
ANNUAL REPORT

2014

EFFICIENCY



THE VOLVO 7900 ELECTRIC HYBRID REDUCES FUEL CONSUMPTION AND CARBON DIOXIDE EMISSIONS BY UP TO 75% COMPARED WITH A CONVENTIONAL DIESEL BUS. TOTAL ENERGY CONSUMPTION IS REDUCED BY 60%.

VOLVO

Volvo Group

A GLOBAL GROUP

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Fold-out Definitions
Annual General Meeting

The Volvo Group's formal financial reports are presented on pages 66-89 and 108-177 in the printed version and has been audited by the company's auditors.

1 OPERATING CONTEXT

The world evolves at a rapid pace, making it more important than ever for the

Volvo Group to have an informed understanding of our global operating environment. As part of our business and sustainability strategies, we continually analyze megatrends and regional variations to assess their impact on our Group and to seek new business opportunities.



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2 STRATEGY

The Volvo Group's strategy contributes to realizing the Group's vision and wanted position by developing and driving strategies for profitable growth, efficiency and transformation towards sustainable transport solutions.



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3 BUSINESS MODEL

The Volvo Group's business model is focused on utilizing its strong brands, technological expertise, efficient products and world-class services and distribution to create value for its customers.



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4 GROUP PERFORMANCE

Since the streamlining towards commercial vehicles was initiated more than ten years ago, the Volvo Group has grown into the world's second largest manufacturer of heavy-duty trucks and one of the largest manufacturers of buses and construction equipment and is today also a leading manufacturer of heavy-duty diesel engines and marine and industrial engines. Year 2014 was characterized by mixed market conditions and internal measures to increase efficiency and profitability.



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5 CORPORATE GOVERNANCE

The Volvo Group appreciates the value of sound corporate governance as a fundamental base in achieving a trusting relation with shareholders and other key parties. The Swedish Corporate Governance Code, which is applied by the Volvo Group, aims at empowering the shareholders and creating a sound balance of power between shareholders, the board of directors and the senior management. Sound corporate governance, characterized by high standards when it comes to transparency, reliability and ethical values, has always been a well-established guiding principle within the Volvo Group's operations.



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6 FINANCIAL INFORMATION

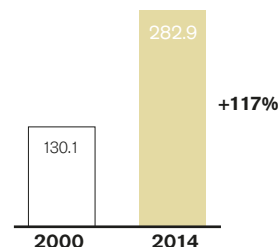
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COMPLETE PARTNER

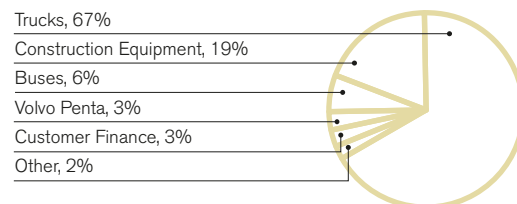
The Volvo Group is one of the world's leading manufacturers of trucks, buses, construction equipment and marine and industrial engines. The Group also provides complete solutions for financing and service. The Volvo Group, which employs about 100,000 people, has production facilities in 19 countries and sells its products in more than 190 markets. In 2014 the Volvo Group's sales amounted to about SEK 283 billion. AB Volvo's shares are listed on Nasdaq Stockholm.



**Volvo Group net sales
2000-2014, SEK bn**



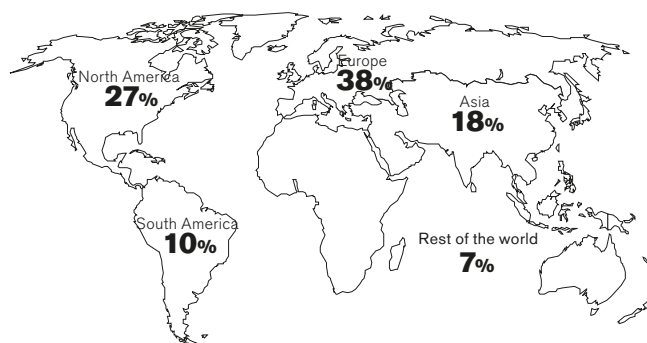
Share of net sales



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 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 2014 that share had grown to 42%.

Share of net sales by market 2014



STRONG BRANDS

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



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.

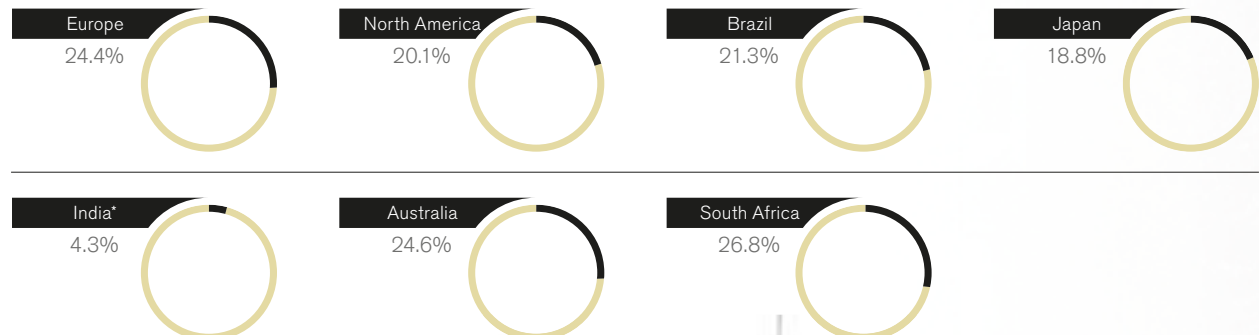
This report does not imply that the company has undertaken to revise these forward-looking statements, beyond what is required under the company's registration contract with Nasdaq Stockholm if and when circumstances arise that will lead to changes compared to the date when these statements were provided.

STRONG POSITIONS

- The world's second largest manufacturer of heavy-duty trucks.
- One of the world's largest manufacturers of buses and construction equipment.
- A leading independent supplier of marine and industrial engines.
- One of the world's largest manufacturers of heavy-duty diesel engines.
- Global market presence.



GROUP MARKET SHARES – Heavy-duty trucks 2014



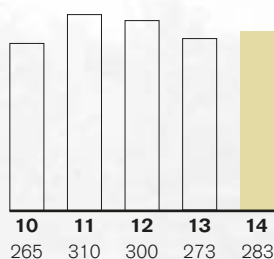
* In India Eicher, which is part of the Group's joint venture VE Commercial Vehicles, has a particularly strong position within medium-duty trucks with a market share of 30.7%.

THE VOLVO GROUP 2014

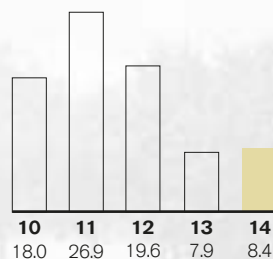


- » Net sales increased by 4% to SEK 282.9 billion (272.6).
- » Operating income excluding restructuring charges amounted to SEK 8.4 billion (7.9).
- » Operating margin excluding restructuring charges amounted to 3.0% (2.9).
- » Improved underlying profitability with good traction in the activities to improve efficiency and reduce the cost base.
- » Increased cost-savings scope in addition to the Strategic Program.
- » Strengthened financial position – at year end net debt in the Industrial Operations amounted to 14% of shareholders' equity.
- » Proposed dividend of SEK 3.00 per share (3.00).

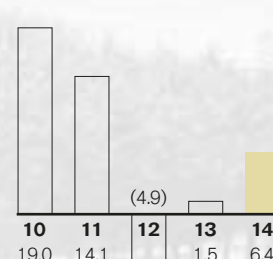
Net sales, SEK bn



Operating income excl. restructuring charges, SEK bn



Operating cash flow, Industrial operations, SEK bn



Key ratios	2014	2013	Key ratios	2014	2013
Net sales, SEK M	282,948	272,622	Return on shareholders' equity, %	2.8	5.0
Operating income excl. restructuring charges, SEK M	8,393	7,854	Number of permanent employees	92,822	95,533
Operating margin excl. restructuring charges, %	3.0	2.9	Share of women, %	18	17
Restructuring charges, SEK M	(2,569)	(715)	Share of women, Presidents and other senior executives, %	21	19
Operating income, SEK M	5,824	7,138	Employee Engagement Index, %	72	76
Operating margin, %	2.1	2.6	Energy consumption, MWh/SEK M	7.9	9.6
Income after financial items, SEK M	5,089	4,721	CO ₂ emissions, tons/SEK M	0.8	1.1
Income for the period, SEK M	2,235	3,802	Water consumption, m ³ /SEK M	18.1	21.9
Diluted earnings per share, SEK	1.03	1.76	Share of direct material purchasing spend from suppliers having made a CSR self-assessment, %	80	72
Dividend per share, SEK	3.00¹	3.00			
Operating cash flow, Industrial Operations, SEK bn	6.4	1.5			

1 According to the Board's proposal.

CEO COMMENT

A year of extensive efficiency measures and improved underlying profitability

Following the most comprehensive product renewal program in the Volvo Group's history, which began in the autumn of 2012 and culminated in 2013, the focus in 2014 was on implementing measures to strengthen our internal efficiency and reduce the Group's costs.

In the past decade, the Group's acquisition-driven expansion, including such acquisitions as Renault Trucks, Mack, UD Trucks and SDLG, has provided us with access to new brands and new markets. The final big piece of the puzzle in this strategy was the acquisition of 45% of the Chinese company Dongfeng Commercial Vehicles, which was concluded in January 2015. The expansion and streamlining to commercial vehicles can be described as the first phase in the Group's transformation. We are currently in the second phase. It is now about capitalizing on the benefits derived from years of growth in the form of brands, products, geographic coverage and volumes. It is about merging all the different parts into an efficient Volvo Group, in which they all work seamlessly together. It is about generating synergy gains to increase our profitability.

Improved underlying profitability

The trends in our markets displayed large variations. The North American economy was strong, while Europe was largely characterized by uncertainty about the strength of the economic recovery and concern surrounding Russia. In Asia, the trend in Japan was generally positive and growth in India turned in the right direction, while China had a weaker development. In South America, Brazil was impacted by a weak economic development. The mixed trend is reflected by the Group's deliveries of trucks, which in total were on the same level as in 2013 while deliveries of construction equipment declined substantially, with a weak trend mainly in China. It is also reflected in our net sales which, adjusted for currency and acquired and divested units, only rose by 2% to SEK 283 billion.

Our operating income excluding restructuring costs improved slightly to SEK 8.4 billion corresponding to an operating margin of 3.0%. Income was in total negatively affected by a number of large items of a non-recurring nature such as provisions for the EU investigation, expected credit losses in China and a litigation in the U.S. However, the underlying profitability improved because we succeeded in our work to increase gross margins on both new trucks and the products and services we offer in the aftermarket. All the measures we implement to enhance our efficiency and reduce our costs also contributed to improve the profitability.

The activities in our 2013–2015 strategic program are being implemented according to plan. These include a structural reduction in the number of white-collar employees and consultants, a restructuring of the industrial structure in Europe and Japan, streamlining the sales and service organization for trucks in Europe and a restructuring of global spare-parts distribution. As

planned, the program generated savings at a clearly increasing rate during the year and the combined savings in cash spend in research and development and costs for sales and administration amounted to SEK 2.2 billion compared with 2013. In the autumn, we identified further opportunities to reduce our costs and consequently increased the scope of the strategic program with additional measures in Volvo CE, a reorganization of Group Trucks Sales and an overview of what is core and non-core in our IT operations. All of the new and ongoing measures will be implemented before the end of this year and have full effect next year. In total, these measures are expected to result in savings of SEK 10 billion for the full-year 2016 compared with the full-year 2012. Costs for the program amount to SEK 6–7 billion.

