 0 | – | 0 | – | 0 | – | 0 |
| Accounts receivable | 28,427 | (834) | 27,593 | – | 27,593 | – | 27,593 |
| Other receivables | 14,646 | (129) | 14,517 | – | 14,517 | – | 14,517 |
| Non interest-bearing assets held for sale | 9,847 | – | 9,847 | 117 | 9,964 | – | 9,964 |
| Interest-bearing assets held for sale | 0 | – | 0 | – | 0 | – | 0 |
| Marketable securities | 1,122 | – | 1,122 | – | 1,122 | – | 1,122 |
| Cash and cash equivalents | 21,782 | (452) | 21,330 | – | 21,330 | – | 21,330 |
| **Total current assets** | **165,064** | **(2,033)** | **163,031** | **117** | **163,148** | **-** | **163,148** |
| **Total assets** | **347,521** | **(1,540)** | **345,981** | **2,521** | **348,502** | **-** | **348,502** |
| **Shareholders' equity and liabilities** | | | | | | | |
| Equity attributable to the equity holder of the Parent Company | 84,757 | 202 | 84,959 | (11,435) | 73,524 | – | 73,524 |
| Minority interests | 1,213 | – | 1,213 | – | 1,213 | – | 1,213 |
| **Total shareholders' equity** | **85,970** | **202** | **86,172** | **(11,435)** | **74,737** | **-** | **74,737** |
| *Non-current provisions* | | | | | | | |
| Provisions for post-employment benefits | 6,832 | (17) | 6,815 | 13,393 | 20,208 | – | 20,208 |
| Provisions for deferred taxes | 5,573 | (161) | 5,412 | – | 5,412 | – | 5,412 |
| Other provisions | 5,557 | (74) | 5,483 | – | 5,483 | – | 5,483 |
| *Non-current liabilities* | | | | | | | |
| Bond loans | 35,441 | – | 35,441 | – | 35,441 | – | 35,441 |
| Other loans | 40,362 | (5) | 40,357 | – | 40,357 | – | 40,357 |
| Other liabilities | 11,226 | – | 11,226 | 31 | 11,257 | – | 11,257 |
| Current provisions | 10,741 | – | 10,741 | – | 10,741 | – | 10,741 |
| *Current liabilities* | | | | | | | |
| Loans | 59,482 | – | 59,482 | – | 59,482 | – | 59,482 |
| Non interest-bearing liabilities held for sale | 4,386 | – | 4,386 | – | 4,386 | – | 4,386 |
| Interest-bearing liabilities held for sale | 47 | – | 47 | 532 | 579 | – | 579 |
| Trade payables | 47,317 | (770) | 46,547 | – | 46,547 | – | 46,547 |
| Tax liabilities | 1,359 | (187) | 1,172 | – | 1,172 | – | 1,172 |
| Other liabilities | 33,228 | (528) | 32,700 | – | 32,700 | – | 32,700 |
| **Total shareholders' equity and liabilities** | **347,521** | **(1,540)** | **345,981** | **2,521** | **348,502** | **-** | **348,502** |

## NOTES TO FINANCIAL STATEMENTS

### *Quarter 4, 2012*

| **Income statement**<br>Quarter 4, 2012 | Volvo Group | | | | | | |
|---|---|---|---|---|---|---|---|
| SEK M | **Previously reported 2012** | Restatement joint ventures | **After joint venture restatement** | Restatement post-employment benefits | **After post-employment benefit restatement** | Restatement hedging of firm flows | **After restatements** |
| **Net sales** | **71,793** | **(982)** | **70.811** | **–** | **70,811** | **–** | **70,811** |
| Cost of sales | (57,046) | 847 | (56.199) | 103 | (56,096) | (96) | (56,192) |
| **Gross income** | **14,746** | **(135)** | **14,611** | **103** | **14,714** | **(96)** | **14,618** |
| Research and development expenses | (3,847) | 23 | (3,824) | 19 | (3,805) | – | (3,805) |
| Selling expenses | (7,458) | 50 | (7,408) | 43 | (7,365) | – | (7,365) |
| Administrative expenses | (1,574) | 22 | (1,552) | 5 | (1,547) | – | (1,547) |
| Other operating income and expenses | (686) | 11 | (675) | 1 | (674) | – | (674) |
| Income from investments in Joint Ventures and associated companies | (17) | 32 | 15 | – | 15 | – | 15 |
| Income from other investments | (44) | 0 | (44) | – | (44) | – | (44) |
| **Operating income** | **1,121** | **4** | **1,124** | **171** | **1,295** | **(96)** | **1,199** |
| Interest income and similar credits | 295 | (11) | 284 | – | 284 | – | 284 |
| Interest expenses and similar charges | (708) | 6 | (702) | (124) | (826) | – | (826) |
| Other financial income and expenses | (48) | 1 | (47) | – | (47) | 96 | 49 |
| **Income after financial items** | **660** | **(1)** | **659** | **47** | **706** | **0** | **706** |
| Income taxes | 181 | (2) | 179 | (16) | 163 | – | 163 |
| **Income for the period** | **841** | **(3)** | **838** | **31** | **869** | **0** | **869** |

| **Consolidated other comprehensive income** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Income for the period** | 841 | (3) | 838 | 31 | 869 | 0 | 869 |
| Exchange differences on translation of foreign operations | 72 | 92 | 164 | (6) | 158 | – | 158 |
| Share of OCI related Joint Ventures and associated companies | – | (84) | (84) | – | (84) | – | (84) |
| Exchange differences on hedge instruments of net investment in foreign operations | 0 | – | 0 | – | 0 | – | 0 |
| Accumulated translation difference reversed to income | (52) | – | (52) | – | (52) | – | (52) |
| Available for sale investments | 32 | 134 | 166 | – | 166 | – | 166 |
| Cash flow hedges | 10 | – | 10 | – | 10 | – | 10 |
| Remeasurements of defined benefit plan | – | – | – | 796 | 796 | – | 796 |
| **Other comprehensive income, net of income taxes** | **62** | **142** | **204** | **790** | **994** | **0** | **994** |
| **Total comprehensive income for the period*** | **903** | **139** | **1,042** | **821** | **1,863** | **0** | **1,863** |
| * Attributable to | | | | | | | |
| Equity holders of the parent company | 906 | – | – | – | – | – | 1,866 |
| Minority interests | (3) | – | – | – | – | – | (3) |
| | 903 | – | – | – | – | – | 1,863 |

**Balance sheets**
December 31, 2012

| SEK M | Volvo Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Previously reported 2012** | Restatement joint ventures | **After joint venture restatement** | Restatement post-employment benefits | **After post-employment benefit restatement** | Restatement hedging of firm flows | **After restatements** |
| **Assets** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Intangible assets | 40,373 | (1,675) | 38,698 | – | 38,698 | – | 38,698 |
| *Tangible assets* | | | | | | | |
| Property, plant and equipment | 55,004 | (815) | 54,189 | – | 54,189 | – | 54,189 |
| Assets under operating leases | 29,022 | – | 29,022 | – | 29,022 | – | 29,022 |
| *Financial assets* | | | | | | | |
| Investments in Joint Ventures and associated companies | 2,045 | 2,478 | 4,523 | – | 4,523 | – | 4,523 |
| Other shares and participations | 845 | 775 | 1,620 | – | 1,620 | – | 1,620 |
| Non-current customer-financing receivables | 41,156 | – | 41,156 | – | 41,156 | – | 41,156 |
| Deferred tax assets | 11,166 | – | 11,166 | 4,710 | 15,876 | – | 15,876 |
| Prepaid pensions | 2,724 | – | 2,724 | (2,724) | 0 | – | 0 |
| Non-current interest-bearing receivables | 337 | – | 337 | – | 337 | – | 337 |
| Other non-current receivables | 3,319 | (231) | 3,088 | – | 3,088 | – | 3,088 |
| **Total non-current assets** | **185,991** | **533** | **186,524** | **1,986** | **188,510** | **-** | **188,510** |
| **Current assets** | | | | | | | |
| Inventories | 40,409 | (316) | 40,093 | – | 40,093 | – | 40,093 |
| *Current receivables* | | | | | | | |
| Customer-financing receivables | 39,833 | – | 39,833 | – | 39,833 | – | 39,833 |
| Tax assets | 1,208 | (195) | 1,013 | – | 1,013 | – | 1,013 |
| Interest-bearing receivables | 2,574 | – | 2,574 | – | 2,574 | – | 2,574 |
| Internal funding | 0 | – | 0 | – | 0 | – | 0 |
| Accounts receivable | 27,349 | (833) | 26,516 | – | 26,516 | – | 26,516 |
| Other receivables | 12,489 | (199) | 12,290 | – | 12,290 | – | 12,290 |
| Non interest-bearing assets held for sale | 0 | – | 0 | – | 0 | – | 0 |
| Interest-bearing assets held for sale | 0 | – | 0 | – | 0 | – | 0 |
| Marketable securities | 3,130 | – | 3,130 | – | 3,130 | – | 3,130 |
| Cash and cash equivalents | 25,759 | (552) | 25,207 | – | 25,207 | – | 25,207 |
| **Total current assets** | **152,751** | **(2,095)** | **150,656** | **-** | **150,656** | **-** | **150,656** |
| **Total assets** | **338,742** | **(1,562)** | **337,180** | **1,986** | **339,166** | **-** | **339,166** |
| **Shareholders' equity and liabilities** | | | | | | | |
| Equity attributable to the equity holder of the Parent Company | 85,648 | 334 | 85,982 | (10,197) | 75,785 | – | 75,785 |
| Minority interests | 1,266 | 0 | 1,266 | – | 1,266 | – | 1,266 |
| **Total shareholders' equity** | **86,914** | **334** | **87,248** | **(10,197)** | **77,051** | **-** | **77,051** |
| *Non-current provisions* | | | | | | | |
| Provisions for post-employment benefits | 6,697 | (14) | 6,683 | 12,152 | 18,835 | – | 18,835 |
| Provisions for deferred taxes | 5,028 | (178) | 4,850 | – | 4,850 | – | 4,850 |
| Other provisions | 5,783 | (43) | 5,740 | – | 5,740 | – | 5,740 |
| *Non-current liabilities* | | | | | | | |
| Bond loans | 43,092 | – | 43,092 | – | 43,092 | – | 43,092 |
| Other loans | 38,433 | (5) | 38,428 | – | 38,428 | – | 38,428 |
| Other liabilities | 10,714 | – | 10,714 | – | 10,714 | – | 10,714 |
| Current provisions | 10,976 | – | 10,976 | – | 10,976 | – | 10,976 |
| *Current liabilities* | | | | | | – | |
| Loans | 50,317 | (304) | 50,013 | – | 50,013 | – | 50,013 |
| Non interest-bearing liabilities held for sale | 0 | – | 0 | – | 0 | – | 0 |
| Interest-bearing liabilities held for sale | 0 | – | 0 | – | 0 | – | 0 |
| Trade payables | 47,364 | (892) | 46,472 | – | 46,472 | – | 46,472 |
| Tax liabilities | 653 | (193) | 460 | – | 460 | – | 460 |
| Other liabilities | 32,771 | (267) | 32,504 | 31 | 32,535 | – | 32,535 |
| **Total shareholders' equity and liabilities** | **338,742** | **(1,562)** | **337,180** | **1,986** | **339,166** | **-** | **339,166** |