Another of our priorities for 2014 was to strengthen our financial position and this was achieved by a combination of activities to improve the cash flow as well as the divestment of Volvo Rents. In total, we reduced the financial net debt by nearly SEK 10 billion and at the end of the year, the financial net debt in the industrial operations was 14% of shareholders' equity.

Our truck operations advances its positions

In our truck operations, North America was the biggest source of rejoice with a strong market, significantly improved profitability and higher market shares for both Volvo and Mack. In general, the market-share trend was positive in several of our markets, which confirms that our efforts and focus on supporting our customers are successful. In Europe, the new series of Volvo trucks continued to advance its position with a combination of good price realization and increasing market shares. We are also very pleased about the nomination of the new Renault Trucks T series as "International Truck of the Year 2015." After a weak 2014, we can now see that Renault Trucks is gradually increasing sales of the new truck series. We also continued to gain market shares in the important Brazilian market, which however weakened significantly during the year with increasing price pressure.

In January, 2015, we completed the acquisition of 45% of the Chinese company Dongfeng Commercial Vehicles, which includes most of Dongfeng's operation in heavy-duty and medium-duty commercial vehicles. In 2013 DFCV had 26,000 employees and sales amounted to SEK 37 billion. With deliveries of 172,000 trucks, DFCV is among the leading manufacturers in both the heavy-duty and medium-duty segments. The strategic alliance is a true milestone and means a fundamental change in the Volvo Group's potential in the Chinese trucks market, which is the largest in the world.

“ Together, we are building a Volvo Group that is strong enough to meet the challenges of the future.



Lower volumes in Volvo CE

Our construction equipment operation had a more difficult year, not least because of the impact from the further decline in the Chinese market. Coupled with a weak development in other emerging markets, particularly for those that are dependent on raw materials and the mining industry, this meant that equipment deliveries declined by 13% during the year.

In China, demand for new equipment decreased significantly due to low utilization of the existing machine population as a consequence of a decline in the activity in the mining and construction industries as well as a high number of quite new secondhand equipment in the market. This has generated pressure on liquidity at dealers and customers, which impacts their ability to make the installment payments on leasing contracts. Accordingly, we made a provision of SEK 660 M for expected credit losses in China. During the year, we adapted our production in China downwards several times to avoid stockpiling.

Towards the end of the year, we announced additional measures in Volvo CE to adapt the cost structure and address the profitability of certain products. One of these was the decision to discontinue the development and production of backhoe loaders and motor graders under the Volvo brand and transfer the development and manufacturing of some models to our operations in China. This results in the closure of Volvo CE's manufacturing in Wrocław and significant reductions in Pederneiras and Shippensburg.

Improved profitability for Volvo Buses, Volvo Penta and VFS

The global bus market remained at a low level during the year and our bus deliveries declined by 2%. The lower volumes and production disturbances at one of our plants had a negative impact on profitability, while a favorable trend in parts of the world turned the loss in 2013 into a small profit. It is clear that our efforts in hybrid buses and fully electric buses are being met by increasing interest around the world. For example, the new Volvo 7900 Electric Hybrid commenced commercial line traffic in Hamburg in December. The plug-in hybrid bus reduces energy consumption by 60% and carbon-dioxide emissions by 75% compared with an ordinary diesel bus. In this area, we have developed our offering to also include complete solutions, including such infrastructure as charging poles.

Volvo Penta strengthened its profitability during the year thanks to improved product and customer mix. In the leisure-boat market, there are cautiously positive signals from European and American boat builders, while activities are increasing in the market for commercial shipping. Industrial engines have a more varied trend, with weak demand in the mining market. A positive aspect is that more customers are appreciating the advantages that Volvo Penta's new industrial engines are based on one and the same technical solution, making it easier for customers to develop their own products.

Our customer finance operations had a good profitability development with low credit losses in 2014.

On the way to higher operational efficiency

Together, we are building a Volvo Group that is strong enough to meet the challenges of the future and takes steps toward our vision of becoming the world leader in sustainable transport solutions. I am convinced that the transport and infrastructure industries have key roles to play in this development toward a more sustainable society, which is absolutely necessary. Therefore, I felt very honored when I was appointed co-chairman of the UN's advisory panel for sustainable transport. The purpose of the panel is to promote and accelerate development in this area and my ambition is to contribute with concrete actions towards social, economic and environmentally sustainable transport solutions.

I can look back at a year of significant changes and numerous improvement measures that are now paying off. It was a year that required considerable efforts from the Group's employees, who did a very good job. Looking ahead, we still have a great deal of hard work before us, but we continue to keep up the pace in the measures to increase efficiency, reduce costs and improve our profitability to a level that is among the best in our industry.

Olof Persson
President and CEO

READ MORE ABOUT OUR STRATEGY STARTING ON PAGE 14

IMPROVED UNDERLYING PROFITABILITY

Improved gross income and lowered operating expenses



In 2014, the Volvo Group improved the underlying profitability as a result of better volumes, reduced operating expenses from the efficiency measures being implemented across the Group and higher margins for both new products and in the spare parts and service business.

Net sales increased

The Group's net sales increased by 4% to SEK 282,948 M (272,622). Adjusted for changes in currency exchange rates and acquired and divested units net sales were up by 2% compared to 2013. Sales increased significantly in North America, was up slightly in Western Europe whereas it decreased in Asia, South America and Eastern Europe. From a segment perspective sales increased in Trucks, Buses and Volvo Penta while they decreased for Volvo Construction Equipment (Volvo CE).

Earnings impacted by restructuring costs and provisions

The Volvo Group's operating income amounted to SEK 5,824 M (7,138) and the operating margin was 2.1% (2.6). The operating income was negatively impacted by restructuring charges in an amount of SEK 2,569 M, provisions for the EU antitrust investigation of SEK 3,790 M, expected credit losses in China of SEK 660 M as well as a litigation in the U.S. of SEK 422 M. Operating income includes a positive impact of SEK 815 M from a capital gain on the sale of real estate and SEK 226 M from a release of a provision for Volvo Rents. In 2013 operating income was negatively impacted by a write-down of Volvo Rents of SEK 1,500 M, an increased warranty provision of SEK 900 M and restructuring charges of SEK 715 M.

Excluding these items, the underlying operating income amounted to SEK 12,224 M compared with SEK 10,253 M, corresponding to an operating margin of 4.3% (3.8). Compared with 2013, the increased underlying operating income was primarily driven by increased sales volumes, a reduction in operating expenses and improved gross income based on higher margins for new products as well as services and aftermarket products in both Europe and North America. This was partly off-set by a negative market mix, with lower volumes in Brazil and China. Research and

development expenses were higher compared to 2013 as a consequence of net capitalization of research and development expenses being SEK 2,340 M lower. Cash spend in research and development, however was reduced by SEK 916 M compared with 2013. Unfavorable currency development had a negative impact on operating income in an amount of SEK 422 M compared with 2013.

The truck business improved its underlying profitability with a positive contribution from increased margins for the new Volvo FH range in Europe. The Volvo brand improved its market share and had a good volume development across the continent. Volumes and profitability in the North American truck business increased significantly and contributed to the improved operating income. The performance in Europe and North America was partially off-set by a downturn in Brazil with lower volumes and pressure on margins. From a market mix perspective the relatively higher share of sales stemming from North America and lower share from Brazil had a dilutive effect on margins. Low volumes of the new UD Quester and the new Renault Trucks range as well as the turbulent Russian market led to low capacity utilization in parts of the industrial system.

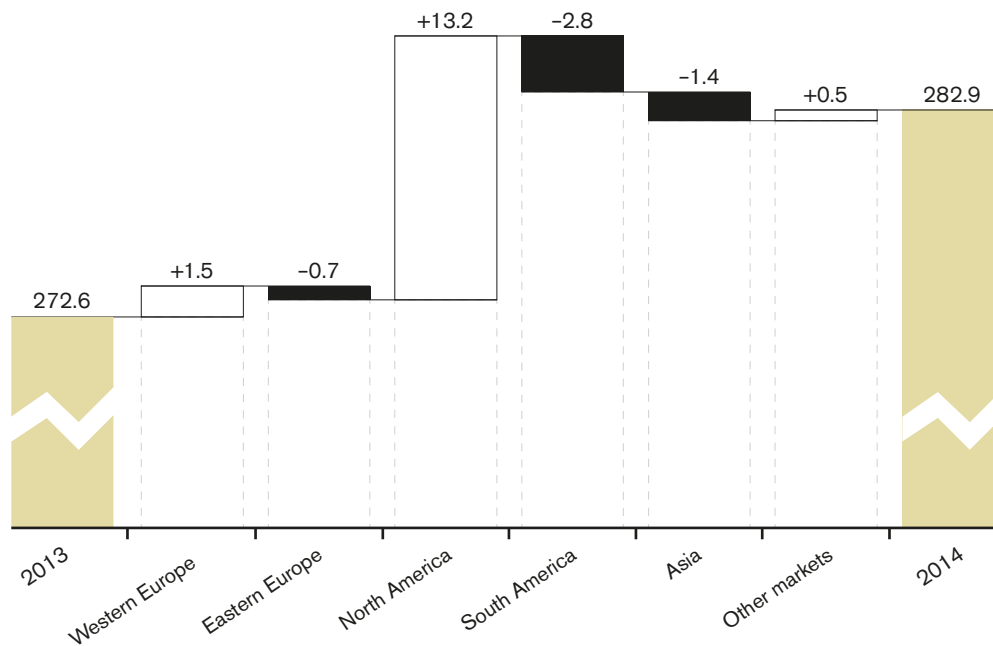
Volvo CE was negatively impacted by lower sales volumes and a low capacity utilization in the industrial system. Low machine utilization in the important Chinese market, primarily in the mining industry, led to a weakening of Volvo CE's sales as well as the profitability and financial positions of dealers and customers in the country.

Buses' operating income was positively impacted by a favorable mix, an improved aftermarket and internal cost-efficiency programs, while operational disturbances in one of the plants had a negative impact. Volvo Penta's profitability was positively impacted primarily by a favorable product and customer mix.