## NOTES TO FINANCIAL STATEMENTS

### *Full year, 2012*

| **Income statement** Full year, 2012 | Volvo Group | | | | | | |
|---|---|---|---|---|---|---|---|
| SEK M | **Previously reported 2012** | Restatement joint ventures | **After joint venture restatement** | Restatement post-employment benefits | **After post-employment benefit restatement** | Restatement hedging of firm flows | **After restatements** |
| **Net sales** | **303,647** | **(3,833)** | **299,814** | **–** | **299,814** | **–** | **299,814** |
| Cost of sales | (235,085) | 3,281 | (231,804) | 412 | (231,392) | (223) | (231,615) |
| **Gross income** | **68,562** | **(552)** | **68,010** | **412** | **68,422** | **(223)** | **68,199** |
| Research and development expenses | (14,794) | 81 | (14,713) | 78 | (14,635) | – | (14,635) |
| Selling expenses | (28,248) | 180 | (28,068) | 174 | (27,894) | – | (27,894) |
| Administrative expenses | (5,669) | 88 | (5,581) | 18 | (5,563) | – | (5,563) |
| Other operating income and expenses | (2,160) | 60 | (2,100) | 4 | (2,096) | – | (2,096) |
| Income from investments in Joint Ventures and associated companies | (23) | 122 | 99 | – | 99 | – | 99 |
| Income from other investments | (47) | 5 | (42) | – | (42) | – | (42) |
| **Operating income** | **17,622** | **(17)** | **17,604** | **686** | **18,290** | **(223)** | **18,067** |
| Interest income and similar credits | 510 | (57) | 453 | – | 453 | – | 453 |
| Interest expenses and similar charges | (2,476) | 20 | (2,456) | (493) | (2,949) | – | (2,949) |
| Other financial income and expenses | (301) | 0 | (301) | – | (301) | 223 | (78) |
| **Income after financial items** | **15,355** | **(54)** | **15,301** | **193** | **15,494** | **0** | **15,494** |
| Income taxes | (4,097) | 45 | (4,052) | (64) | (4,116) | – | (4,116) |
| **Income for the period** | **11,258** | **(9)** | **11,249** | **129** | **11,378** | **0** | **11,378** |

| **Consolidated other comprehensive income** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Income for the period** | **11,258** | **(9)** | **11,249** | **129** | **11,378** | **0** | **11,378** |
| Exchange differences on translation of foreign operations | (3,916) | 208 | (3,708) | 313 | (3,395) | – | (3,395) |
| Share of OCI related to Joint Ventures and associated companies | – | (191) | (191) | – | (191) | – | (191) |
| Exchange differences on hedge instruments of net investment in foreign operations | 0 | – | 0 | – | 0 | – | 0 |
| Accumulated translation difference reversed to income | (118) | – | (118) | – | (118) | – | (118) |
| Available for sale investments | (4) | 347 | 343 | – | 343 | – | 343 |
| Cash flow hedges | 8 | – | 8 | – | 8 | – | 8 |
| Remeasurements of defined benefit plan | – | – | – | (2,234) | (2,234) | – | (2,234) |
| **Other comprehensive income, net of income taxes** | **(4,030)** | **364** | **(3,666)** | **(1,921)** | **(5,587)** | **0** | **(5,587)** |
| **Total comprehensive income for the period*** | **7,228** | **355** | **7,583** | **(1,792)** | **5,791** | **0** | **5,791** |
| * Attributable to | | | | | | | |
| Equity holders of the parent company | 7,092 | – | – | – | – | – | 5,655 |
| Minority interests | 136 | – | – | – | – | – | 136 |
| | 7,228 | – | – | – | – | – | 5,791 |

| **Consolidated net financial position**<br>Full year, 2012 | Volvo Group | | | | | | |
|---|---|---|---|---|---|---|---|
| SEK M | **Previously reported 2012** | Restatement joint ventures | **After joint venture restatement** | Restatement post-employment benefits | **After post-employment benefit restatement** | Restatement hedging of firm flows | **After restatements** |
| Non-current interest-bearing assets | | | | | | | |
| Non-current customer-financing receivables | 41,156 | – | 41,156 | – | 41,156 | – | 41,156 |
| Non-current interest-bearing receivables | 337 | – | 337 | – | 337 | – | 337 |
| Current interest-bearing assets | | | | | | | |
| Customer-financing receivables | 39,833 | – | 39,833 | – | 39,833 | – | 39,833 |
| Interest-bearing receivables | 2,574 | – | 2,574 | – | 2,574 | – | 2,574 |
| Internal funding | – | – | – | – | – | – | – |
| Interest-bearing assets held for sale | 0 | – | – | – | – | – | – |
| Marketable securities | 3,130 | – | 3,130 | – | 3,130 | – | 3,130 |
| Cash and cash equivalents | 25,759 | (552) | 25,207 | – | 25,207 | – | 25,207 |
| **Total financial assets** | **112,789** | **(552)** | **112,237** | **-** | **112,237** | **-** | **112,237** |
| Non-current interest-bearing liabilities | | | | | | | |
| Bond loans | (43,092) | 0 | (43,092) | – | (43,092) | – | (43,092) |
| Other loans | (38,433) | 5 | (38,428) | – | (38,428) | – | (38,428) |
| Current interest-bearing liabilities | | | | | | | |
| Loans | (50,317) | 304 | (50,013) | – | (50,013) | – | (50,013) |
| Interest-bearing liabilities held for sale | – | – | – | – | – | – | – |
| **Total financial liabilities** | **(131,842)** | **308** | **(131,534)** | **-** | **(131,534)** | **-** | **(131,534)** |
| **Net financial position excl post-employment benefits** | **(19,053)** | **(244)** | **(19,297)** | **-** | **(19,297)** | **-** | **(19,297)** |
| Prov for post-employm benefits, net | (3,973) | 14 | (3,959) | (14,876) | (18,835) | – | (18,835) |
| **Net financial position incl post-employment benefits** | **(23,026)** | **(229)** | **(23,255)** | **(14,876)** | **(38,131)** | **-** | **(38,131)** |

# NOTE 32 CHANGES IN VOLVO GROUP FINANCIAL REPORTING 2012

**New organisation**

As of January 1, 2012, the Volvo Group introduced a new functional organization.

» **Read more** about the Volvo Group's new organization as from January 1, 2012 in **Note 6**.

**Impact on segment reporting**

Under the prior organization, the Trucks operations were organized in four business areas, which were aggregated to one reportable segment for Trucks. Under the new organization, the consolidation of the four truck areas into one Trucks business area is further emphasizing the utilization of resources between the different brands to optimize the overall global potential for the Trucks business. Therefore, the overall Truck business is considered one single operating segment under the new organization. The Volvo Group will thus continue to be reported in the six segments Trucks, Construction Equipment, Buses, Volvo Penta, Customer Finance and Group functions and other. The reported segment information is based on the information used internally by the chief operating decision maker, i.e. the Volvo Group CEO.

The heading Group functions and other contains the cost of corporate functions, external business related to the business support functions and the operations within business areas Volvo Rents and Governmental Sales.

**Impact on goodwill impairment testing**

The Trucks segment is considered one single cash generating unit (CGU) under the new organization. Goodwill related to the area Trucks are therefore from 2012 evaluated based on the cash generation capacity of the overall Trucks segment.

**Restatement of financial reporting for 2011**

The implementation of the functional organization has resulted in a reallocation of responsibilities within the Group. As a consequence, certain cost items have been redefined from a functional perspective, causing a shift between the lines in the income statement of the Volvo Group as well as the income statement of the Industrial Operations. In addition, as a result of the reorganization as well as the financial framework, certain sales and cost items are reported differently from a segment reporting perspective from 2012. To facilitate comparability between the years, 2011 income statement and segment reporting data has been restated.

The impact of the restatement of the income statement for 2011 and the segment reporting for 2011 due to the new organization are disclosed on page 159.

*Restatement of financial reporting 2011*

| Year 2011 | Industrial Operations | | | Customer Finance | | | Volvo Group Total | | |
|---|---|---|---|---|---|---|---|---|---|
| SEK M | Previously reported | Restate-ment | After restatement | Previously reported | Restate-ment | After restatement | Previously reported | Restate-ment | After restatement |
| **Net sales** | **303,589** | **-** | **303,589** | **8,883** | **-** | **8,883** | **310,367** | **-** | **310,367** |
| Cost of sales | (231,516) | (1,581) | (233,097) | (5,693) | – | (5,693) | (235,104) | (1,581) | (236,685) |
| **Gross income** | **72,073** | **(1,581)** | **70,492** | **3,190** | **-** | **3,190** | **75,263** | **(1,581)** | **73,682** |
| Research and development expenses | (13,276) | – | (13,276) | – | – | – | (13,276) | – | (13,276) |
| Selling expenses | (24,383) | (798) | (25,181) | (1,618) | – | (1,618) | (26,001) | (798) | (26,799) |
| Administrative expenses | (7,105) | 2,352 | (4,753) | (27) | 27 | – | (7,132) | 2,379 | (4,753) |
| Other operating income and expenses | (1,045) | – | (1,045) | (603) | – | (603) | (1,649) | – | (1,649) |
| Income (loss) from investments in associated companies | (82) | – | (82) | – | – | – | (81) | – | (81) |
| Income from other investments | (225) | – | (225) | – | – | – | (225) | – | (225) |
| **Operating income** | **25,957** | **(27)** | **25,930** | **942** | **27** | **969** | **26,899** | **-** | **26,899** |
| Interest income and similar credits | 644 | – | 644 | – | – | – | 608 | – | 608 |
| Interest expenses and similar charges | (2,912) | – | (2,912) | – | – | – | (2,875) | – | (2,875) |
| Other financial income and expenses | 297 | – | 297 | – | – | – | 297 | – | 297 |
| **Income after financial items** | **23,986** | **(27)** | **23,959** | **942** | **27** | **969** | **24,929** | **-** | **24,929** |
| Income taxes | (6,490) | – | (6,490) | (323) | – | (323) | (6,814) | – | (6,814) |
| **Income for the period** | **17,496** | **(27)** | **17,469** | **619** | **27** | **646** | **18,115** | **-** | **18,115** |

*Restatement of segment reporting 2011*

| **Net sales** | **Year 2011** | | |
|---|---|---|---|
| SEK M | Previously reported | Restate-ment | **After restate-ment** |
| Trucks | 200,703 | (1,783) | **198,920** |
| Construction Equipment | 64,987 | (1,487) | **63,500** |
| Buses | 22,289 | (466) | **21,823** |
| Volvo Penta | 8,859 | (401) | **8,458** |
| Volvo Aero | 6,509 | (153) | **6,356** |
| Group function and other including eliminations | 242 | 4,290 | **4,532** |
| **Industrial operations** | **303,589** | **-** | **303,589** |
| Customer Finance | 8,882 | – | **8,882** |
| Reclassifications and eliminations | (2,104) | – | **(2,104)** |
| **Volvo Group** | **310,367** | **-** | **310,367** |

| **Operating income** | **Year 2011** | | |
|---|---|---|---|
| SEK M | Previously reported | Restate-ment | **After restate-ment** |
| Trucks | 18,260 | (33) | **18,227** |
| Construction Equipment | 6,653 | 159 | **6,812** |
| Buses | 1,036 | 78 | **1,114** |
| Volvo Penta | 781 | 44 | **825** |
| Volvo Aero | 336 | 24 | **360** |
| Group functions and other | (1,109) | (299) | **(1,408)** |
| **Industrial operations** | **25,957** | **(27)** | **25,930** |
| Customer Finance | 942 | 27 | **969** |
| **Volvo Group** | **26,899** | **-** | **26,899** |

# 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, 2011.

**Board of Directors' report**
AB Volvo is the Parent Company of the Volvo Group and its operations comprise of the Group's head office with staff together with some corporate functions.

Income from investments in Group companies includes 2,865 from gain on sales of shares in Volvo Aero AB. Income includes dividends amounting to 920 (2,719) and transfer price adjustments and royalties amounting to an expense of 524 (1,000). Dividend received from Volvo Aero AB amounted to 572 and dividend received from Volvo Construction Equipment NV amounted to 258.

The carrying value of shares and participations in Group companies amounted to 56,832 (59,460), of which 55,940 (58,934) 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 100,326 (99,139).

Investments in associated companies included 1,752 (413) in associated companies that are reported in accordance with the equity method in the consolidated accounts. The portion of shareholders' equity in associated companies pertaining to AB Volvo amounted to 1,419 (413). During 2012 AB Volvo aquired additional shares in the listed company Deutz AG amounting to 1,107. Total holding as of December 31, 2012 amounts to 25%.