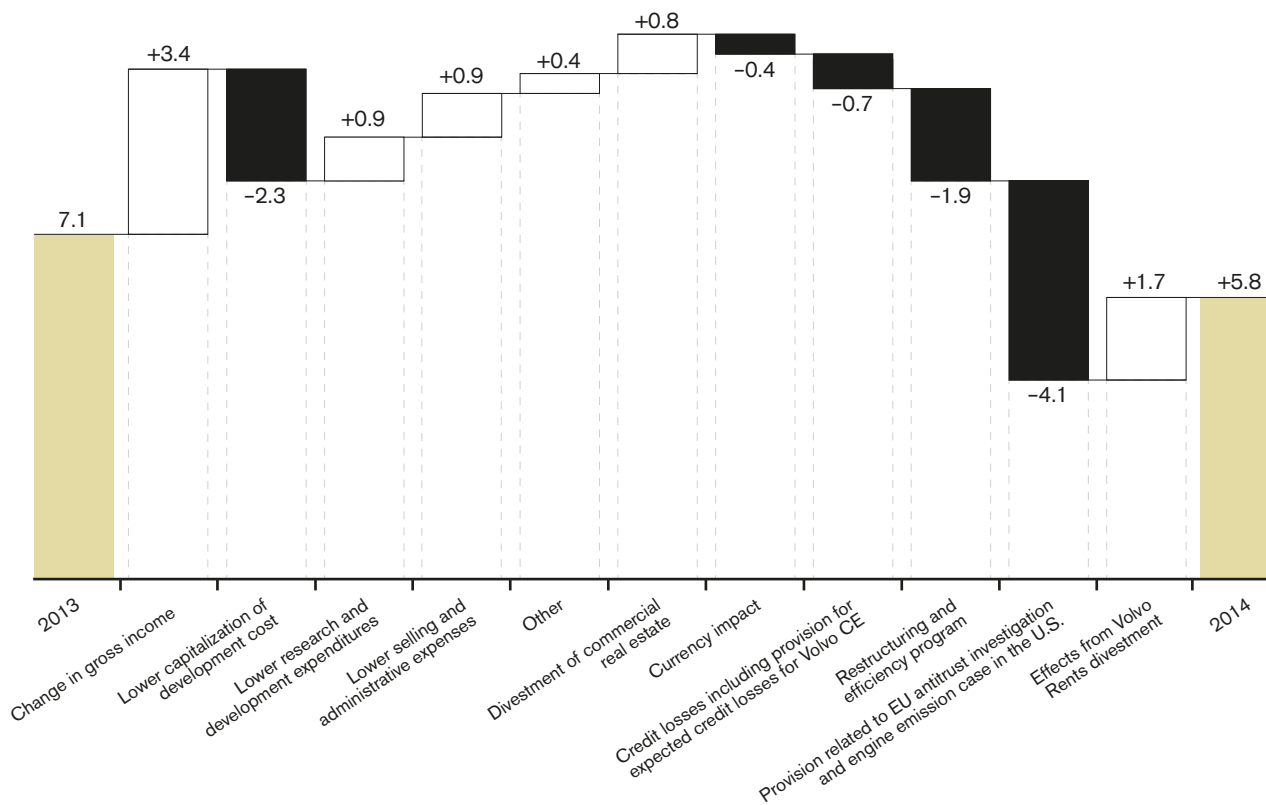
Net sales development

SEK bn



Operating income development

SEK bn





OPERATING CONTEXT

The world evolves at a rapid pace, making it more important than ever for the Volvo Group to have an informed understanding of our global operating environment. As part of our business and sustainability strategies, we continually analyze megatrends and regional variations to assess their impact on our Group and to seek new business opportunities.



TRANSPORT NEEDS TODAY AND TOMORROW

Long-term challenges and some of our solutions



From a Volvo Group perspective, there are a number of trends and challenges driving our work to develop and deliver sustainable transport and infrastructure solutions today and tomorrow. A few key challenges and some of our solutions are presented below.

1

Demographic growth and urbanization

Today over seven billion people live on the planet. The United Nations Population Fund expects there to be eight billion people by 2025, and over nine billion in 2050. Half the world's population already lives in cities, but the levels of urbanization vary widely by region. In the next decade, we will see a much greater rural-urban shift in Asia and Africa

in particular. As urban populations grow, cities face increasing social and environmental challenges, including congestion, noise and pollution. This challenges the transport and infrastructure industry to provide more sustainable and efficient solutions for each type of urban development, whether a small or medium sized city or a mega city.



EXAMPLES OF OUR SOLUTIONS

20%
higher capacity



City Mobility program

Through the City Mobility program, the Volvo Group works collaboratively with public transport decision makers in numerous cities around the world to develop and apply new technologies and transport solutions, such as hybrid and electric vehicles. City transport requirements drive further development of system solutions. Selling a bus is more and more about selling the ability to run a public transport system with an established infrastructure, for example with charging stations.

The Volvo Group has been a pioneer in supporting the development of and providing the products and services for Bus Rapid Transit (BRT) systems around the world. In Brazil, for example, Volvo in 2014 delivered 124 articulated buses to a new BRT line in Rio de Janeiro; these buses offer a capacity 20% higher than most of the similar buses operating in the BRT lines there. This higher transport capacity facilitates a reduction in the number of vehicles operating in the BRT corridor, which consequently increases the average speed of the system, thus reducing emissions of pollutants as well as operating costs.

Together with the city of Curitiba, Brazil Volvo pioneered Bus Rapid Transit.

2

Climate change

There is widespread agreement that the burning of fossil fuels, including oil and diesel, is a major source of greenhouse gas emissions, which causes climate change. Businesses and other stakeholders aiming for a sustainable transport sector must respond by improving fuel efficiency and moving towards lower carbon alternatives. This challenge is driving interest

and opportunities in electromobility, as well as alternative and renewable fuels. Developments across regions vary in speed and direction, depending on the availability of natural resources and fuels, infrastructure, political will, and incentives.



EXAMPLES OF OUR SOLUTIONS

Reducing emissions, supporting customers, improving results

When the Volvo Group developed the new heavy duty truck ranges for Volvo and Renault Trucks launched in 2013–14, we considered every aspect of the fuel efficiency and emissions equation, including engines, tractor weight, fuel type and driver behavior, and we continue to do so with new technology developments. This will continue to result in new solutions in the future with improved environmental, economic and social benefits for our truck, bus, construction equipment and engine customers.

The Volvo Group was the first manufacturer in the automotive industry to join the WWF Climate Savers program, and the Group's renewed commitment drives the company to look for every opportunity to reduce carbon emissions from our products and production facilities. The long-term aim of the program is to accelerate the development toward lower carbon emissions throughout the transport and construction sector. The Group aims for a cumulative reduction of emissions from products and

production by at least 40 Million tons of CO₂ by 2020 compared with 2013, and is developing a truck prototype with substantially lower fuel consumption. In the construction industry, Volvo CE is committed to developing technologies that will offer major efficiency improvements, and push the industry towards greater sustainability through the Construction Climate Challenge dialogue and research.

The Volvo 7900 Electric Hybrid bus represents another concrete example of our response to climate and environmental issues. The use of these vehicles in cities will help to improve people's lives by reducing pollution, noise, and traffic congestion. Another area where we strive to meet customers' evolving requirements concerns alternative fuels. For example, as regulation in some European and other countries is expected to provide increased incentives for the use of alternative fuels in public procurement contracts, Renault Trucks responded by offering three models from the urban range that can run on biodiesel.



Volvo's hybrid buses contribute to decreased fuel consumption, lower emissions of carbon dioxide and reduced noise levels.

3

Resource scarcity

Population growth, industrialization, urbanization and economic growth place mounting demands on the use of the planet's finite capital.

Improved resource efficiency and reuse of materials and energy in product lifecycles is increasingly important for society and the industry.



EXAMPLES OF OUR SOLUTIONS

Reducing waste and building sustainability into manufacturing and products

The Volvo Group works consistently with lean methodologies with a resource efficiency focus. This means designing and manufacturing a number of components and materials so that they can be recycled or remanufactured. This also means using recycled materials in products and production, reducing waste and reusing heat or implementing other ways to use less energy.

Engines and components are reused through our remanufacturing operations. For example, Volvo CE's Reman operations allow customers to buy remanufactured components such as engines, turbochargers, transmissions, crankshafts and hydraulic pumps. The Group continues to work with energy reduction in the plants, with a long-term goal of reaching CO₂ neutrality. We have already achieved CO₂ neutrality in the plants

in Ghent, Belgium and Braås and Vara, Sweden. The Volvo Group also works to further assess its water footprint in the supply chain and implement technologies and methods to reduce water usage.

Underscoring our commitment to more sustainable transport solutions, the Volvo Group uses more and more lightweight materials in product design and continuously works to reduce or eliminate the use of potentially harmful substances in our products. This means not only complying with legal requirements, but also working proactively to assess where risks may evolve in the future and devise ways to substitute materials. The new Volvo FH cab, for instance, was designed to offer a healthier atmosphere for the driver by minimizing volatile organic compound (VOC) emissions from materials used in the interior as well reducing small particles entering the cab through the climate system.



The Volvo Group is working towards carbon neutral production. Volvo's plant in Ghent, Belgium was already in 2007 the world's first carbon neutral automotive plant.

4

Safety and security

Every year, according to the World Health Organization, there are more than 1.2 million road traffic fatalities and as many as 50 million people are injured in traffic. The WHO predicts that traffic fatalities could be among the top five causes of death worldwide by 2030. The tragedy of traffic injuries and fatalities is accentuated by the fact that the problems are worst where resources to counteract them are the scarcest; for example, low and middle income countries account for the majority of traffic fatalities.

As more nations and organizations set increasingly ambitious goals for passenger and commercial traffic safety, there is a growing trend for authorities to regulate commercial vehicles and make some safety systems mandatory. As population and economies grow, the rising number of vehicles to transport increasing volumes of goods adds to the widespread risk of theft of both vehicles and goods. Safety and security, therefore, continues to be a key focus for the transport and infrastructure industry.



EXAMPLES OF OUR SOLUTIONS

Knowledge, vehicles and systems for safety and security

As a leading provider of transport solutions around the globe, the Volvo Group works to adapt products and solutions based on the specific needs of each society and market. Safety is one of the Volvo Group core values, and we invest in advanced research and development and collaborate with governmental and non-governmental partners to enhance vehicle safety and security solutions. Our focus is to keep improving smart technology, features, and systems that protect people, vehicles and cargo.

The Volvo Group is dedicated to improving road safety and driver and operator safety. The Group conducts traffic safety activities in both emerging and mature markets around the world. The Volvo Group runs seminars, supports information campaigns on safe driving behavior and programs to help educate children on traffic, and works actively with institutes and authorities in collecting in-depth accident causation data, and support in the development of more effective road safety policies.

The Group develops solutions to protect operators and drivers; for example, to protect truck drivers from threats of break-ins, we offer security solutions, such as multi-function alarms, alert buttons, anti-intrusion door locking, and gas detectors.

The Volvo Group is in the forefront of developing new technology to help reach our ultimate goal of zero accidents with Volvo Group products. Volvo Group is an industrial partner in the world's most advanced active safety testing grounds, AstaZero, which was inaugurated in 2014. There we will develop and test our future safety systems for heavy-duty vehicles. Another example is the Non-Hit Car and Truck technology, which dramatically reduces the risk of accidents caused by a limited field of vision. In the test phase now for Volvo Trucks, this technology enables the vehicle to scan its surroundings for both vehicles and vulnerable road users and alert the driver or even take automatic action when necessary.



The Volvo Group is at the forefront in the development of different safety and driver support systems. Among these are Adaptive Cruise Control (ACC), which monitors the gap to the vehicle in front, and Forward Collision Warning and Emergency Braking, which automatically assists in emergency braking if an impact is imminent. The Group is also engaged in several on-road pilot projects on automated driving, including so called platooning, in the U.S., Europe and Japan.

5

Competition for skills

The transport and infrastructure industry requires a broad range of competences, from engineering and technical skills to management, leadership and financial skills. Multiple factors influence the availability of skilled employees for the industry, both today and in the future. These include falling interest in science, technology, engineering and

mathematics in some developed countries; limitations of the educational systems in some emerging markets; and the long-term decline in the proportion of the working age population in many mature as well as some emerging markets.



EXAMPLES OF OUR SOLUTIONS

Raising skills, inspiring performance

The Volvo Group sees these challenges as an opportunity to find creative ways to attract and develop a competent talent pool – both for the Group and for customers. Highlighting Mack's commitment to superior support and service, the Mack Masters competition was launched in late 2014 to challenge technicians on abilities relating to products, parts, and diagnostics. Volvo CE continues to develop its "eco-operator" event in China, Operator Idol. Over the years the contest has generated thousands of young operators who are now skilled in fuel-efficient driving techniques. Volvo Group has been supporting vocational training schools in South Africa and Ethiopia, and since 2014, in Morocco.

Within the Volvo Group, every year half a million training days are dedicated to raising the skills and qualifications of our employees and the retail organization worldwide. In order to further improve the training provided, and ensure that we keep building the expertise to meet customer expectations, we launched the Volvo Group University in the spring of 2014.



Well-trained and skilled service personnel is crucial to the profitability of the Volvo Group and its customers.

Economic growth drives the demand for transport solutions

The transportation industry is cyclical with swings up and down in the short term. Add new emission standards, political decisions and expectations about future business conditions, 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 transportation 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 circulatory system. 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. Increasing global consumption means that there is a long-term need to build roads, airports, railways, factories, offices, shopping centers, as well as housing and recreational facilities. The registrations of new trucks on a particular market often follow the same pattern as economic growth in the region.

The transport industry is largely in tune with the current economic development, but demand for the Group's products is also to a large extent determined by expectations about the future business conditions.

Short-term factors affecting demand

In the short term, in addition to GDP growth, demand is affected by a number of factors including fuel prices, interest rates, the implementation of new emission regulations, etc. New emission standards have traditionally resulted in more expensive, more technically complex trucks. This has often generated an advance

purchasing effect, a pre-buy, 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.

For instance, the EU moved to the Euro 6 emission standard at year-end 2013. The new standard entails significant cuts in emissions of nitrogen oxides and particulates, which is good for the environment. In order to reach these cuts, more advanced and thus more expensive engine technology is needed. During the autumn of 2013 there was an increase in demand for Euro 5 trucks as some customers chose to invest in these trucks ahead of the new emission standards and subsequently demand for new trucks in Europe weakened at the beginning of 2014.

Markets move at different paces

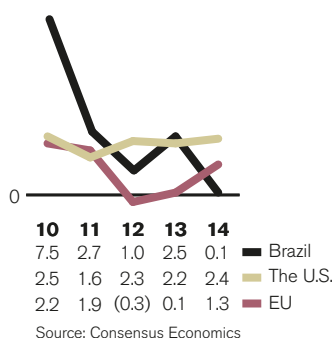
The transportation industry is linked to economic developments, but the global economies do not move at the same pace. Countries that are heavily dependent on exports, such as Sweden and Germany, are more affected when consumers in other countries tighten their belts. Countries like the USA and Brazil 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.

Growth rates in different parts of the world

According to Consensus Economics, global GDP grew by 2.7% in 2014 compared with 2.6% in 2013. GDP in the EU was 1.3% compared with 0.1% in 2013. U.S. GDP increased by 2.4% (2.2%). Japan's GDP expanded by 0.2% (1.6%). In China, growth slowed in 2014 whereas in India, it improved from modest levels. The economic development in Brazil and Russia was weak. For 2015, global GDP is expected to grow by 3.0%. The improvement in global GDP growth in 2015 is expected to largely be driven by the US.

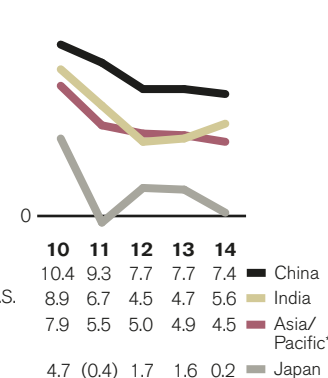
Economic growth in the U.S., Europe and Brazil

Annual GDP-growth, %



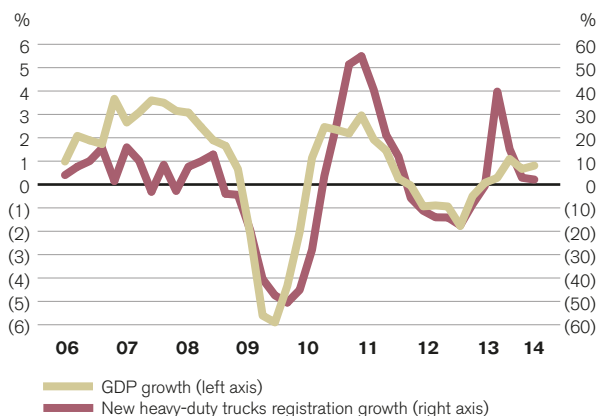
Economic growth in Asia

Annual GDP-growth, %



The Volvo business moves in close tandem with macroeconomic development

Euro area GDP and heavy-duty trucks registration growth



Material issues



The materiality process aims to identify the matters that stakeholders view as most important for the Volvo Group's ability to create value over both the short and the long term.

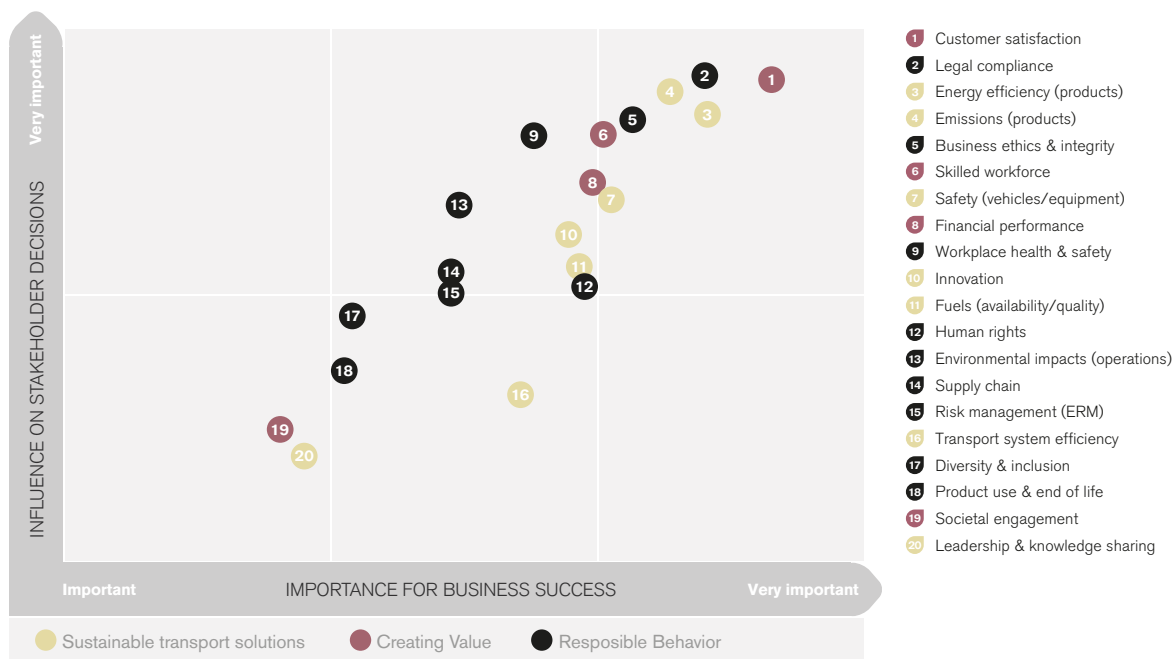
Our materiality approach

The prioritization of different sustainability topics was performed internally within the Volvo Group. To validate the internal stakeholder scoring, a few key contacts from each stakeholder group were invited to participate in a trial survey, in which they ranked relevant issues.

Conclusion

The summary of the 2014 evaluation shows the assessed importance and expected impact of the Group's most material issues. As in 2013, customer satisfaction, energy efficiency and emissions from products as well as business ethics rank the highest. Legal compliance emerged as one of the most material issues. More information regarding the material issues is found in the Sustainability report 2014.

Volvo Group materiality matrix 2014





STRATEGY

The Volvo Group's strategy contributes to realizing the Group's vision and wanted position by developing and driving strategies for profitable growth, efficiency and transformation towards sustainable transport solutions.



-
- ☑ 2012 REORGANIZATION & STRATEGY
 - ☑ 2013 EXTENSIVE PRODUCT RENEWAL
 - ☑ **2014 EXECUTE EFFICIENCY PROGRAM & DRIVE ORGANIC GROWTH**
 - 2015 DELIVER PROFITABILITY IMPROVEMENT

Vision, Core values, Code of conduct and Wanted position

The Volvo Group is part of the global society as well as many local societies. This provides us with the opportunity 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 vision 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 Core 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 core values that form the Volvo Group's common base and are important components of our corporate culture. The corporate core values have a long tradition and permeate our organization, our products and our way of working. They are an important part of our commitment to sustainability corporate social responsibility.



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 is about protecting the wellbeing of anyone coming into contact with our products, from product development to the end of their life cycle. We have been in a leading position in the safety domain for a long time; our goal is to reinforce 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 own crash investigations and in-depth accident research are used in many places in the world. 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 with Volvo Group products.



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.



Our 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.



Our Code of Conduct

The Code of Conduct is the mandatory, Group-wide policy for appropriate business behavior and responsibility towards our stakeholders, and is the backbone of the Group's CSR and sustainability commitment. The Code of Conduct outlines the Volvo Group's principles and minimum standard for conducting business in an appropriate, responsible and transparent manner. The policy consists of business ethics, human rights and social justice and environmental principles which shall be applied in policies, decisions and activities.



Business ethics principles

Volvo Group strives for integrity and compliance with business ethics principles in all parts of our operations and prefers to work with component suppliers, consultants, distributors and other business partners that share the same values. The most important principles to apply and implement relate to anti-corruption, not facilitating money laundering, reporting in a transparent, truthful and timely manner, fair competition and compliance with tax rules.



Principles of human rights and social justice

Volvo Group shall support and respect the protection of internationally proclaimed human rights and make sure that the Group is not complicit in human rights abuses. Volvo Group's commitment to employees is that all employees shall be treated with respect and be offered equal opportunities, be provided the conditions for a safe and healthy work environment and have the right to join an association to represent their interests.



Environmental principles

Environmental care has been a corporate core value for the Volvo Group since 1972 and is an integrated part of daily business throughout the value chain. We strive to design our processes and products in such a way that energy, natural resources and raw material shall be used efficiently. We aim to avoid materials and methods posing environmental and health risks.

Strategic framework



Strategies can be viewed as maps that guide everyday work and decision-making in order to achieve the Volvo Group Wanted Position 2020 and the Vision. The strategies are part of the overall Volvo Group strategic framework. Corporate core values, Group policies, directives and guidelines lay the foundation for how the Volvo Group operates and conducts business.

All work within the Volvo Group is based on a sustainability perspective, which will contribute to long-term success. Assuming responsibility for a sustainable development is deeply rooted in our culture and has its base in our corporate 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 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.

Long-term plans and strategic objectives

Long-term plans define the direction in a 5–15 year time perspective. They serve as a tool for management to drive change, protect strong positions and prioritize with regard to financial consequences. Examples include product plan, industrial plan, sales and marketing plans and service offering plan. The plans are aligned and reviewed regularly. Some long term-plans are Group common and some are specific to Group Trucks or an individual business area. The plans may impact activity plans for strategic objectives.