Financial net debt amounted to 27,042 (30,665).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 41,241 (42,163) corresponding to 54% (55) of total assets.

## INCOME STATEMENT

| SEK M | | 2012 | 2011 |
|---|---|---|---|
| **Net sales** | Note 2 | **670** | **721** |
| Cost of sales | Note 2 | (670) | (721) |
| **Gross income** | | **0** | **0** |
| Administrative expenses | Note 2, 3 | (1,026) | (880) |
| Other operating income and expenses | Note 4 | 48 | (146) |
| Income from investments in Group companies | Note 5 | 3,151 | 1,658 |
| Income from investments in associated companies | Note 6 | 4 | 130 |
| Income from other investments | Note 7 | 9 | 4 |
| **Operating income** | | **2,186** | **766** |
| Interest income and similar credits | Note 8 | 0 | 0 |
| Interest expenses and similar charges | Note 8 | (1,509) | (1,677) |
| Other financial income and expenses | Note 9 | (112) | (96) |
| **Income after financial items** | | **565** | **(1,007)** |
| Allocations | Note 10 | 5,628 | 7,085 |
| Income taxes | Note 11 | (1,092) | (597) |
| **Income for the period** | | **5,101** | **5,481** |

## OTHER COMPREHENSIVE INCOME

| | | |
|---|---|---|
| **Income for the period** | **5,101** | **5,481** |
| Available-for-sale investments | (34) | (159) |
| **Other comprehensive income, net of income taxes** | **(34)** | **(159)** |
| **Total comprehensive income for the period** | **5,067** | **5,322** |

# BALANCE SHEET

| SEK M | | **December 31, 2012** | December 31, 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | Note 12 | 52 | 88 |
| Tangible assets | Note 12 | 74 | 80 |
| *Financial assets* | | | |
| Shares and participations in Group companies | Note 13 | 56,832 | 59,460 |
| Receivables from Group companies | | 83 | 38 |
| Investments in associated companies | Note 13 | 3,374 | 2,401 |
| Other shares and participations | Note 13 | 248 | 552 |
| Deferred tax assets | Note 11 | 1,964 | 3,060 |
| **Total non-current assets** | | **62,627** | **65,679** |
| **Current assets** | | | |
| *Current receivables* | | | |
| Receivables Group companies | | 12,406 | 10,843 |
| Tax receivables | | 0 | 0 |
| Other receivables | Note 14 | 1,078 | 501 |
| Cash and bank accounts | | 0 | 0 |
| **Total current assets** | | **13,484** | **11,344** |
| **Total assets** | | **76,111** | **77,023** |
| **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 | | 204 | 224 |
| Retained earnings | | 26,041 | 26,563 |
| Income for the period | | 5,101 | 5,481 |
| **Total shareholders' equity** | | **41,237** | **42,159** |
| Untaxed reserves | Note 15 | 4 | 4 |
| *Provisions* | | | |
| Provisions for post-employment benefits | Note 16 | 135 | 141 |
| Other provisions | Note 17 | 40 | 42 |
| *Non-current liabilities* | Note 18 | | |
| Liabilities to Group companies | | 7 | 7 |
| Other liabilities | | 0 | 11 |
| *Current liabilities* | | | |
| Trade payables | | 254 | 164 |
| Other liabilities to Group companies | | 34,164 | 34,260 |
| Other liabilities | Note 19 | 270 | 235 |
| **Total shareholders' equity and liabilities** | | **76,111** | **77,023** |
| Assets pledged | | – | – |
| Contingent liabilities | Note 20 | **243,887** | **270,346** |

# CASH-FLOW STATEMENT

| SEK M | | **2012** | 2011 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating income | | 2,186 | 766 |
| Depreciation and amortization | | 16 | 16 |
| Other non-cash items | Note 21 | (2,788) | 67 |
| Total change in working capital whereof | | 127 | (185) |
| *Change in accounts receivable* | | *134* | *(171)* |
| *Change in trade payables* | | *(61)* | *188* |
| *Other changes in working capital* | | *54* | *(202)* |
| Interest and similar items received | | 0 | 0 |
| Interest and similar items paid | | (1,504) | (1,672) |
| Other financial items | | (105) | (152) |
| Group contributions received/paid, net | Note 21 | 7,085 | 6,614 |
| Income taxes (received) | | 5 | – |
| **Cash-flow from operating activities** | | **5,022** | **5,454** |
| **Investing activities** | | | |
| Investments in fixed assets | | (74) | (65) |
| Disposals of fixed assets | | 100 | – |
| Shares and participations in Group companies, net | Note 21 | 5,097 | (93) |
| Shares and participations in non-Group companies, net | Note 21 | (1,098) | (508) |
| **Cash-flow after net investments** | | **9,047** | **4,788** |
| **Financing activities** | | | |
| Change in loans, net | Note 21 | (2,964) | 281 |
| Dividend to AB Volvo's shareholders | | (6,083) | (5,069) |
| **Change in liquid funds** | | **0** | **0** |
| **Liquid funds, Beginning of year** | | **0** | **0** |
| **Liquid funds, End of year** | | **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, 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* | | | | | | | |
| Dividend to AB Volvo's shareholders | – | – | – | – | (5,069) | (5,069) | (5,069) |
| Share-based payments | – | – | 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** |
| Income for the period | – | – | – | – | 5,101 | 5,101 | 5,101 |
| *Other comprehensive income* | | | | | | | |
| Available-for-sale investments: | | | | | | | |
| Gain/(loss) at valuation to fair value | – | – | – | (34) | – | (34) | (34) |
| Other comprehensive income | – | – | – | (34) | – | (34) | (34) |
| **Total income for the period** | – | – | – | **(34)** | – | **5,067** | **5,067** |
| *Transactions with shareholders* | | | | | | | |
| Dividend to AB Volvo's shareholders | – | – | – | – | (6,083) | (6,083) | (6,083) |
| Share-based payments | – | – | 14 | – | 80 | 94 | 94 |
| Transactions with shareholders | – | – | 14 | – | (6,003) | (5,989) | (5,989) |
| **Balance at December 31, 2012** | **2,554** | **7,337** | **204** | **–** | **31,142** | **31,346** | **41,237** |

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, 2011.

## NOTE 1 ACCOUNTING PRINCIPLES

The Parent Company has prepared its financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR2, Accounting for Legal entities. According to RFR2, the Parent Company shall apply all the International Financial Reporting Standards endorsed by the EU as far as this is possible within the framework of the Swedish Annual Accounts Act.

The accounting principles applied by the Volvo Group are described in note 1 Accounting principles to the consolidated financial statements. The main deviations between the accounting principles applied by the Volvo Group and the Parent Company are described below.

Shares and participations in Group companies are recognized at cost in the Parent Company and test for impairment is performed annually. Dividends is recognized in the income statement.

Investments in associated companies are recognized at cost in the Parent Company and test for impairment is performed annually. Dividends is recognized in the income statement.

The Parent Company applies the exception in the application of IAS 39 which concerns accounting and measurement of financial contracts of guarantee in favour of subsidiaries and associated companies. The Parent Company recognizes the financial contracts of guarantee as contingent liabilities.

The Volvo Group applies IAS 19 Employee Benefits in the consolidated financial statements. The Parent Company is applying the principles of FAR's Recommendation RedR4 "Accounting of pension liabilities and pension costs". Consequently there are differences between the Volvo Group and the Parent Company in the accounting of defined benefit pension plans as well as in the measurement of plan assets invested in the Volvo Pension Foundation.

The Parent Company recognizes the difference between depreciation according to plan and tax depreciation as accumulated additional depreciation, included in untaxed reserves.

Reporting of Group contributions is recognized in accordance with the alternative rule in RFR 2. Group contributions are reported as Allocations. Previous year, Group contributions were recognized as Income from investments in Group companies. Comparative figures for 2011 have been adjusted.

## NOTE 2 INTRA-GROUP TRANSACTIONS

The Parent Company's net sales amounted to 670 (721), of which 559 (620) pertained to Group companies. Purchases from Group companies amounted to 353 (602).

## NOTE 3 ADMINISTRATIVE EXPENSES

**Depreciation**

Administrative expenses include depreciation of 16 (16) of which 1 (0) pertains to machinery and equipment, 1 (1) to buildings and 14 (15) to other intangible assets.

| Fees to the auditors | 2012 | 2011 |
|---|---|---|
| PricewaterhouseCoopers AB | | |
| – Audit fees | 23 | 17 |
| – Audit-related fees | 2 | 1 |
| – Tax advisory services | 3 | 0 |
| – Other fees | 23 | – |
| **Total** | **51** | **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 295 (231), social costs to 90 (68) and pension costs to 90 (69). Pension cost of 6 (7) pertained to Board members and the President. The Parent Company has outstanding pension obligations of 0 (0) to these individuals.

The number of employees at year-end was 258 (181). 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 profit-sharing payments to employees in the amount of 1 (3).

## NOTE 5 INCOME FROM INVESTMENTS IN GROUP COMPANIES

Income include 2,865 from gain on sale of shares in Volvo Aero AB. Dividends from Group companies amounted to 920 (2,719). Of the dividends, 572 (–) pertain to dividend from Volvo Aero AB, 258 (2,500) from Volvo Construction Equipment NV, 55 (–) from Volvo China Investment Co Ltd, 32 (63) from Volvo Norge AS and – (156) from Volvo East Asia Ltd. The shares in Volvo Italia SpA were written down by 110 (60).

Transfer price adjustments and royalties amount to an expense of 524 (1,000).

## NOTE 6 INCOME FROM INVESTMENTS IN ASSOCIATED COMPANIES

Dividend of 35 (24) was received from Volvo Eicher Commercial Vehicles Ltd. Income include write-down of participation in Blue Chip Jet II HB with 19. In 2011 the participations in Blue Chip Jet I HB and Blue Chip Jet II HB affected the income with 5 and 101 respectively.

## NOTE 7 INCOME FROM OTHER INVESTMENTS

Income from other investments includes a dividend of 5 (4) from Eicher Motors Ltd,.

## 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. Interest expenses and similar charges totalling 1,509 (1,677) included interest of 1,504 (1,672) 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, financial costs pertaining to changed taxable income previous years and costs for registration of AB Volvos shares.

## NOTE 10 ALLOCATIONS

Group contributions amounted to a net of 5,628 (7,085). Allocation to additional depreciation has been made during the year with 0 (0).

NOTES TO FINANCIAL STATEMENTS

## NOTE 11 INCOME TAXES

| | 2012 | 2011 |
|---|---|---|
| Current taxes | 4 | – |
| Deferred taxes | (1,096) | (597) |
| I/S **Total income taxes** | **(1,092)** | **(597)** |

Current taxes consist of an expense of 2 (0) related to this year and an income of 6 (0) related to prior years.

Deferred taxes relate to estimated tax on the change in tax-loss carryforwards and temporary differences. Deferred tax assets are recognized 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 1,081 (602) and to changes in other temporary differences to an expense of 15 (income 5).

The table to the right discloses the principal reasons for the difference between the corporate income tax of 26.3% and the tax for the period.

| | 2012 | 2011 |
|---|---|---|
| Income before taxes | 6,193 | 6,078 |
| Income tax according to applicable tax rate | (1,629) | (1,598) |
| Capital gains/losses | 754 | 0 |
| Non-taxable dividends | 253 | 723 |
| Non-taxable revaluations of shareholdings | (37) | (16) |
| Other non-deductible expenses | (71) | (6) |
| Other non-taxable income | 18 | 300 |
| Adjustment of current taxes for prior periods | 6 | – |
| Withholding tax | (2) | – |
| Recognition and derecognition of deferred tax assets due to change in tax rate | (384) | – |
| I/S **Income taxes for the period** | **(1,092)** | **(597)** |

| **Specification of deferred tax assets** | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Tax-loss carryforwards | 1,804 | 2,885 |
| Provision for post-employment benefits | 141 | 163 |
| Provision for restructuring measures | 9 | 11 |
| Other deductible temporary differences | 10 | 1 |
| B/S **Deferred tax assets** | **1,964** | **3,060** |

## NOTE 12 INTANGIBLE AND TANGIBLE ASSETS

| **Acquisition cost** | Dec 31, 2011 Carrying value | Investments | Sales/scrapping | Reclassifications | Dec 31, 2012 Carrying value |
|---|---|---|---|---|---|
| Rights | 52 | – | – | – | 52 |
| Other intangible assets | 138 | – | (22) | – | 116 |
| **Total intangible assets** | **190** | **–** | **(22)** | **–** | **168** |
| Buildings | 27 | – | – | – | 27 |
| Land and land improvements | 14 | – | – | – | 14 |
| Machinery and equipment | 47 | – | (7) | 2 | 42 |
| Construction in progress | 32 | 74 | (78) | (2) | 26 |
| **Total tangible assets** | **120** | **74** | **(85)** | **0** | **109** |

| **Accumulated depreciation** | Dec 31, 2011 Carrying value[1] | Depreciation[2] | Sales/scrapping | Dec 31, 2012 Carrying value | Dec 31, 2012 Net carrying value[3] |
|---|---|---|---|---|---|
| Rights | 52 | – | – | 52 | 0 |
| Other intangible assets | 50 | 14 | – | 64 | 52 |
| B/S **Total intangible assets** | **102** | **14** | **–** | **116** | **52** |
| Buildings | 3 | 1 | – | 4 | 23 |
| Land and land improvements | 0 | 0 | – | 0 | 14 |
| Machinery and equipment | 37 | 1 | (7) | 31 | 11 |
| Construction in progress | – | – | – | – | 26 |
| B/S **Total tangible assets** | **40** | **2** | **(7)** | **35** | **74** |

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

Capital expenditures in tangible assets amounted to 74 (65). Capital expenditures approved but not yet implemented at year-end 2012 amounted to 1 (1).

## 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 disclosed below.

| | Group companies | | Associated companies | | Non-Group companies | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **Balance sheet. December 31, previous year** | **59,460** | **59,429** | **2,401** | **1,790** | **552** | **708** |
| Acquisitions/New issue of shares | – | 94 | 1,107 | 505 | – | 3 |
| Divestments | (2,885) | (3) | – | – | (6) | – |
| Write-downs/participations in partnerships | (110) | (60) | (31) | 106 | – | – |
| Revaluation of shares in listed companies | – | – | – | – | (34) | (159) |
| Reclassifications | 367 | – | (103) | – | (264) | – |
| B/S **Balance sheet, December 31** | **56,832** | **59,460** | **3,374** | **2,401** | **248** | **552** |

**Shares and participations in Group companies**
During 2012 AB Volvo divested the total shares in Volvo Aero AB with a carrying value of 2,885.

At year end the holding of shares in Volvo Italia SpA was written down by 110 (60).

During 2011 AB Volvo acquired the total shares in VFS Latvia SIA of 9. Shares were also acquired in Volvo Lastvagnar AB, Volvo Bussar AB and AB Volvo Penta amounting to a total of 85 from Volvo Italia SpA. AB Volvo now owns the companies by 100%.

**Investment in associated companies**
During 2012 AB Volvo acquired additional shares in the listed company Deutz AG amounting to 1,107. The previous holding is reclassified to investments in associated companies. Total holding as of December 31, 2012 amounts to 25%. Write-down of the participation in Blue Chip Jet II HB was recognized by 19.

During 2011 AB Volvo acquired 49% of the holding in CPAC Systems AB from Volvo Group Venture Capital AB (previously Volvo Technology Transfer AB) by 367. In 2012 the holding was reclassified to shares in Group companies. During 2011 AB Volvo paid a capital contribution of 137 to Blue Chip Jet II HB. The carrying 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.

**Shares and participations in non-Group companies**
In connection with reclassification of the holding in Deutz AG to associated company, the previously recognized revaluations were reversed by 34, recognized in other comprehensive income (previous year a decrease by 159).

Investment in associated companies and other shares and participations include the direct and indirect holdings of Volvo Eicher Commercial Vehicles Ltd. (VECV) amounting to 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 measured as they form a part of the indirect ownership in VECV.

## NOTE 14 OTHER RECEIVABLES

| | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Accounts receivable | 45 | 46 |
| Prepaid expenses and accrued income | 339 | 268 |
| Other receivables | 694 | 187 |
| B/S **Total** | **1,078** | **501** |

The valuation allowance for doubtful receivables amounted to 3 (3) at the end of the year.

## NOTE 15 UNTAXED RESERVES

| | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Accumulated additional depreciation | | |
| Land | 3 | 3 |
| Machinery and equipment | 1 | 1 |
| B/S **Total** | **4** | **4** |

NOTES TO FINANCIAL STATEMENTS

## NOTE 16 PROVISIONS FOR POST-EMPLOYMENT BENEFITS

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 due within one year is included. AB Volvo has insured the pension obligations with third parties. 0 (8) of the amount 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 90 (69).

The accumulated benefit obligation of all AB Volvo's pension obligations as of December 31, 2012 amounted to 670 (646). The benefit obligation has been secured partly through provisions in the balance sheet and partly through transfer of funds to pension foundations. Net asset value in the Pension Foundation, market to market, accrued to AB Volvo was 12 higher than the corresponding pension obligations.

## NOTE 17 OTHER PROVISIONS

Other provisions include provisions for restructuring measures of 39 (42).

## NOTE 18 NON-CURRENT LIABILITIES

| Non-current debt matures as follows: | |
|---|---|
| 2019 or later | 7 |
| B/S **Total** | **7** |

## NOTE 19 OTHER LIABILITIES

| | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Wages, salaries and withholding taxes | 121 | 70 |
| Accrued expenses and prepaid income | 116 | 146 |
| Other liabilities | 33 | 19 |
| B/S **Total** | **270** | **235** |

No collateral is provided for current liabilities.

## NOTE 20 CONTINGENT LIABILITIES

Contingent liabilities amounted to 243,887 (270,346) of which 243,877 (270,336) pertaining to Group companies.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 235,806 (261,576), of which guarantees on behalf of Group companies totalled 235,806 (261,576).

At the end of each year, the utilized portion amounted to 127,076 (125,123), including 127,065 (125,113) pertaining to Group companies.

## NOTE 21 CASH-FLOW

| **Other non-cash items** | 2012 | 2011 |
|---|---|---|
| Revaluation of shareholdings | 141 | (46) |
| Gain/loss on sale of shares | (2,869) | – |
| Transfer price adjustments, net | (140) | 33 |
| Other | 80 | 80 |
| **Total** | **(2,788)** | **67** |

Further information is provided in Notes 5, 6 and 7.

| **Shares and participations in Group companies** | 2012 | 2011 |
|---|---|---|
| Investments | – | (94) |
| Disposals | 5,097 | 1 |
| **Net investments in shares and participations in Group companies** | **5,097** | **(93)** |

Investments and sales of shares in Group companies are shown in Note 13.

| **Shares and participations in non-Group companies** | 2012 | 2011 |
|---|---|---|
| Investments | (1,108) | (508) |
| Disposals | 10 | – |
| **Net investments in shares and participations in non-Group companies** | **(1,098)** | **(508)** |

Investments and sales of shares in non-Group companies are presented in Note 13.

**Change in loans, net**

Decrease in loans is related to the company´s liability in the group account at Volvo Treasury AB. The liability has decreased by 2.964 (increased by 281).

**Group contributions received/paid**

Group contributions are recognized as Allocations in 2012. Previous year Group contributions were recognized in operating income. Comparative figures for 2011 have been restated in the Cash-flow statement.

# AB Volvo’s Holding of Shares

| AB Volvo’s holding of shares in non-Group companies[1] | Registration number | Dec 31, 2012 Percentage holding[2] | Dec 31, 2012 Carrying value | Dec 31, 2011 Carrying value |
|---|---|---|---|---|
| Deutz AG, Germany | – | 25 | 1,359 | 299 |
| Blue Chip Jet II HB, Sweden | 969717–2105 | 50 | 386 | 405 |
| Blue Chip Jet HB, Sweden | 969639–1011 | 50 | 8 | 8 |
| Other investments | | – | 21 | 25 |
| **Total carrying value, non-Group companies** | | | **1,774** | **737** |

1 AB Volvo's Volvo's investments in associated companies and other shares and participations include the direct and indirect holdings of VE Commercial Vehicles (VECV). AB Volvo's direct equity holding is 45.6% and indirect equity holding is 4.6% in VECV amount to 1,848 (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 below.
2 Percentage figures refer to share capital as well as voting rights.

| AB Volvo’s holding of shares in major subsidiaries | Registration number | Dec 31, 2012 Percentage holding[1] | Dec 31, 2012 Carrying value[2] | Dec 31, 2011 Carrying value |
|---|---|---|---|---|
| **Volvo Lastvagnar AB, Sweden** | 556013-9700 | 100 | 8,711 | 8,711 |
| 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[3] | – | 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 in major subsidiaries** (cont.) | Registration number | Dec 31, 2012 Percentage holding[1] | Dec 31, 2012 Carrying value[2] | Dec 31, 2011 Carrying value |
|---|---|---|---|---|
| **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 | – | – |
| Panhard s.a., France | – | 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 | 1,917 |
| **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 | 438 |
| **Volvo Aero AB, Sweden**[4] | 556029-0347 | – | – | 2,885 |
| Volvo Aero Norge AS, Norway | – | – | – | – |
| **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 in major subsidiaries** (cont.) | Registration number | Dec 31, 2012 Percentage holding[1] | Dec 31, 2012 Carrying value[2] | Dec 31, 2011 Carrying value |
|---|---|---|---|---|
| **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[5, 6] | – | 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[5] | – | 50 | – | – |
| Shandong Lingong Construction Machinery, China | – | 70 | – | – |
| Volvo Automotive Finance (China) Ltd, China | – | 100 | 491 | 491 |
| Volvo Group UK Ltd, Great Britain[7] | – | 100 | 413 | 413 |
| Volvo Holding Mexico, Mexico | – | 100 | 531 | 531 |
| Volvo Group Venture Capital 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[8] | – | 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[9] | – | 100 | 34 | 34 |
| Volvo Italia Spa, Italy | – | 100 | 386 | 496 |
| CPAC Systems AB, Sweden[10] | 556566-2870 | 100 | 367 | – |
| 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 Information Technology GB Ltd, Great Britain | – | 100 | 3 | 3 |
| VFS Latvia SIA, Latvia | – | 100 | 9 | 9 |
| Other holdings | – | 100 | 5 | 5 |
| B/S **Total carrying value Group companies[11]** | | | **56,832** | **59,460** |

1 Total percentage holding in the Volvo Group.
2 Carrying value of the percentage holding in the Parent company.
3 Total holding by Volvo Holding Sverige and Volvo Lastvagnar is 100%.
4 Volvo Aero AB was divested during October 2012.
5 Joint venture, reported in accordance with the proportionate consolidation method in Volvo's consolidated accounts.
6 AB Volvo's investments in associated companies and other shares and participations include the direct and indirect holdings of VE Commercial Vehicles (VECV). AB Volvo's direct equity holding is 45,6% and indirect equity holding is 4,6% in VECV amount to 1,848 (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.
7 Total holding by Volvo Lastvagnar AB and AB Volvo is 100%.
8 Total holding by Volvo Italia and AB Volvo is 100%.
9 Total holding by AB Volvo and Volvo Trucks Region Central Europe is 100%.
10 The total holding of AB Volvo and AB Volvo Penta is 100%. The company was reclassified to group company in 2012.
11 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 100,326 (99.139).

# Proposed Remuneration Policy

**The proposal by the Board of Directors of AB Volvo to be adopted by the Annual General Meeting April 4, 2013.**

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 2012 sets out details on the total remuneration and benefits awarded to the Executives during 2012.