Strategic objectives are made on Group Trucks and business area-level, for one fixed three year period at a time. Each strategy consists of a number of key focus areas, which in turn contain

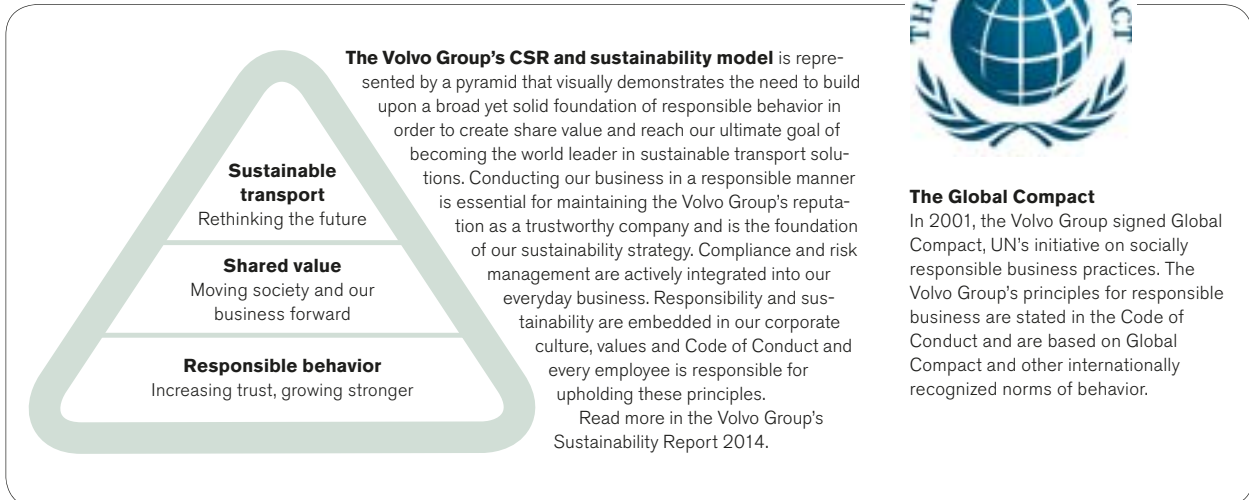
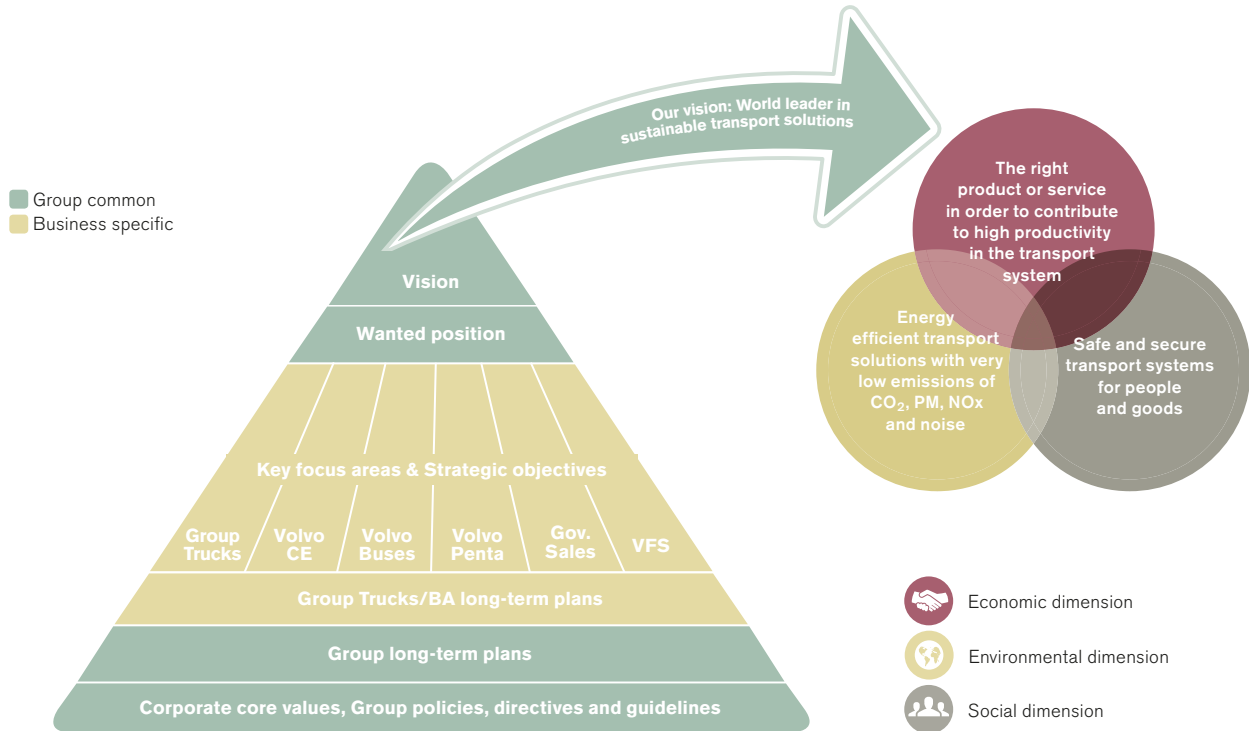
strategic objectives. The strategic objectives are broken down into a large number of road maps and activity plans – ultimately affecting employee's Personal Business Plans.

Both the long-term plans and the strategic objectives aim to reach the Wanted Position, which consists of five statements that describe where the Group wants to be by the year 2020. They represent important milestones towards achieving the Vision.

Adaptation of governance

We have 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 clarified roles and responsibilities. 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. 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.





Strategy for the period of 2013–2015



The strategy for the period 2013–2015 is aimed at achieving the Volvo Group's targets in the short term and staking out the road to the Group's wanted position and, ultimately, the vision. After 15 years of an active acquisition strategy and streamlining to commercial vehicles, the Volvo Group has entered a new phase, with a focus on improving efficiency and profitability.

- ✓ 2012 REORGANIZATION
& STRATEGY
- ✓ 2013 EXTENSIVE PRODUCT
RENEWAL
- ✓ 2014 EXECUTE EFFICIENCY PROGRAM
& DRIVE ORGANIC GROWTH
- 2015 DELIVER PROFITABILITY
IMPROVEMENT



Trucks



The start of the strategic period 2013-2015 was characterized by the largest product renewal in the Group's history. As a result, we entered 2014 with a product portfolio of trucks that strengthened our competitiveness. Customer focus remains a top priority as we continue to expand the range of products and services offered under our strong brands suited to unique customer needs in various markets, according to President and CEO, Olof Persson.

To operate in the truck industry requires significant investments and the focus is to turn our industry-leading product range into a strong profitability. To achieve this, we are focusing on turning "volumes into profit" and capturing potential for increased efficiency. During 2014, a number of measures aimed at increasing efficiency and improving profitability were initiated. Among these are the reduction of white-collar employees, optimization of the European operations, reduction in research and development spend as well as right-sizing the operations in Japan. In the autumn of 2014 additional measures to lower the costs were identified, among these a consolidation of the trucks sales operations into one Group Trucks Sales organization.

The measures are carried out against the backdrop of us wanting to strengthen our position as a profitable and global truck manufacturer. This is crucial given that high volumes help us achieve economies of scale, maintain our priority position among suppliers and retailers and allow us to deliver superior value to our customers. Being global also means that we can counter the effects of varying development in our markets. In 2014, for instance, demand was good in North America and Japan, relatively stable in Europe while it weakened in South America. Regardless of market development, we maintained or strengthened our market shares in the main markets.

In the beginning of 2015 an important step was taken when the acquisition of 45% of the Chinese company Dongfeng Commercial Vehicles was completed. This strategic alliance will fundamentally improve the Group's opportunity in China – the largest truck market in the world.

Trucks' focus areas

- Secure number 1 or 2 in profitability.
- Strengthen customer business partnership.
- Capture profitable growth opportunities.
- Innovate energy-efficient transport and infrastructure solutions.
- Build high-performing global teams.

Volvo Construction Equipment



The mid-point of Volvo CE's three year strategy sees the company wrestling with the effects of market volatility. Slowdowns in some key markets – particularly China – have created headwinds for several of the company's nine key focus areas, says Martin Weissburg, head of Volvo CE.

Low machine demand in the BRIC markets is hampering the company's efforts to develop Volvo equipment for emerging markets, and also reining in growth of SDLG branded machines outside of China. Despite the reduction of the total market, Volvo CE is making progress on improving the profitability of the machines it sells – and the efficiency with which new products are developed. However, addressing market conditions, product profitability and to improve organizational efficiency the company announced in November 2014 that it is to wind down production of its current ranges of Volvo-branded motor graders and backhoe loaders. In the future these products will on selected markets be supplied by SDLG and marketed through the Volvo CE/SDLG distribution networks. This decision, together with other efficiency measures, will reduce the workforce by approximately 1,000 people.

With sales and utilization rates lower than predicted, the potential for growing customer support services is similarly reduced, although Volvo CE is driving penetration of maintenance and repair agreements at the point of sale. Excellence in leadership remains a high priority at Volvo CE and its supply chain is working on ensuring that it can react to market demands in a flexible and efficient manner. Despite challenging market factors the overall long term strategy remains valid, with corrective measures implemented where necessary to keep the plan on course.

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 Buses



Two years into the strategic period 2013-2015, Business Area Buses continues on the identified areas for growth and internal efficiency, according to head of Buses, Håkan Agnevall.

The global bus market remains on a low level, which continues to put pressure on Volvo Buses' profitability. Despite the market development Volvo Buses keeps a strong position in key markets. An increasing number of core market clusters start to show positive results. A positive development in the sales of parts and services can be seen in the Americas.

Interest in energy-efficient vehicles that can operate partly or completely on electricity is growing rapidly. Volvo Buses is collaborating with a number of cities worldwide to create business models and system solutions for sustainable city traffic of the future, based on electromobility. During 2014 additional agreements on cooperation have been signed with the cities of Shanghai, Curitiba and Edinburgh.

A number of internal cost-efficiency programs related to product cost, including sourcing and manufacturing efficiency, are in place and show good progress. Addressing customers' needs, improving product quality and delivering on the cost-efficiency program are high on Buses' agenda. The internal employee engagement index increased substantially during 2014.

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 Penta



Volvo Penta's strategy is aimed at growth by satisfying demanding customers with premium products and services, says Björn Ingemansson, head of Volvo Penta.

The Marine Leisure segment will remain highly important to Volvo Penta revenues and profitability. Going forward, Volvo Penta will continue to strengthen its position in the Marine Leisure market by further developing the "Easy Boating" concept. The award-winning "Glass Cockpit", as well as the recently announced "Forward Drive" concept, are prominent examples of how this strategy is executed. Volvo Penta is also an established player supplying engines for power generator sets.

However, the businesses with the most potential for growth are the Industrial Versatile segment and the Marine Commercial segment. Volvo Penta's product offering within the Industrial Versatile segment, i.e. container handling, mining equipment and other off-road machinery, is very competitive. In the Marine Commercial segment, Volvo Penta will benefit from leveraging on its "Inboard Performance System" ("IPS") which will be made available for additional applications.

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



Strong relationships, integrated offerings, increased opportunities for growth, a culture built around high performing employees, and profitability remain cornerstones in the VFS Strategy for the period 2013–2015. Many positive steps were taken towards achievement of VFS' strategic and financial objectives in 2014, according to President Scott Rafkin.

During the year VFS captured additional profitable growth opportunities by strengthening its customer and dealer relationships, service levels, and growing market shares. VFS also expanded its reach in Eastern Europe during the year and is well underway to provide a full range of financial services in India during 2015. Higher levels of operational excellence were achieved in 2014, primarily as a result of further standardization of core business processes, stronger integration of point-of-sale capabilities and a keen focus on cost control. As a result, VFS achieved better levels of operational efficiency and corresponding profitability.

VFS adds value to the Volvo Group by supporting Group sales while also managing risk and achieving financial targets. After two years of the strategic period, VFS is on target to meet its strategic and financial objectives. Many more opportunities exist for VFS to maximize its full potential in support of Volvo Group sales. Customer value and ease of doing business are at the heart of such initiatives and will continue to shape VFS' activities throughout the strategic period.

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.

Increased scope of the strategic program

The Volvo Group increases the scope of the cost savings in the Strategic Program 2013–2015.

Strategic Program 2013–2015

The activities within the Strategic Program 2013–2015 are being implemented as planned. Among the activities are:

- Reduction of 4,400 white-collar employees and consultants
- Reduction in research and development
- Optimization of the European sales and service channel for trucks
- Optimization of the European industrial footprint for trucks
- Right-sizing of the truck sales organization in Japan
- Industrial restructuring in Japan
- Consolidation and optimization of the spare parts distribution worldwide.

New initiatives 2014

However, in the autumn of 2014 additional opportunities to reduce the Group's structural cost level were identified and therefore the scope of the Strategic Program was increased with the following new activities:

- Reorganize Group Trucks Sales in order to increase efficiency and reduce costs
- Implement further cost-reduction activities in Volvo CE
- Review what is core and non-core in the Group's IT operations.

Full-year savings of SEK 10 billion

In the ongoing activities in the Strategic Program 2013–2015, the structural cost reductions were targeted at SEK 6.5 billion. The new activities are targeted to generate an additional SEK 3.5 billion of structural cost reductions. By having implemented all activities before the end of 2015 the cost reductions are expected to result in full-year savings of SEK 10 billion in 2016 compared to the full year 2012. Total restructuring costs for the activities are expected to be SEK 6.0 billion to SEK 7.0 billion

In 2014 the total cost-reduction connected to the program amounted to SEK 3.3 billion when compared with 2012. Restructuring charges amounted to SEK 2.6 billion in 2014. At the end of the year SEK 2.1 billion to SEK 3.1 billion in expected restructuring charges remained.



Financial targets

Starting in 2012 new financial targets for the Volvo Group were implemented in which growth and profitability of the Group's various operations are 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 increased by 3.6% for the Volvo Group's truck and bus operations and was below the weighted average of 3.8% 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 and MAN's figures are based on rolling four quarters as of the third quarter of 2014 and Sinotruk's figures are based on rolling four quarters as of the second quarter of 2014.	The operating margin of 1.4% for the Volvo Group's truck and bus operations was ranked number six 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 5.1% for the Volvo Group's construction equipment operations and Volvo Penta and was below the weighted average of an increase of 3.6% 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.	* Deere's and Terex's figures are based on rolling four quarters as of the third quarter of 2014.	The operating margin of 1.7% for the Volvo Group's construction equipment operations and Volvo Penta was ranked number seven in comparison with the competitors.

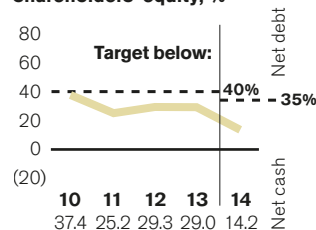
INDUSTRIAL OPERATIONS

Target and outcome

The **Industrial Operations' net financial debt**, excluding pension obligations, shall be below 35% of shareholders' equity under normal conditions. At the end of 2014, the financial net debt amounted to 14.2% (29.0) of shareholders' equity.

On January 1, 2013, new accounting rules for employee benefits came into effect. As a consequence, AB Volvo's Board of Directors decided to exclude pension obligations from the target. 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, %

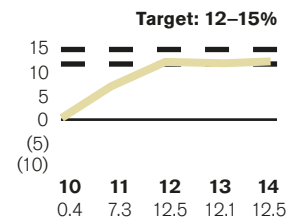


CUSTOMER FINANCE OPERATIONS

Target and outcome

The target for Customer Finance is a return on shareholders' equity of 12–15% and an equity ratio equal to or greater than 8%. The return on shareholders' equity for 2014 amounted to 12.5% (12.1). At year end 2014 the equity ratio was 8.0% (8.1).

Return on shareholders' equity, %



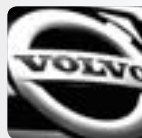


BUSINESS MODEL

The Volvo Group's business model is focused on utilizing its strong brands, technological expertise, efficient products and world-class services and distribution to create value for its customers.

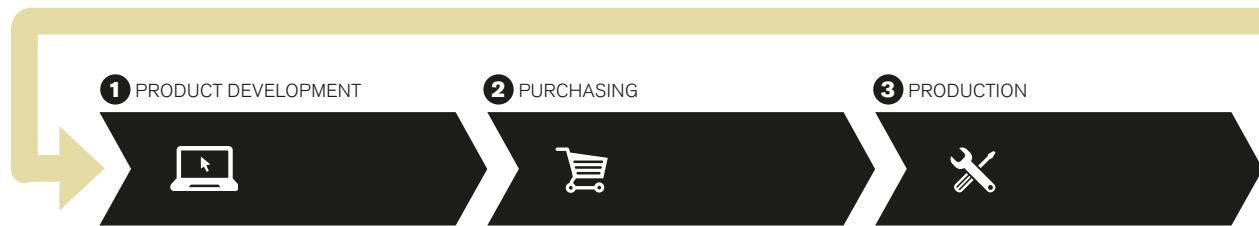


The Volvo Group's strong brand portfolio is an important asset.



Creating value in every stage of the value chain

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.

- Costs for research and development amounted to SEK 16.7 billion for 2014, corresponding to 5.9% of net sales.
- Product development is focused on the needs of customers, legislation, changes in society and new technology.
- Safety and environmental issues are integrated in product development.
- More than 90% of the environmental impact from a truck occurs during use. Consequently, product development focuses on sustainable transport solutions.
- 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 2014, the Group made purchases of goods and services in an amount of SEK 199.5 billion.
- The Volvo Group applies the principles in its Code of Conduct in 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.
- At year-end 2014, the Volvo Group had 92,822 employees and 11,749 temporary employees and consultants, of whom 45,337 employees and 4,801 temporary employees and consultants were blue collar.
- The Volvo Group has 66 factories in 19 countries around the world.
- In 2014, the Volvo Group's wholly-owned truck operations delivered 203,100 trucks. Furthermore, the Group delivered 8,800 buses, 61,300 units of construction equipment, 17,400 marine engines and 15,300 industrial engines.

SUSTAINABILITY PERSPECTIVE

The sustainability perspective is an integrated part of the Group's operation.

We work on developing energy-efficient solutions for our customers and on reducing the environmental impact of our products. Each new product shall 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 alternative fuels, hybrid solutions, fully electric vehicles and transport solutions. This is profitable for the customer, good for the environment and a competitive advantage for the Volvo Group. Safety, which has been our guiding star since 1927, is another important aspect. Our long-term vision is zero accidents with Volvo Group products. Our security program is focused on avoiding accidents and preventing injury to the driver and other parties involved but also on the development of reliable products and increased safety for people and goods.

For more information on product development, please see page >> 36.

Responsible purchasing involves encouraging correct behavior, managing risks and building long-term relations with our suppliers to improve social, environmental and business ethics in the supply chain. The Volvo Group strives to ensure that unethical values are not incorporated into our products and services, and we base our work on a minimum standard in our Code of Conduct. We believe that a high standard in our program for responsible sourcing will result in high productivity and stable long-term relations, which will benefit all parties.

For more information on purchasing, please see page >> 49.

Environmental work is governed by a common environmental policy, which mandates that the Volvo Group shall comply with legal and other applicable requirements as a minimum standard and make pollution prevention a prerequisite for all operations.

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 performance and methods for creating ergonomic workplaces.

At the end of 2014, 98% of employees in production worked in units that are certified according to environmental and quality management systems, primarily ISO 14001 and ISO 9001.

For more information on production, please see page >> 48.

INVESTMENTS A significant portion of the generated capital is normally transferred back into the operation. The capital is used for investing in activities to strengthen competitiveness and create long-term value for the Group and its stakeholders.

4 DISTRIBUTION AND SERVICE



- The Volvo Group's products are distributed through our own as well as independent dealerships.
- The service network supports customers and maximizes their products uptime.
- The number of service points in both North America and South America has been significantly increased in recent years.
- The dealer and service networks in Central and Eastern Europe have been optimized, with increased service availability particularly for Renault Trucks.

To meet society's need for efficient transport solutions, cooperation is necessary. It is in dialogue with our customers that we 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.

For more information, please see page >> 50.

5 PRODUCTS IN USE



- Trucks manufactured by the Volvo Group transport goods and products, our buses are important parts of efficient transport systems and our industrial engines are used, for example, as reserve power 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. Most of the negative impact from our products occurs during the use phase, and therefore we strive to offer the right products and services to achieve energy-efficient and safe transport systems.

We also participate in the development of efficient transport systems by such initiatives as Green corridors, Bus Rapid Transit (BRT) systems, renewable fuels and in discussions around transport-policy issues.

In 2014, we renewed our partnership with a new ambitious commitment to the World Wide Fund for Nature's Climate Savers program.

For more information please see page >> 40.

6 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.
- The Volvo Group has manuals and other tools to assist disassembly workers extract the most from used vehicles.

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.

The Volvo Group's income for the year amounted to SEK 2,235 M.

SHAREHOLDERS

AB Volvo's shareholders normally receive a certain portion of the retained earnings in the form of a dividend, after consideration has been given to the Group's need for capital for continued development according to the strategies.

The Board of Directors has proposed a dividend of SEK 3.00 per share, corresponding to a total of SEK 6,090 M for 2014.

VALUE BY STAKEHOLDER GROUP, SEK M

	2014	2013
To suppliers – Purchases of goods and services	199,484	192,198
To employees – Salaries and remunerations ¹	37,533	36,212
To society – Social costs ¹	8,118	8,262
To society – Pension costs ¹	4,133	4,144
To society – Income taxes paid	3,304	2,823
To creditors – Interest paid	1,846	2,437
To the Volvo Group – Investments in tangible assets	7,093	8,281
To shareholders – Dividend	6,090 ²	6,084

¹ For further information, please see note 27 to the consolidated financial statements.

² According to the Board's proposal.

Taxes

The Group's Code of Conduct states that "The Volvo Group shall comply with the tax laws and regulations of each country in which it operates. Where tax laws do not give clear guidance, prudence and transparency shall be the guiding principles."

The Volvo Group does not take part in aggressive tax planning by placing subsidiaries in tax havens. In the period 2009–2013, SEK 13 billion or 77% of the Volvo Group's current taxes were paid in emerging market countries as defined by the IMF. In 2014 approximately SEK 1.8 billion or 55% of the current taxes were paid in emerging market countries.

BRANDS

Brand portfolio – a competitive advantage



Since taking the strategic decision to focus on commercial vehicles, the Volvo Group has built a strong and industry-leading portfolio of brands. Through direct ownership, licenses and joint ventures, the Group has access to a range of iconic and industry-leading names like Volvo, Mack, Renault Trucks, Volvo Penta, Nova and Prevost. In 2014, we added Terex Trucks to our brand portfolio.

On the truck side, current product brands include Renault Trucks, Mack, UD, Volvo, as well as Eicher through the joint venture with Eicher Motors in India. In early 2015, the Volvo Group received approval for a new joint venture with Dongfeng Group in China. The joint venture will produce and sell trucks under the brand Dongfeng Trucks in China and selected export markets.

Volvo, Terex Trucks and SDLG branded construction equipment, Volvo, Sunwin (in a joint venture in Shanghai), Prevost and Nova branded buses and Volvo Penta marine and industrial engines make up the major product brands in the business areas.

Portfolio structure unlocks hidden potential

Leveraging our brand portfolio to increase market coverage is at the center of the new Group organization. The Volvo Group is re-aligning itself from being a decentralized brand-by-brand organization, to delivering on a brand portfolio perspective.

By clarifying the purpose of each brand in the Group portfolio, we strengthen relations with a broader customer base. This has meant taking a holistic approach to the markets, while previously each truck brand operated relatively independently and often towards the same customers.

Furthermore, we will be able to better utilize the other strategic assets we have built over time – global scale, industrial footprint, distribution networks, supply chains and customer relationships.

Specific segments and customers

During the past two years, the prerequisites to execute on a brand portfolio strategy have been worked on extensively within the Group. This includes a common approach to market segmentation and aligning the various brands to address various aspects of customer buying behavior. Every brand within the Volvo Group has

The Volvo Group does business under several leading and respected brands. These are strategic assets through which the Volvo Group delivers value propositions addressing the specific needs of customers around the world. The Volvo Group, as part of a brand portfolio strategy, is therefore working to further strengthen the image for its brands by improving delivery on customer expectations. This will allow the Group to optimally address the total market.

a purpose and delivers a value proposition to a specific group of customers around the world.

At a global level, Volvo, Mack and Prevost represent our premium brands, aimed at customers who choose a holistic view of the brand and associated product and service offer. Renault Trucks is positioned in the high-end space addressing customers who value total operational cost and network support. Outside of Japan, UD Trucks addresses the value segment, a new focus area for the Group, while UD Trucks in Japan is in the high-end segment. SDLG addresses the value space for construction equipment – primarily in China. Eicher, which currently services the Indian market, will form the basis of the Group offering in the highly cost-competitive market segments.