*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 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 2013.

*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 Executives.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 2013 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.

Information on the policy concerning remuneration and other terms of employment for the Group Executive Team decided at the Annual General Meeting 2012 is provided in Note 27 Personnel.

# Proposed Disposition of Unappropriated Earnings

| **AB Volvo** | SEK |
|---|---|
| Retained earnings | 26,244,618,257.45 |
| Income for the period 2012 | 5,101,241,488.10 |
| **Total retained earnings** | **31,345,859,745.55** |

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 | 6,083,036,628.00[1] |
| To be carried forward | 25,262,823,117.55 |
| **Total** | **31,345,859,745.55** |

The record date for determining who is entitled to receive dividends is proposed to be Tuesday April 9, 2013.

In view of the Board of Directors' proposal to the Annual General Meeting to be held April 4, 2013 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 54.2 per cent to 50.2 per cent and the Group's solvency from 25.7 per cent to 24.3 per cent, calculated as per year end 2012. 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 25,262,823,117.55 will remain of the Company's non-restricted equity, calculated as per year end 2012.

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.

1 The total dividend amount is based on the number of outstanding shares as of February 21, 2013, i.e. 2,027,678,876 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.

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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 19 July 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 21, 2013

Carl-Henric Svanberg
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 21, 2013

PricewaterhouseCoopers AB

Peter Clemedtson
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 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 56-73 and 89-173.

*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 IFRS, 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 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. 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 2012 and of their financial performance and cash flows for the year then ended in accordance with IFRS, 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 also audited 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 2012.

*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 is liable to the company. We also examined whether any member of the Board of Directors or the President has, 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 opinions.

*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 21, 2013

PricewaterhouseCoopers AB

Peter Clemedtson
Authorized Public Accountant
Lead Partner

Johan Rippe
Authorized Public Accountant
Partner

# 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 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net sales** | **303,647** | **310,367** | **264,749** | **218,361** | **303,667** | **285,405** | **258,835** | **240,559** | **211,076** | **183,291** | **186,198** |
| Cost of sales | (235,085) | (235,104) | (201,797) | (186,167) | (237,578) | (219,600) | (199,054) | (186,662) | (164,170) | (146,879) | (151,569) |
| **Gross income** | **68,562** | **75,263** | **62,952** | **32,194** | **66,089** | **65,805** | **59,781** | **53,897** | **46,906** | **36,412** | **34,629** |
| Research and development expenses | (14,794) | (13,276) | (12,970) | (13,193) | (14,348) | (11,059) | (8,354) | (7,557) | (7,614) | (6,829) | (5,869) |
| Selling expenses | (28,248) | (26,001) | (24,149) | (25,334) | (27,129) | (26,068) | (21,213) | (20,778) | (19,369) | (16,866) | (16,604) |
| Administrative expenses | (5,669) | (7,132) | (5,666) | (5,863) | (6,940) | (7,133) | (6,551) | (6,301) | (5,483) | (5,467) | (5,658) |
| Other operating income and expenses | (2,160) | (1,649) | (2,023) | (4,798) | (1,915) | 163 | (3,466) | (588) | (618) | (1,367) | (4,152) |
| Income from investments in associated companies | (23) | (81) | (86) | (14) | 25 | 430 | 61 | (557) | 27 | 200 | 182 |
| Income from other investments | (47) | (225) | (58) | (6) | 69 | 93 | 141 | 37 | 830 | (3,579) | 309 |
| **Operating income** | **17,622** | **26,899** | **18,000** | **(17,013)** | **15,851** | **22,231** | **20,399** | **18,153** | **14,679** | **2,504** | **2,837** |
| Interest income and similar credits | 510 | 608 | 442 | 390 | 1,171 | 952 | 666 | 654 | 821 | 1,096 | 1,217 |
| Interest expenses and similar charges | (2,476) | (2,875) | (3,142) | (3,559) | (1,935) | (1,122) | (585) | (972) | (1,254) | (1,888) | (1,840) |
| Other financial income and expenses | (301) | 297 | 213 | (392) | (1,077) | (504) | (181) | 181 | (1,210) | (55) | (201) |
| **Income after financial items** | **15,355** | **24,929** | **15,514** | **(20,573)** | **14,010** | **21,557** | **20,299** | **18,016** | **13,036** | **1,657** | **2,013** |
| Income taxes | (4,097) | (6,814) | (4,302) | 5,889 | (3,994) | (6,529) | (3,981) | (4,908) | (3,129) | (1,334) | (590) |
| **Income for the period** | **11,258** | **18,115** | **11,212** | **(14,685)** | **10,016** | **15,028** | **16,318** | **13,108** | **9,907** | **323** | **1,423** |
| Attributable to: | | | | | | | | | | | |
| Equity holders of the Parent Company | 11,039 | 17,751 | 10,866 | (14,718) | 9,942 | 14,932 | 16,268 | 13,054 | 9,867 | 298 | 1,393 |
| Minority interest | 219 | 364 | 346 | 33 | 74 | 96 | 50 | 54 | 40 | 25 | 30 |
| | **11,258** | **18,115** | **11,212** | **(14,685)** | **10,016** | **15,028** | **16,318** | **13,108** | **9,907** | **323** | **1,423** |

**Consolidated income statements Industrial Operations**

| SEK M | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net sales** | **296,031** | **303,589** | **257,375** | **208,487** | **294,932** | **276,795** | **249,020** | **231,191** | **202,171** | **174,768** | **177,080** |
| Cost of sales | (231,216) | (233,097) | (197,480) | (179,578) | (232,247) | (214,160) | (192,400) | (180,823) | (158,453) | (141,256) | (145,453) |
| **Gross income** | **64,815** | **70,492** | **59,895** | **28,909** | **62,685** | **62,635** | **56,620** | **50,368** | **43,718** | **33,512** | **31,627** |
| Research and development expenses | (14,794) | (13,276) | (12,970) | (13,193) | (14,348) | (11,059) | (8,354) | (7,557) | (7,614) | (6,829) | (5,869) |
| Selling expenses | (26,582) | (25,181) | (22,649) | (23,752) | (25,597) | (24,671) | (19,999) | (19,616) | (18,317) | (15,891) | (15,393) |
| Administrative expenses | (5,639) | (4,753) | (5,640) | (5,838) | (6,921) | (7,092) | (6,481) | (6,147) | (5,310) | (5,259) | (5,464) |
| Other operating income and expenses | (1,600) | (1,045) | (659) | (2,432) | (1,457) | 249 | (3,275) | (397) | 7 | (540) | (2,989) |
| Income from Volvo Financial Services | – | – | – | – | – | – | – | 2,033 | 1,365 | 926 | 490 |
| Income from investments in associated companies | (23) | (82) | (86) | (15) | 23 | 428 | 61 | (568) | 2 | 166 | 126 |
| Income from other investments | (46) | (225) | (57) | (13) | 69 | 93 | 141 | 37 | 828 | (3,581) | 309 |
| **Operating income** | **16,130** | **25,930** | **17,834** | **(16,333)** | **14,454** | **20,583** | **18,713** | **18,153** | **14,679** | **2,504** | **2,837** |

# ELEVEN-YEAR SUMMARY

| Consolidated balance sheets | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK M | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Intangible assets | 40,373 | 39,507 | 40,714 | 41,628 | 43,958 | 36,508 | 19,117 | 20,421 | 17,612 | 16,756 | 17,045 |
| Property, plant and equipment | 55,004 | 54,540 | 54,242 | 55,280 | 57,270 | 47,210 | 34,379 | 35,068 | 31,151 | 30,640 | 30,799 |
| Assets under operating leases | 29,022 | 23,922 | 19,647 | 20,388 | 25,429 | 22,502 | 20,501 | 20,839 | 19,534 | 21,201 | 23,525 |
| Shares and participations | 2,890 | 1,874 | 2,098 | 2,044 | 1,953 | 2,219 | 6,890 | 751 | 2,003 | 22,206 | 27,492 |
| Inventories | 40,409 | 44,599 | 39,837 | 37,727 | 55,045 | 43,645 | 34,211 | 33,937 | 28,598 | 26,459 | 28,305 |
| Customer-financing receivables | 80,989 | 78,699 | 72,688 | 81,977 | 98,489 | 78,847 | 64,742 | 64,466 | 51,193 | 46,002 | 46,998 |
| Interest-bearing receivables | 5,635 | 3,638 | 2,757 | 3,044 | 5,101 | 4,530 | 4,116 | 1,897 | 3,384 | 6,632 | 5,490 |
| Other receivables | 55,531 | 59,877 | 53,154 | 50,575 | 61,560 | 55,152 | 42,567 | 42,881 | 35,747 | 32,621 | 33,990 |
| Non-current assets held for sale | – | 9,348 | 136 | 1,692 | – | – | 805 | – | – | – | – |
| Cash and cash equivalents | 28,889 | 37,241 | 32,733 | 37,910 | 23,614 | 31,034 | 31,099 | 36,947 | 34,746 | 28,735 | 25,578 |
| **Assets** | **338,742** | **353,244** | **318,007** | **332,265** | **372,419** | **321,647** | **258,427** | **257,207** | **223,968** | **231,252** | **239,222** |
| Shareholders' equity[1] | 86,914 | 85,681 | 74,121 | 67,034 | 84,640 | 82,781 | 87,188 | 78,760 | 70,155 | 72,636 | 78,525 |
| Provision for post-employment benefits | 6,697 | 6,665 | 7,510 | 8,051 | 11,705 | 9,774 | 8,692 | 11,986 | 14,703 | 15,288 | 16,236 |
| Other provisions | 21,787 | 20,815 | 18,992 | 19,485 | 29,076 | 27,084 | 20,970 | 18,556 | 14,993 | 15,048 | 16,721 |
| Interest-bearing liabilities | 131,842 | 130,479 | 123,695 | 156,852 | 145,727 | 108,318 | 66,957 | 74,885 | 61,807 | 74,092 | 72,437 |
| Liabilities associated with assets held for sale | – | 4,716 | 135 | 272 | – | – | 280 | – | – | – | – |
| Other liabilities | 91,502 | 104,888 | 93,554 | 80,571 | 101,271 | 93,690 | 74,340 | 73,020 | 62,310 | 54,188 | 55,303 |
| **Shareholders' equity and liabilities** | **338,742** | **353,244** | **318,007** | **332,265** | **372,419** | **321,647** | **258,427** | **257,207** | **223,968** | **231,252** | **239,222** |
| [1]of which minority interests | 1,266 | 1,100 | 1,011 | 629 | 630 | 579 | 284 | 260 | 229 | 216 | 247 |
| Assets pledged | 4,099 | 1,832 | 3,339 | 958 | 1,380 | 1,556 | 1,960 | 3,255 | 3,046 | 3,809 | 3,610 |
| Contingent liabilities | 17,763 | 17,154 | 11,003 | 9,607 | 9,427 | 8,153 | 7,726 | 7,850 | 9,189 | 9,611 | 9,334 |