With each brand being assigned a specific segment and customer base, the Group aims to increase its market share and its contribution to the overall growth of the Volvo Group. This proved valuable when the Group Trucks organization designed road maps to reach their strategic objectives.

New Brands – new potential

Growth markets are an important part of the Volvo Group's strategy. These markets are drivers of long-term global growth and they offer a great deal of potential for quality trucks which balance operational cost with purchase price. We define this space as the value segment and are increasing our presence in this segment. The Volvo Group has launched the UD Quester range and SDLG is excelling in the large Chinese construction equipment market and in select markets outside China. Buses is developing a bus for the value segment and Volvo Penta's sales of both industrial and marine engines are increasing in these market segments.

The acquisition of Terex Trucks allows us to offer a full line of construction trucks – covering articulated and rigid haulers. This opens up new possibilities in construction and mining.

China and India represent large and unique markets. The joint venture with Eicher Motors provided the Group with a strong presence in the Indian truck market. The recent strategic alliance announced with Dongfeng Group fundamentally changes the Volvo Group's opportunity in the Chinese truck market.

TRUCK BRANDS AT THE END OF 2014 – addressing the entire market



VOLVO GROUP'S BRANDS



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



Volvo Penta is a world-leading supplier of engines and complete power systems for marine and industrial applications. It is associated with innovative and performance-oriented products in addition to quality, safety and environmental care.



UD Established in Japan in 1935, UD Trucks markets heavy-, medium- and light-duty trucks in Japan as well as growth markets in Asia and around the world. UD stands for Ultimate Dependability and offers customers modern, smart efficiency with the brand promise "Going the Extra Mile".



Terex Trucks is a leading manufacturer of articulated and rigid haulers that are used around the world in mining, quarrying, and infrastructure applications. From arctic to desert conditions, and tropical to dry climates, Terex Trucks' haulers perform in some of the most extreme environments.



Sunwin Bus is a leading Chinese bus producer and one of the world's largest manufacturers of fully electric buses. The Sunwin brand is offered primarily in China.



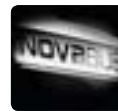
SDLG is a leading brand in the Chinese construction machinery industry, especially for wheel loaders. The SDLG brand is sold primarily in China and other emerging markets to customers focused on reliable and competitive equipment.



Renault Trucks Since 1894 Renault Trucks supplies transport professionals with robust tools and robust relationships. The vehicles (from 2.8 tons to 120 tons) and services offering is adapted to different transport applications and contribute to reduce customers' operational costs.



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



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



Mack Founded in 1900, Mack Trucks – recognized around the world as "The American Truck You Can Count On" – is known for building durable and reliable, application-driven vehicles that get the job done. An iconic brand, Mack embodies the American spirit: pioneering, hard-working, authentic and ambitious.



Eicher is one of the largest players in the Indian mainstream commercial vehicle market, with a strong image of fuel efficiency and profitability for the customers, leading the modernization of its industry in India and in the emerging world.



Dongfeng Trucks, established in 1969, is one of China's leading truck brands. It originates from the Chinese culture and has further been developed through craftsmanship with trust, professionalism and global techniques.

EFFICIENT PRODUCTS AND SERVICES

Contribute to customer profitability

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

	LONG-HAUL	REGIONAL DISTRIBUTION	CITY DISTRIBUTION	CONSTRUCTION
Trucks All brands in the Volvo Group's truck operations have a unique and distinct brand-specific character that attracts customers in their market segments. The trucks are sold and marketed under the brands Volvo, UD, Renault Trucks, Mack and Eicher, which all offer customers a broad range of products and services for efficient and economic transports. In January 2015, Dongfeng was added to the truck line up, through the acquisition of 45% of the Chinese truck manufacturer Dongfeng Commercial Vehicles.	Volvo 			
	UD Trucks 			
	Renault Trucks 			
	Mack 			
	Eicher 			

Special-purpose vehicles The Volvo Group manufactures special-purpose vehicles for use by for instance government, defense, peace-keeping and relief organizations. The Volvo Group's sales of defense material, as defined in the Swedish Military Equipment Ordinance (1992:1303) section A, amounted to 0.41% (0.55) of net sales in 2014.	   
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Buses The 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. The offer also comprises complete transport systems for electromobility including charging infrastructure.	VOLVO BUSES   	UD BUS 
	SUNWIN 	NOVA BUS 

Construction Equipment

Construction Equipment | Volvo Construction Equipment develops, manufactures and markets equipment for construction and related industries under the brands Volvo, SDLG and Terex Trucks. 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. In the fall of 2014 it was decided that Volvo-branded backhoe loaders and motor graders will be discontinued and transferred to SDLG's existing operations in China.

COMPACT CONSTRUCTION EQUIPMENT

Wheel loaders



Backhoe loaders



Crawler excavators



Skidsteer loaders

**HEAVY CONSTRUCTION EQUIPMENT**

Crawler excavators



Wheeled excavators



Crawler excavators from SDLG



Rigid haulers from Terex Trucks



Articulated haulers



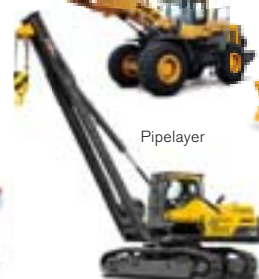
Wheel loaders



SDLG wheel loaders



Pipelayer

**ROAD MACHINERY**

Compaction equipment



Pavers



Motor graders from SDLG

**Power solutions for marine and industrial applications**

Power solutions for marine 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 655 kW for a variety of industrial applications such as container handling, mining equipment and power generation.

MARINE ENGINES**INDUSTRIAL ENGINES**

Financial Services | Volvo Financial Services provides customer financing and leasing, dealer financing, and related fee-based products such as insurance. These products are delivered as part of the Volvo Group integrated total offer, creating value for dealers and customers by providing convenience, speed and expert solutions for their specific business needs.



RENAULT TRUCKS

voted international

TRUCK OF THE YEAR

2015

On 23 September 2014, the Renault Trucks T was voted International Truck of the Year 2015 by the International Truck of the Year jury made up of 25 journalists from the international trade press.

Gianenrico Griffini, the jury's president, presented the prestigious trophy to Bruno Blin, the President of Renault Trucks, during the 65th edition of the IAA Commercial Vehicle show in Hanover.

Having collected a total of 129 points, 48 points ahead of its nearest rival, the Renault Trucks T carried off the prestigious award. The jury judged that the Renault Trucks T is the vehicle that has made the largest contribution to road haulage this year.

The International Truck of the Year jury awarded the title to the Renault Trucks T on the basis of several criteria: technological innovations, comfort, safety, on-road performance, fuel savings, the vehicle's environmental footprint and total cost of ownership.

The jury highlighted the Renault Trucks T's qualities, making particular mention of its state-of-the-art aerodynamic solutions as well as the comfort provided for drivers both when at the wheel and when resting.

– The Renault Trucks T combines the qualities of the brand's previous flagship models with the latest technological innovations in the world of commercial vehicles, summed up Gianenrico Griffini, the International Truck of the Year Jury President.

– This has resulted in one of the most significant launches in the last few years.

When presented with the award, Bruno Blin, the President of Renault Trucks stated:

– I am delighted to accept this award on behalf of Renault Trucks and would like to share it with all those working in our company and network throughout the world. This award makes us proud, as it will also bring pride to those who purchase our trucks and drive them.

He then added:

– One year ago, Renault Trucks entered a whole new era with the launch of an entirely new range. This award is the best possible way of highlighting the new Renault Trucks identity. I am certain that recognition of the Renault Trucks T's qualities by specialised, independent journalists from 25 European countries will be a powerful argument for winning over new customers.

Bruno Blin



Technological
innovations

On-road
performance

Comfort

Total cost of
ownership

Safety

Fuel savings

Environmental
footprint



PRODUCT DEVELOPMENT

Development focusing on more efficient products



The Volvo Group's future success depends on its ability to continue to deliver innovative solutions and develop technologies that can be converted into financially viable products and services.

Climate change is one of the greatest challenges of today. Road freight accounts for around one third of world transport oil demand and is responsible for about 4% of total greenhouse gas emissions.

In 2014 the Volvo Group operated from a strong product portfolio following the Group's most extensive product renewal during 2013. The new products were developed with a focus on fuel efficiency and customer profitability. As one of the leading companies in the area of fuel economy, the Group is working on a multitude of solutions to increase fuel efficiency, reduce CO₂ emissions and to offer drivelines for alternative fuels to reduce the climate impact of the transport industry.

Another important factor is the escalating problem with lack of traffic safety in the world. Today 1.2 million people die every year in road traffic and by 2030 it is estimated to be twice as many, and to become the fifth leading cause of death. This is an area where the Volvo Group has great knowledge and can contribute to make our products as well as general traffic situations safer.

Three areas of focus

The Group's product development is driven by the cost of and availability of fuel, legislation in the environmental area and new technologies. Therefore, the Volvo Group focuses its research and development on reduced emissions and increased energy-efficiency, product and traffic safety and transport solutions.

Reduced emissions and increased energy-efficiency

Within the emissions and energy efficiency area, the focus is on fuel efficiency, electromobility as well as alternative and renewable fuels.

Fuel efficiency

The Volvo Group has a life-cycle perspective and considers the environmental impact from its products, from development to recycling. Since more than 90% of the environmental impact results from the use of the products, the Group's main focus is on reducing fuel consumption, CO₂ emissions and other exhaust emissions. The basic principle is that each new product shall have less impact on the environment than the product it replaces.

THREE AREAS OF FOCUS

- Reduced emissions and increased energy-efficiency
- Product and traffic safety
- Transport Solutions

The Volvo Group estimates the fuel-saving potential for a standard truck will be about 15% in 2025 compared with fuel consumption in 2010. New technology can lead to even more significant savings. For instance, the use of a hybrid driveline may improve fuel consumption by up to 39% in certain bus operations. If all buses were changed to plug-in hybrids, the energy consumption could be reduced by as much as 60%.

Electromobility

Hybrid technology is one of the most promising and competitive new 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 the 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 strategy for bus electromobility consists of three focus areas:

- The vehicles offering; the hybrid, electric hybrid and the upcoming full electric.
- The total transport system offering; including charging infrastructure and telematics solutions.
- The open interfaces for the charging infrastructure; where our ambition is to establish a standard together with key stakeholders.

Sales of Volvo Buses' hybrid models continue to pull ahead when cities all over the world are working hard to improve the quality of life for its citizens. That is why more and more public transport authorities are imposing particularly far-reaching demands on low

PRINCIPLES

The basic principle is that each new product shall have less impact on the environment than the product it replaces.

emissions of air pollution, low noise levels and low energy consumption. Volvo Buses' hybrids meet all these demands with their dependable and flexible technology. During 2014, orders for more than 475 new buses were signed, and since their introduction in 2010 Volvo Buses has sold more than 1,900 hybrid buses.

Volvo Buses' comprehensive range of hybrid buses consists of the two-axle Volvo 7900 Hybrid and the Volvo 7900 Articulated Hybrid. Chassis with Volvo's hybrid powertrains also form the basis for British double-deckers and the buses used in South American BRT systems, which drive in separate lanes to ensure maximum efficiency. There are customers in more than 20 countries. The largest single markets are Great Britain, Colombia, Sweden, Norway and Germany. Brazil and Switzerland have also ordered a large number of hybrid buses.

In September, Volvo Buses took the next step in electrification with the launch of the Volvo 7900 Electric Hybrid. Its plug-in technology reduces fuel consumption and carbon dioxide by up to 75%, compared to a conventional diesel bus. Total energy consumption is reduced by 60%. Read more about the Volvo 7900 Electric Hybrid on page 42.

Sunwin Bus, the Volvo Group's Chinese joint venture, together with SAIC Motor, has delivered 1,400 full electric buses in total. Volvo Buses and SAIC Motors also have a joint venture for developing driveline systems for electric and hybrid buses.