| **Consolidated balance sheets, Industrial Operations** | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK M | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Intangible assets | 40,267 | 39,385 | 40,613 | 41,532 | 43,909 | 36,441 | 19,054 | 20,348 | 17,570 | 16,662 | 16,919 |
| Property, plant and equipment | 54,899 | 54,446 | 54,169 | 55,208 | 57,185 | 47,132 | 30,493 | 31,330 | 27,260 | 27,248 | 27,789 |
| Assets under operating leases | 21,263 | 16,749 | 13,217 | 13,539 | 16,967 | 13,850 | 11,822 | 10,260 | 8,477 | 8,976 | 11,155 |
| Shares and participations | 2,884 | 1,871 | 2,080 | 2,025 | 1,935 | 2,189 | 16,565 | 10,357 | 10,116 | 30,022 | 34,750 |
| Inventories | 40,057 | 43,828 | 38,956 | 35,765 | 54,084 | 43,264 | 33,893 | 33,583 | 28,291 | 25,848 | 27,564 |
| Customer-financing receivables | 1,397 | 1,702 | 1,428 | 1,367 | 975 | 1,233 | 1,193 | 1,377 | 230 | 118 | 99 |
| Interest-bearing receivables | 11,011 | 6,734 | 11,153 | 8,010 | 6,056 | 13,701 | 13,214 | 7,691 | 12,127 | 9,413 | 8,495 |
| Other receivables | 54,324 | 59,062 | 52,358 | 49,008 | 60,586 | 55,970 | 43,335 | 43,992 | 36,535 | 33,079 | 34,256 |
| Non-current assets held for sale | – | 9,348 | 136 | 1,692 | – | – | 805 | – | – | – | – |
| Cash and cash equivalents | 27,146 | 35,951 | 31,491 | 37,404 | 22,575 | 30,026 | 29,907 | 36,047 | 34,628 | 28,102 | 24,154 |
| **Assets** | **253,248** | **269,076** | **245,602** | **245,550** | **264,272** | **243,806** | **200,281** | **194,985** | **175,234** | **179,468** | **185,181** |
| Shareholders' equity | 78,321 | 76,682 | 66,101 | 58,485 | 75,046 | 75,129 | 87,188 | 78,760 | 70,155 | 72,636 | 78,525 |
| Provision for post-employment benefits | 6,663 | 6,635 | 7,478 | 8,021 | 11,677 | 9,746 | 8,661 | 11,966 | 14,677 | 15,264 | 16,218 |
| Other provisions | 19,653 | 19,101 | 17,240 | 17,456 | 27,015 | 25,372 | 19,385 | 17,164 | 14,115 | 12,792 | 13,893 |
| Interest-bearing liabilities | 54,472 | 55,394 | 59,857 | 78,890 | 46,749 | 38,286 | 9,779 | 13,097 | 13,968 | 24,677 | 22,494 |
| Liabilities associated with assets held for sale | – | 4,716 | 135 | 272 | – | – | 280 | – | – | – | – |
| Other liabilities | 94,139 | 106,548 | 94,791 | 82,426 | 103,785 | 95,273 | 74,988 | 73,998 | 62,319 | 54,099 | 54,051 |
| **Shareholders' equity and liabilities** | **253,248** | **269,076** | **245,602** | **245,550** | **264,272** | **243,806** | **200,281** | **194,985** | **175,234** | **179,468** | **185,181** |

# ELEVEN-YEAR SUMMARY

| **Consolidated cash-flow statements** | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK bn | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Operating income (loss) | 17.6 | 26.9 | 18.0 | (17.0) | 15.9 | 22.2 | 20.4 | 18.2 | 14.7 | 2.5 | 2.8 |
| Depreciation and amortization | 14.7 | 13.9 | 13.8 | 15.2 | 13.5 | 12.5 | 12.4 | 9.9 | 10.0 | 10.2 | 10.8 |
| Other non-cash items | 1.4 | 1.3 | 1.6 | 4.4 | (0.2) | (0.5) | 0.7 | 0.4 | (0.1) | 4.9 | 2.0 |
| Change in working capital | (21.9) | (15.1) | 4.8 | 16.9 | (23.3) | (9.9) | (7.7) | (4.7) | (1.4) | 0.4 | 1.0 |
| Customer financing receivables, net | – | – | – | – | – | – | – | (7.8) | (7.4) | (4.3) | (5.7) |
| Financial items and income tax | (8.0) | (7.3) | (5.5) | (4.6) | (5.2) | (5.9) | (4.3) | (2.0) | (0.5) | (0.9) | (1.3) |
| **Cash-flow from operating activities** | **3.8** | **19.7** | **32.7** | **14.9** | **0.7** | **18.4** | **21.5** | **14.0** | **15.3** | **12.8** | **9.6** |
| Investments in fixed assets | (14.6) | (12.6) | (10.4) | (10.5) | (12.7) | (10.1) | (10.0) | (10.3) | (7.4) | (6.0) | (6.7) |
| Investments in leasing assets | (10.0) | (7.4) | (4.8) | (4.2) | (5.4) | (4.8) | (4.6) | (4.5) | (4.4) | (5.3) | (5.2) |
| Disposals of fixed assets and leasing assets | 3.1 | 3.3 | 3.1 | 3.8 | 2.9 | 2.9 | 3.2 | 2.6 | 2.4 | 2.9 | 3.2 |
| Shares and participations, net | (1.2) | (0.1) | (0.1) | 0.0 | 0.0 | 0.4 | (5.8) | 0.3 | 15.1 | (0.1) | (0.1) |
| Acquired and divested subsidiaries and other business units, net | 3.4 | (1.6) | 0.6 | 0.2 | (1.3) | (15.0) | 0.5 | 0.7 | (0.1) | 0.0 | (0.2) |
| Interest-bearing receivables including marketable securities | 3.7 | 2.6 | 6.8 | (8.9) | 10.9 | 3.6 | 7.7 | (1.3) | (6.4) | (2.0) | (1.5) |
| **Cash-flow after net investments** | **(11.8)** | **3.9** | **27.9** | **(4.7)** | **(4.9)** | **(4.6)** | **12.5** | **1.5** | **14.5** | **2.3** | **(0.9)** |
| Change in loans, net | 14.1 | 8.7 | (25.7) | 12.6 | 18.2 | 28.7 | (2.6) | 3.6 | (8.8) | 1.9 | (0.1) |
| Repurchase of own shares | – | – | – | 0.0 | – | – | – | (1.8) | (2.5) | – | – |
| Dividend to AB Volvo's shareholders | (6.1) | (5.1) | 0.0 | (4.1) | (11.1) | (20.3) | (6.8) | (5.1) | (3.4) | (3.4) | (3.4) |
| Cash payment to minority | 0.0 | 0.0 | (0.1) | – | – | – | – | – | – | – | – |
| Other | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| **Change in cash and cash equivalents excluding translation differences** | **(3.8)** | **7.5** | **2.1** | **3.7** | **2.2** | **3.8** | **3.1** | **(1.8)** | **(0.2)** | **0.9** | **(4.3)** |
| Translation differences on cash and cash equivalents | (0.8) | (0.1) | (0.4) | (0.2) | 1.0 | 0.0 | (0.5) | 1.1 | (0.2) | (0.6) | (0.7) |
| **Change in cash and cash equivalents** | **(4.6)** | **7.4** | **1.7** | **3.5** | **3.2** | **3.8** | **2.6** | **(0.7)** | **(0.4)** | **0.3** | **(5.0)** |

| **Operating cash-flow Industrial Operations** | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK bn | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Operating income | 16.1 | 26.0 | 17.8 | (16.3) | 14.5 | 20.6 | 18.7 | 16.1 | 13.3 | 1.6 | 2.3 |
| Depreciation and amortization | 12.0 | 11.4 | 11.4 | 12.4 | 11.8 | 10.3 | 9.8 | 7.3 | 7.1 | 7.2 | 7.8 |
| Other items not affecting cash | 0.8 | 0.6 | 0.1 | 2.3 | (0.7) | (0.4) | 0.2 | 0.2 | (0.6) | 4.1 | 1.0 |
| Change in working capital | (9.2) | (4.2) | 4.6 | 4.7 | (10.9) | (0.1) | (3.1) | (5.6) | (1.4) | 0.7 | 0.4 |
| Financial items and income taxes | (7.3) | (6.9) | (5.1) | (4.7) | (5.0) | (6.0) | (3.7) | (1.9) | (0.2) | (0.7) | (1.1) |
| **Cash-flow from operating activities** | **12.4** | **26.9** | **28.8** | **(1.6)** | **9.7** | **24.4** | **21.9** | **16.1** | **18.2** | **12.9** | **10.4** |
| Investments in fixed assets | (14.6) | (12.6) | (10.3) | (10.3) | (12.6) | (10.1) | (9.7) | (9.9) | (7.2) | (5.8) | (6.3) |
| Investments in leasing assets | (3.6) | (1.4) | (0.3) | (0.2) | (0.4) | (0.2) | (0.5) | (0.3) | (0.3) | (0.1) | (0.1) |
| Disposals of fixed assets and leasing assets | 0.9 | 1.2 | 0.8 | 0.7 | 0.6 | 1.1 | 0.9 | 0.9 | 0.7 | 0.6 | 1.1 |
| **Operating cash-flow** | **(4.9)** | **14.1** | **19.0** | **(11.4)** | **(2.7)** | **15.2** | **12.6** | **6.8** | **11.4** | **7.6** | **5.1** |

**Exports from Sweden**

| SEK M | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Volvo Group, total | 84,314 | 91,065 | 72,688 | 41,829 | 96,571 | 88,606 | 80,517 | 71,133 | 62,653 | 49,300 | 52,730 |

**Key ratios**

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross margin, %[1] | 21.9 | 23.7 | 23.3 | 13.9 | 21.3 | 22.6 | 22.7 | 21.8 | 21.6 | 19.2 | 17.9 |
| Research and development expenses as percentage of net sales[1] | 5.0 | 4.4 | 5.0 | 6.3 | 4.9 | 4.0 | 3.4 | 3.3 | 3.8 | 3.9 | 3.3 |
| Selling expenses as percentage of net sales[1] | 9.0 | 8.0 | 8.8 | 11.4 | 8.7 | 8.9 | 8.0 | 8.5 | 9.1 | 9.1 | 8.7 |
| Administration expenses as percentage of net sales[1] | 1.9 | 2.3 | 2.2 | 2.8 | 2.3 | 2.6 | 2.6 | 2.7 | 2.6 | 3.0 | 3.1 |
| Return on shareholders' equity, % | 12.9 | 23.1 | 16.0 | (19.7) | 12.1 | 18.1 | 19.6 | 17.8 | 13.9 | 0.4 | 1.7 |
| Interest coverage, times[1] | 6.7 | 9.6 | 5.9 | (4.7) | 8.8 | 20.7 | 26.1 | 16.7 | 11.0 | 1.9 | 2.2 |
| Self-financing ratio, % | 18 | 118 | 270 | 137 | 5 | 153 | 189 | 116 | 163 | 152 | 110 |
| Self-financing ratio Industrial Operations, % | 72 | 210 | 294 | (16) | 78 | 265 | 235 | 173 | 268 | 243 | 196 |
| Financial position, Industrial Operations, SEK M | (22,978) | (19,346) | (24,691) | (41,489) | (29,795) | (4,305) | 23,076 | 18,675 | 18,110 | (2,426) | (6,063) |
| Net financial position as percentage of shareholders' equity, Industrial Operations | (29.3) | (25.2) | (37.4) | (70.9) | (39.7) | (5.7) | 29.2 | 23.7 | 25.8 | (3.3) | (7.7) |
| Shareholders' equity as percentage of total assets | 25.7 | 24.3 | 23.3 | 20.2 | 22.7 | 25.7 | 33.7 | 30.6 | 31.3 | 31.4 | 32.8 |
| Shareholders' equity as percentage of total assets, Industrial Operations | 30.9 | 28.5 | 26.9 | 23.8 | 28.4 | 30.8 | 40.6 | 40.4 | 40.0 | 40.5 | 42.4 |
| Shareholders' equity excluding minority interest as percentage of total assets | 25.2 | 23.9 | 23.0 | 20.0 | 22.6 | 25.6 | 33.6 | 30.5 | 31.2 | 31.3 | 32.7 |

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] | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Basic earnings, SEK[1] | 5.44 | 8.75 | 5.36 | (7.26) | 4.90 | 7.37 | 8.03 | 6.44 | 4.72 | 0.14 | 0.66 |
| Cash dividend, SEK | 3.00[10] | 3.00 | 2.50 | 0 | 2.00 | 5.50 | 10.00[9] | 3.35 | 2.50 | 1.60 | 1.60 |
| Share price at year-end, SEK (B share) | 88.80 | 75.30 | 118.50 | 61.45 | 42.90 | 108.50 | 90.70 | 74.90 | 52.70 | 43.70 | 28.40 |
| Direct return, % (B share)[2] | 3.4 | 4.0 | 2.1 | – | 4.7 | 5.1 | 11.0 | 4.5 | 4.7 | 10.5[8] | 5.6 |
| Effective return, % (B share)[3] | 22 | (34) | 97 | 43 | (59) | 25.7 | 39.8 | 48.5 | 25.5 | 71.2 | (14.8) |
| Price/earnings ratio (B share)[4] | 16.3 | 8.6 | 22.1 | neg | 8.8 | 14.7 | 11.3 | 11.6 | 11.2 | 310 | 43 |
| EBIT multiple[5] | 9.0 | 5.1 | 12.0 | neg | 3.6 | 9.7 | 10.3 | 9.3 | 9.2 | 14 | 23 |
| Payout ratio, %[6] | 55 | 34 | 47 | – | 41 | 75 | 62 | 52 | 53 | 1,143 | 242 |
| Shareholders' equity, SEK[7] | 43 | 42 | 36 | 33 | 41 | 41 | 43 | 38.80 | 34 | 34.60 | 37.40 |
| Return on shareholders' equity | 12.9 | 23.1 | 16.0 | neg | 12.1 | 18.1 | 19.6 | 17.8 | 13.9 | 0.4 | 1.7 |

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 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of shareholders at year-end | 242,482 | 251,715 | 240,043 | 233,311 | 220,192 | 197,519 | 183,735 | 195,442 | 202,300 | 208,500 | 211,000 |
| Number of Series A shares outstanding at year-end, million | 526 | 643 | 657 | 657 | 657 | 657 | 131.4 | 131.4 | 131.5 | 131.7 | 131.7 |
| Number of Series B shares outstanding at year-end, million | 1,502 | 1,385 | 1,371 | 1,371 | 1,371 | 1,369 | 273.4 | 273.1 | 278.6 | 287.8 | 287.8 |
| Average number of shares outstanding, million | 2,028 | 2,027 | 2,027 | 2,027 | 2,027 | 2,025 | 404.7 | 405.2 | 418.5 | 419.4 | 419.4 |
| Number of Series A shares traded in Stockholm during the year, million | 45.4 | 130.5 | 203.2 | 147.0 | 308.0 | 172.3 | 56.4 | 39.3 | 42.0 | 31.4 | 27.3 |
| Number of Series B shares traded in Stockholm during the year, million | 2,081.2 | 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 |
| Number of shares traded in ADR, NASDAQ during the year, million | – | – | – | – | – | 113.5 | 14.1 | 19.8 | 24.0 | 10.4 | 11.0 |

| The largest shareholders in AB Volvo, December 31, 2012[1] | Number of shares | % of total votes | Share capital, % |
|---|---|---|---|
| Industrivärden | 131,506,918 | 19.5 | 6.5 |
| Violet Partners LP | 43,727,400 | 6.5 | 2.2 |
| SHB[2] | 41,145,941 | 5.5 | 2.0 |
| Norges Bank Investment Management | 99,190,062 | 5.1 | 4.9 |
| AMF Insurance & Funds | 72,137,040 | 5.0 | 3.6 |
| Alecta (pension funds) | 90,085,000 | 4.4 | 4.4 |
| AFA Insurance | 30,014,123 | 3.8 | 1.5 |
| Swedbank Robur Funds | 93,087,320 | 3.3 | 4.6 |
| SEB Funds/Trygg Life Insurance | 48,558,688 | 2.5 | 2.4 |
| Skandia Liv | 18,503,504 | 1.9 | 0.9 |
| **Total** | **667,956,026** | **57.5** | **33.0** |

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, 2012[1] | Number of shareholders | % of total votes[1] | Share of capital, %[1] |
|---|---|---|---|
| 1–1,000 shares | 183,389 | 2.7 | 2.7 |
| 1,001–10,000 shares | 53,989 | 7.3 | 6.1 |
| 10,001–100,000 shares | 4,384 | 5.1 | 3.5 |
| 100,001– | 720 | 84.9 | 87.7 |
| **Total** | **242,482** | **100.0** | **100.0** |

1 Based on all registered shares.

AB Volvo held 4.7% of the Company's shares on December 31, 2012.

## Business area statistics

| Net sales[1] SEK M | | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Trucks** | Europe | 76,365 | 83,451 | 69,606 | 65,874 | 109,914 | 108,651 | 93,282 | 79,706 | 77,431 | 70,101 | 67,830 |
| | North America | 42,650 | 37,042 | 26,901 | 21,563 | 26,588 | 27,255 | 50,605 | 46,129 | 35,154 | 28,151 | 33,721 |
| | South America | 21,172 | 26,847 | 21,680 | 12,490 | 14,680 | 11,483 | 9,213 | 7,657 | 5,223 | 3,464 | 3,277 |
| | Asia | 36,531 | 37,840 | 35,231 | 26,943 | 37,515 | 26,593 | 8,975 | 13,551 | 12,378 | 9,206 | 5,919 |
| | Other markets | 15,565 | 13,741 | 13,887 | 12,069 | 14,538 | 13,910 | 9,190 | 8,353 | 6,693 | 6,047 | 8,005 |
| | **Total** | **192,283** | **198,920** | **167,305** | **138,940** | **203,235** | **187,892** | **171,265** | **155,396** | **136,879** | **116,969** | **118,752** |
| **Buses** | Europe | 6,200 | 6,631 | 6,242 | 7,707 | 7,321 | 7,767 | 7,924 | 7,142 | 6,948 | 6,534 | 7,104 |
| | North America | 6,675 | 7,532 | 7,200 | 5,673 | 5,355 | 4,630 | 4,910 | 4,247 | 2,960 | 2,984 | 3,838 |
| | South America | 2,794 | 2,715 | 1,737 | 1,235 | 1,571 | 1,623 | 1,537 | 2,641 | 521 | 329 | 366 |
| | Asia | 2,853 | 2,953 | 3,299 | 2,749 | 2,094 | 1,802 | 2,003 | 1,612 | 1,632 | 1,447 | 2,022 |
| | Other markets | 1,774 | 1,992 | 2,038 | 1,101 | 971 | 786 | 897 | 947 | 661 | 684 | 705 |
| | **Total** | **20,295** | **21,823** | **20,516** | **18,465** | **17,312** | **16,608** | **17,271** | **16,589** | **12,722** | **11,978** | **14,035** |
| **Construction Equipment** | Europe | 16,518 | 17,765 | 16,138 | 12,987 | 25,192 | 25,294 | 20,326 | 15,524 | 13,453 | 12,348 | 10,837 |
| | North America | 12,027 | 7,829 | 6,267 | 5,475 | 10,159 | 11,170 | 11,280 | 10,337 | 8,601 | 5,428 | 5,667 |
| | South America | 3,788 | 4,163 | 4,130 | 2,578 | 2,913 | 2,155 | 1,358 | 1,238 | 922 | 636 | 709 |
| | Asia | 27,033 | 29,999 | 24,352 | 12,957 | 13,738 | 12,179 | 6,903 | 5,717 | 4,961 | 3,707 | 3,048 |
| | Other markets | 4,192 | 3,745 | 2,923 | 1,661 | 4,077 | 2,835 | 2,264 | 2,000 | 1,423 | 1,035 | 751 |
| | **Total** | **63,558** | **63,500** | **53,810** | **35,658** | **56,079** | **53,633** | **42,131** | **34,816** | **29,360** | **23,154** | **21,012** |
| **Volvo Penta** | Europe | 3,620 | 4,274 | 4,507 | 4,390 | 6,554 | 6,798 | 6,111 | 5,102 | 4,907 | 4,189 | 3,945 |
| | North America | 1,486 | 1,379 | 1,500 | 1,100 | 1,947 | 2,674 | 2,815 | 2,832 | 2,500 | 2,109 | 2,261 |
| | South America | 306 | 335 | 335 | 284 | 364 | 274 | 221 | 208 | 142 | 146 | 127 |
| | Asia | 1,867 | 2,130 | 2,008 | 2,054 | 2,082 | 1,624 | 1,359 | 1,427 | 1,324 | 947 | 1,141 |
| | Other markets | 352 | 341 | 366 | 331 | 486 | 349 | 268 | 207 | 184 | 205 | 195 |
| | **Total** | **7,631** | **8,458** | **8,716** | **8,159** | **11,433** | **11,719** | **10,774** | **9,776** | **9,057** | **7,596** | **7,669** |
| **Volvo Aero** | Europe | 2,404 | 2,893 | 3,768 | 3,942 | 3,497 | 3,462 | 3,798 | 3,406 | 3,179 | 4,000 | 3,450 |
| | North America | 2,657 | 3,300 | 3,599 | 3,508 | 3,534 | 3,723 | 3,815 | 3,612 | 3,127 | 3,301 | 4,573 |
| | South America | 0 | 7 | 27 | 34 | 58 | 127 | 173 | 168 | 138 | 152 | 177 |
| | Asia | 109 | 104 | 233 | 205 | 234 | 234 | 356 | 284 | 400 | 428 | 497 |
| | Other markets | 49 | 52 | 81 | 114 | 125 | 100 | 91 | 68 | 81 | 149 | 140 |
| | **Total** | **5,219** | **6,356** | **7,708** | **7,803** | **7,448** | **7,646** | **8,233** | **7,538** | **6,925** | **8,030** | **8,837** |
| | Other and eliminations | 7,044 | 4,532 | (680) | (538) | (575) | (703) | (654) | 7,076 | 7,228 | 7,041 | 6,775 |
| **Net sales Industrial Operations** | | **296,031** | **303,589** | **257,375** | **208,487** | **294,932** | **276,795** | **249,020** | **231,191** | **202,171** | **174,768** | **177,080** |
| **Customer Finance** | Europe | 4,703 | 4,663 | 4,733 | 7,127 | 7,099 | 4,484 | 4,388 | 4,797 | 6,613 | 6,078 | 5,997 |
| | North America | 2,833 | 2,326 | 2,605 | 3,004 | 369 | 2,467 | 2,569 | 2,036 | 2,432 | 2,542 | 3,344 |
| | South America | 1,195 | 1,131 | 1,156 | 1,070 | 791 | 620 | 608 | 570 | 396 | 358 | 403 |
| | Asia | 795 | 571 | 435 | 435 | 158 | 87 | 45 | 101 | 90 | 65 | 49 |
| | Other markets | 257 | 192 | 101 | 75 | 68 | 47 | 38 | 45 | 67 | 110 | 132 |
| | **Total** | **9,783** | **8,883** | **9,031** | **11,711** | **8,485** | **7,705** | **7,648** | **7,549** | **9,598** | **9,153** | **9,925** |
| | Eliminations | (2,167) | (2,104) | (1,658) | (1,836) | 250 | 905 | 2,167 | 1,819 | (693) | (630) | (807) |
| **Volvo Group total** | | **303,647** | **310,367** | **264,749** | **218,361** | **303,667** | **285,405** | **258,835** | **240,559** | **211,076** | **183,291** | **186,198** |

1 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.

Volvo Aero was divested in October 1, 2012.

# ELEVEN-YEAR SUMMARY

| Operating income | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK M | 2012[4] | 2011 | 2010 | 2009 | 2008 | 2007 | 2006[1] | 2005 | 2004[2] | 2003[3] | 2002 |
| Trucks | 10,216 | 18,227 | 10,112 | (10,805) | 12,167 | 15,193 | 13,116 | 11,717 | 8,992 | 3,951 | 1,189 |
| Buses | 51 | 1,114 | 780 | (350) | (76) | 231 | 745 | 470 | 158 | (790) | (94) |
| Construction Equipment | 5,773 | 6,812 | 6,180 | (4,005) | 1,808 | 4,218 | 4,072 | 2,752 | 1,898 | 908 | 406 |
| Volvo Penta | 541 | 825 | 578 | (230) | 928 | 1,173 | 1,105 | 943 | 940 | 695 | 647 |
| Volvo Aero | 767 | 360 | 286 | 50 | 359 | 529 | 359 | 836 | 403 | (44) | 5 |
| Customer Finance | 1,492 | 969 | 167 | (680) | 1,397 | 1,649 | 1,686 | 2,033 | 1,365 | 926 | 490 |
| Other | (1,217) | (1,408) | (102) | (994) | (731) | (762) | (684) | (598) | 923 | (3,142) | 194 |
| **Operating income (loss) Volvo Group** | **17,622** | **26,899** | **18,000** | **(17,013)** | **15,851** | **22,231** | **20,399** | **18,153** | **14,679** | **2,504** | **2,837** |

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 Volvo Aero was divested October 1, 2012.

| Operating margin | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| % | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Trucks | 5.3 | 9.2 | 6.0 | (7.8) | 6.0 | 8.1 | 7.7 | 7.5 | 6.6 | 3.4 | 1.0 |
| Construction Equipment | 9.1 | 10.7 | 11.5 | (11.2) | 3.2 | 7.9 | 9.7 | 7.9 | 6.5 | 3.9 | 1.9 |
| Buses | 0.3 | 5.1 | 3.8 | (1.9) | (0.4) | 1.4 | 4.3 | 2.8 | 1.2 | (6.6) | (0.7) |
| Volvo Penta | 7.1 | 9.8 | 6.6 | (2.8) | 8.1 | 10.0 | 10.3 | 9.6 | 10.4 | 9.1 | 8.4 |
| Volvo Aero | 14.7 | 5.7 | 3.7 | 0.6 | 4.8 | 6.9 | 4.4 | 11.1 | 5.8 | (0.5) | 0.1 |
| **Volvo Group Industrial Operations** | **5.4** | **8.5** | **6.9** | **(7.8)** | **5.2** | **7.8** | **7.9** | **7.9** | **7.3** | **1.4** | **1.6** |

| Number of employees at year-end | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number[1, 2, 3] | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Trucks | 61,256 | 62,315 | 57,796 | 56,505 | 64,280 | 64,390 | 49,900 | 50,240 | 49,450 | 46,900 | 43,470 |
| Buses | 7,514 | 8,529 | 8,685 | 9,541 | 8,930 | 9,290 | 7,760 | 7,710 | 7,700 | 6,680 | 6,660 |
| Construction Equipment | 14,788 | 18,422 | 16,648 | 16,126 | 19,810 | 19,710 | 11,050 | 10,290 | 9,930 | 9,280 | 8,410 |
| Volvo Penta | 1,361 | 2,549 | 2,353 | 2,928 | 2,940 | 3,000 | 1,650 | 1,560 | 1,580 | 1,440 | 1,410 |
| Volvo Aero | – | 3,179 | 3,120 | 3,278 | 3,510 | 3,550 | 3,510 | 3,460 | 3,350 | 3,440 | 3,660 |
| Financial Services | 1,362 | 1,323 | 1,235 | 1,234 | 1,290 | 1,150 | 1,010 | 1,070 | 1,100 | 1,060 | 1,060 |
| Other | 12,436 | 1,845 | 572 | 596 | 620 | 610 | 8,310 | 7,530 | 7,970 | 6,940 | 6,490 |
| **Volvo Group, total** | **98,717** | **98,162** | **90,409** | **90,208** | **101,380** | **101,700** | **83,190** | **81,860** | **81,080** | **75,740** | **71,160** |

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.
3 As of 2012, employees in business units are not allocated to the business areas.

| Environmental performance of Volvo production plants, Industrial operations | | | | |
|---|---|---|---|---|
| Absolute values related to net sales | 2012 | 2011 | 2010 | 2009 |
| Energy consumption (GWh; MWh/SEK M) | 2,518; 8.5 | 2,471; 8.1 | 2,315; 9.0 | 1,888; 9.1 |
| $CO_2$ emissions (1,000 tons; tons/SEK M) | 235; 0.8 | 255; 0.8 | 279; 1.1 | 213; 1.0 |
| Water consumption (1,000 $m^3$; $m^3$/SEK M) | 7,372; 24.9 | 7,970; 26.2 | 7,519; 29.2 | 6,637; 31.8 |
| $NO_x$ emissions (tons; kilos/SEK M) | 413; 1.4 | 474; 1.6 | 719; 2.8 | 322; 1.5 |
| Solvent emissions (tons; kilos/SEK M) | 2,358; 8.0 | 2,554; 8.4 | 2,294; 8.9 | 1,435; 6.9 |
| Sulphur dioxide emissions (tons; kilos/SEK M) | 26; 0.1 | 34; 0.1 | 33; 0.1 | 38; 0.2 |
| Hazardous waste (tons; kg/SEK M) | 32,547; 109.9 | 25,943; 85.5 | 22,730; 88 | 17,558; 84 |
| Net sales, SEK bn | 296.0 | 303.6 | 257.4 | 208.5 |

1 Excluding UD Trucks and Ingersoll Rand Road Development.

## Employees

| Number[1] | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sweden | 23,052 | 24,663 | 23,073 | 22,763 | 28,190 | 28,660 | 27,830 | 27,070 | 28,530 | 26,380 | 25,420 |
| Europe, excluding Sweden | 30,382 | 30,458 | 29,239 | 29,793 | 32,940 | 32,780 | 30,070 | 29,650 | 28,930 | 29,120 | 27,130 |
| North America | 16,569 | 15,427 | 12,844 | 12,640 | 14,200 | 15,750 | 14,820 | 15,140 | 14,620 | 12,270 | 12,440 |
| South America | 5,977 | 5,234 | 4,322 | 4,257 | 4,380 | 4,640 | 3,890 | 3,690 | 3,110 | 2,640 | 2,020 |
| Asia | 20,222 | 19,924 | 18,535 | 18,416 | 19,090 | 17,150 | 4,420 | 4,210 | 4,130 | 3,710 | 2,590 |
| Other markets | 2,515 | 2,456 | 2,396 | 2,339 | 2,580 | 2,720 | 2,160 | 2,100 | 1,760 | 1,620 | 1,560 |
| **Volvo Group total** | **98,717** | **98,162** | **90,409** | **90,208** | **101,380** | **101,700** | **83,190** | **81,860** | **81,080** | **75,740** | **71,160** |

1 As of 2009 regular employees are shown, previously temporary employees were also included.

## Delivered units

| Number | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Heavy-duty trucks (>16 tons) | 172,798 | 179,779 | 123,522 | 82,675 | 179,962 | 172,322 | 179,089 | 172,242 | 152,300 | 120,920 | 120,200 |
| Medium-duty trucks (7–15.9 tons) | 32,935 | 34,631 | 30,657 | 21,653 | 30,817 | 27,933 | 14,695 | 18,643 | 18,800 | 15,870 | 16,220 |
| Light trucks (<7 tons) | 18,284 | 23,982 | 25,811 | 23,354 | 40,372 | 36,101 | 26,147 | 23,494 | 22,120 | 19,200 | 20,710 |
| **Total trucks** | **224,017** | **238,391** | **179,989** | **127,681** | **251,151** | **236,356** | **219,931** | **214,379** | **193,220** | **155,990** | **157,130** |

| Number | | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Trucks** | Total Europe | 84,355 | 95,113 | 65,503 | 49,145 | 121,847 | 128,070 | 114,417 | 103,622 | 102,670 | 92,080 | 96,290 |
| | Western Europe | 63,730 | 75,728 | 56,215 | 43,919 | 95,969 | 100,106 | 97,074 | 91,087 | 90,750 | 82,670 | 87,490 |
| | Eastern Europe | 20,625 | 19,385 | 9,288 | 5,226 | 25,878 | 27,964 | 17,343 | 12,535 | 11,920 | 9,410 | 8,800 |
| | North America | 47,806 | 42,613 | 24,282 | 17,574 | 30,146 | 33,280 | 70,499 | 64,974 | 49,270 | 34,760 | 36,510 |
| | South America | 23,443 | 29,274 | 21,483 | 12,587 | 18,092 | 15,264 | 11,646 | 11,248 | 9,190 | 5,980 | 5,360 |
| | Asia | 51,514 | 56,165 | 53,833 | 34,800 | 60,725 | 39,916 | 12,817 | 25,706 | 24,880 | 16,290 | 9,140 |
| | Other markets | 16,899 | 15,226 | 14,888 | 13,575 | 20,341 | 19,826 | 10,552 | 8,829 | 7,210 | 6,880 | 9,830 |
| | **Total** | **224,017** | **238,391** | **179,989** | **127,681** | **251,151** | **236,356** | **219,931** | **214,379** | **193,220** | **155,990** | **157,130** |
| **Buses** | Total Europe | 2,491 | 2,695 | 2,395 | 3,164 | 3,313 | 3,748 | 3,570 | 3,723 | 3,417 | 3,087 | 3,413 |
| | Western Europe | 2,427 | 2,601 | 2,336 | 2,896 | 3,140 | 3,377 | 3,081 | 3,385 | 3,073 | 2,782 | 3,076 |
| | Eastern Europe | 64 | 94 | 59 | 268 | 173 | 371 | 489 | 338 | 344 | 305 | 337 |
| | North America | 1,826 | 3,014 | 2,092 | 1,539 | 1,884 | 1,547 | 1,741 | 1,546 | 1,388 | 1,553 | 1,945 |
| | South America | 2,560 | 2,620 | 1,174 | 690 | 995 | 1,318 | 1,236 | 2,297 | 624 | 369 | 495 |
| | Asia | 2,945 | 3,417 | 3,477 | 3,839 | 3,033 | 2,757 | 3,349 | 2,554 | 2,341 | 2,227 | 2,639 |
| | Other markets | 856 | 1,040 | 1,091 | 625 | 712 | 546 | 464 | 555 | 462 | 581 | 567 |
| | **Total** | **10,678** | **12,786** | **10,229** | **9,857** | **9,937** | **9,916** | **10,360** | **10,675** | **8,232** | **7,817** | **9,059** |

| 2008 | 2007[1] | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|
| 2,530; 8.6 | 2,426; 9.6 | 2,612; 10.5 | 2,683; 11.6 | 2,695; 13.3 | 2,607; 14.9 | 2,564; 14.5 |
| 291; 1.0 | 242; 1.0 | 282; 11.4 | 292; 1.3 | 293; 1.5 | 298; 1.7 | 307; 1.7 |
| 8,205; 27.8 | 7,067; 27.9 | 7,596; 30.6 | 7,419; 32.1 | 8,495; 42.2 | 8,687; 49.1 | 9,202; 52.0 |
| 800; 2.7 | 542; 2.1 | 606; 2.4 | 672; 2.9 | 645; 3.2 | 570; 3.3 | 726; 4.1 |
| 1,945; 6.6 | 1,979; 7.8 | 2,048; 8.3 | 1,960; 8.5 | 2,085; 10.3 | 1,965; 11.2 | 1,896; 10.7 |
| 64; 0.2 | 58; 0.2 | 69; 0.3 | 209; 0.9 | 184; 0.9 | 200; 1.1 | 173; 1.0 |
| 27,675; 94 | 27,120; 107 | 26,987; 108.8 | 23,590; 102 | 24,675; 122.1 | 21,613; 124 | 20,531, 116 |
| 294.9 | 253.2 | 248.1 | 231.2 | 202.1 | 174.8 | 177.1 |

# 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.

**Financial targets**
Information on how the comparison with competitors is made is available under the heading Investors on www.volvogroup.com.

**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, 2013

The Annual General Meeting of AB Volvo will be held in Göteborg in Lisebergshallen (entrance from Örgrytevägen) Thursday, April 4, 2013, 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 27, 2013 and give notice of intention to attend, not later than March 27, 2013:

- by telephone, +46 8 402 90 76, beginning February 27, 2013
- 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 27, 2013, 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 |
| Carl-Henric Svanberg | 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 2013 | April 25, 2013 |
| Report for the first six months 2013 | July 24, 2013 |
| Report for the first nine months 2013 | October 25, 2013 |
| Report on 2013 operations | February, 2014 |
| Annual Report 2013 | March, 2014 |

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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