Fully electric and electric hybrid vehicles are dependent on the availability and efficiency of battery charging solutions. To understand how different systems affect the Group's products and how to best support customers in choosing a system solution, the Volvo Group is working in several collaborative partnerships exploring different charging technologies. The Volvo Group's approach is based on internationally accepted standards and enables efficient re-use of existing e-mobility technologies, thereby ensuring a more rapid and cost-effective deployment of urban electromobility. Under one agreement, signed in 2014, Volvo Buses will supply electric hybrid and fully electric buses to customers and the Group's partners will supply fast charging systems based on open standards.

Hybridization is also starting to be applied for trucks and the Volvo Group offered two models of hybrid trucks in selected European markets during 2011 to 2013. There are no hybrid versions for Euro 6 at the moment, but the Volvo Group believes in truck hybrid technology long-term and will continue to invest in research and development for more commercially viable applications.

In June 2014, tests with a Volvo FE electric hybrid truck started in Stockholm as part of a city distribution project involving commercial, local authority and academic partners. The project, called

VOLVO FE CNG DRIVELINE

Volvo launches gas-powered truck

Volvo Trucks is expanding its model range in Europe with a new version of the Volvo FE running entirely on methane gas. The Volvo FE CNG (Compressed Natural Gas) has been primarily developed for operations involving short driving cycles with repeated starts and stops such as refuse collection and local distribution. It is equipped with a new 9-liter Euro 6 gas-powered engine featuring spark plug technology and automatic transmission. This truck reduces CO₂ emissions by up to 70% when using biogas.

Methane gas – a sustainable alternative to diesel



What will follow US 10 and Euro 6?

The introduction of increasingly strict emission regulations, primarily focusing on nitrogen oxides and particulate matter, has meant that the emissions caused by vehicles sold in the market today are at very low levels. For example, the Euro 6 legislation that came into effect in the EU at the end of 2013 entails that emission of nitrogen oxides and particulate matter from new trucks will be reduced by more than 95% compared to a truck from the early 1990s. Volvo Group has a complete Euro 6 engine program ranging from the smallest medium-duty 5-liter engine to the heavy-duty 16-liter version.

But what is the next step? Rules were introduced in the U.S. that approximately corresponded to Euro 6 already in 2010. Starting with model year 2014 greenhouse gas emissions are regulated, followed by regulations of fuel consumption in 2016, targeting considerable improvements against a 2010 baseline. All of the Volvo Group's truck models in the U.S., both Mack and Volvo branded, are certified in accordance with 2014 fuel efficiency and greenhouse gas regulations.

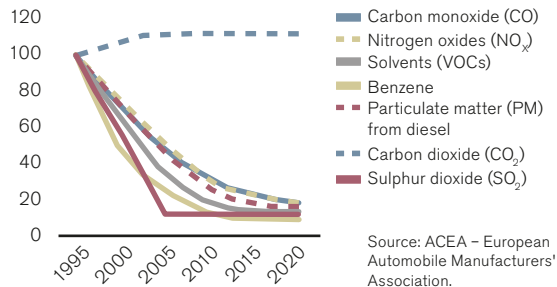
In May 2014, the European Commission presented a strategy on reducing heavy-duty vehicles' CO₂ emissions. According to the Commission, heavy-duty vehicles represent about 25% of EU road transport CO₂ emissions but the emissions are not measured or recorded as in many other markets. The short-term action will be the introduc-

tion of a certification and reporting legislation. A computer simulation tool, VECTO, that calculates CO₂ emissions from new heavy-duty vehicles has already been developed. The plan is to bring forward proposals for legislation during 2015 which would require CO₂ emissions from new heavy-duty vehicles to be certified, reported and monitored.

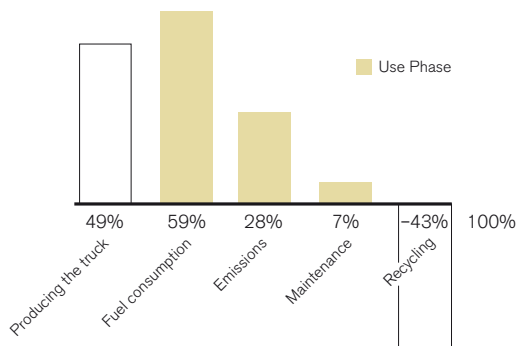
The overall EU target is that greenhouse gases are to be reduced by a total of 20% between 2008 and 2030, and by at least 60% by 2050 with 1990 as the base year. The target for city transport is largely carbon-neutral logistic solutions in major cities by 2030. The EU states that new vehicle technology includes engines, materials and design, traffic planning and use of purer forms of energy through new drivelines and alternative fuels. All of these are priority areas in the Volvo Group.

Significantly reduced emissions

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



Life Cycle Assessments broaden the perspective



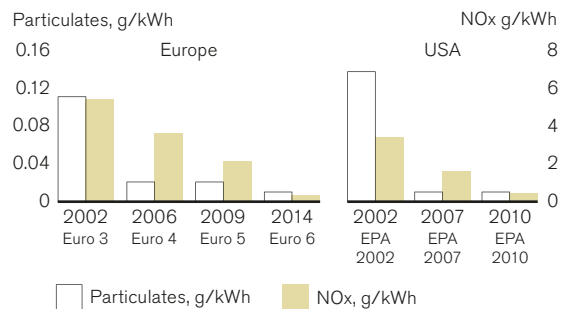
Each new product from the Volvo Group shall have less environmental impact than the product it replaces. The Group uses Life Cycle Assessments (LCA) to map a product's environmental impact in order to make well-informed decisions in the development process.

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

The chart above shows the environmental impact of the new Renault Trucks T 4x2 Euro 6 tractor.

Emissions regulations for trucks and buses

In January 2010, EPA 2010 was implemented in North America and at the end of 2013 Euro 6 was introduced in the EU. With the implementation of EPA 2010, emission levels for particulates and nitrogen oxides (NO_x) are close to zero. Euro 6 entails that emissions of nitrogen oxides and particulate matter are reduced by more than 95% compared to a truck from the early 1990s.



Off Peak, aims to test nightly deliveries with reduced noise and emissions, at the same time as increasing efficiency in the transport system. The tests and evaluation will continue until 2016.

A fleet of ten Renault Trucks Maxity Electric vehicles have covered more than 220,000 kilometers in Paris and its suburbs for Greenway Service. The fully electric Renault Trucks Maxity Electric is a perfect solution for distribution and refuse applications, since it does not emit any exhaust fumes and is very quiet.

Renewable and alternative fuels

The use of renewable fuels is an essential part in order to realize sustainable transport solutions. The transport sector is heavily dependent on one single energy source, fossil crude oil, and finding alternatives to reduce climate impact and secure supply is important from both a business and an environmental perspective. The Volvo Group's priorities when it comes to alternative fuels are electricity, methane (as natural gas or biogas) and Dimethylether (DME).

Today the Volvo Group has a number of products that can run on methane. During the year Volvo Trucks launched a Compressed Natural Gas (CNG) Volvo FE Truck for Europe and we are continuing to develop liquefied natural gas (LNG) products for the European market. On the North American market we have a range of products for methane.

Volvo Construction Equipment has delivered A25G Hauler front units to a project partner for rebuilding into snow sweepers. Volvo Penta is supplying the engines for the hydraulic system propelling the brush and blow function. The two snow sweeper engines have a methane diesel function powered by diesel and biogas. The combination of the diesel engine efficiency and the environmental benefits from the biogas makes the engine significantly more energy-efficient compared to spark ignited gas engines.

A field trial with Hydrotreated Vegetable Oils (HVO) has been running successfully in Sweden and we are taking steps to bring products to market that can use this new type of fuel.

DME is a highly energy-efficient and easy to use alternative fuel that brings promising economic benefits and up to 97% reduction of greenhouse gases when produced from biomass. In addition, a DME engine generates no soot particulates.

Field tests with DME are currently running in Sweden and North America. The first market going for commercialization is North America and movements in the market and stakeholder interest in DME is monitored carefully. A commercialization date has not been established.

Product and traffic safety

Safety has been a guiding star for the Volvo Group since 1927. Our vision is to achieve zero accidents with the Volvo Group's products. To work towards this vision, systems that reduce the consequences of crashes or even prevent accidents from happening in the first place, are continuously developed.

The Volvo Group's future product development focuses on active safety technologies and passive safety features that meet increasingly more complex and demanding accident scenarios. This involves a particular emphasis on emergency braking, vehicle stability, visibility support, lane keeping support and occupant protection in the cab.

Approximately 90% of all traffic accidents involve human factors. Inattention, resulting from fatigue or distraction, is one of the most common causes. Volvo's approach to these critical safety concerns is to provide an efficient, comfortable and non-distracting way of interacting with the vehicle. In addition, Volvo offers driver

Greenway Services, a carrier specialized in deliveries by all-electric vehicles has been serving its entire client base by Renault Trucks Maxity Electric vehicles since 2011. The vehicles making up the fleet have already covered over 220,000 kilometers to date in Paris and its suburbs.



220,000
electric
kilometers
in Paris

assistance systems that detect impaired driving and emerging crash risk and provides the driver with timely and relevant alerts. If a situation still turns critical, the vehicles stability or emergency systems will engage automatically.

In Europe forward collision warning with emergency braking will be a mandatory requirement in new trucks and buses as of November 2015, marking a tremendous step forward in road safety in Europe. Volvo Trucks' system, which has higher performance than the mandatory requirements and a sophisticated Head-Up-Display system to alert the driver, became standard on two and three axle Volvo FH in several regions already in the fall of 2014. During the year, Volvo Buses also presented the new auto brake technology to become available on Volvo coaches in 2015, already meeting the stricter mandatory requirements to come in 2018. The Forward Collision Warning and Emergency Braking functionality is an example of the Volvo Group's proactive approach to road safety.

Another event in the safety area was the opening of the world's first full-scale test track for active automotive safety in Borås, Sweden. The AstaZero proving ground is owned by SP Technical Research Institute of Sweden and Chalmers University of Technology and has been built and developed in close cooperation with the Volvo Group.

Transport Solutions

Sustainable transport solutions solve customer problems, optimize customer operations and at the same time, take the environment into consideration. The Volvo Group develops enabling technologies, customer and dealer services, as well as integrated solutions to increase revenue and reduce costs for customers throughout the product lifecycle.

Customer and vehicle productivity are impacted by;

- uptime and aftermarket technologies
- connected vehicle and infrastructure technologies
- customer and dealer service offerings
- solution integration and deployment
- complete vehicle combinations, including superstructures and trailers
- vehicle architecture balancing various stakeholder interests.

Challenges relate to how complete vehicle combinations and load carriers can be adapted with respect to transport assignments, operating cycles, road and traffic conditions, maneuvering at terminals etc. By connecting the vehicle to other road users, logistics providers, the infrastructure, workshops and customer processes, we will be able to optimize productivity during the complete lifecycle of the product.

The Volvo Group is presently active in a variety of programs that address different problems using smart technology, integrated transport systems, advanced engineering, and pioneering vehicle combinations.

City Mobility Program

One example of a transport solution is the Volvo Group's City Mobility Program that brings together key stakeholders in cities to implement sustainable and integrated innovative pilot projects. The program includes new technologies for improving energy efficiency and reducing emissions, developed by the Volvo Group, such as hybrid and electric vehicles. The City Mobility Program is being deployed in several cities around the world, such as Göteborg, Stockholm, Hamburg and Montréal. During 2014, agreements on cooperation were signed with the cities of Shanghai and Curitiba, with Mexico following in 2015.

Volvo Group renews

WWF is one of the world's largest and most respected environmental organizations. Its Climate Savers Program involves multinational companies in the effort to reduce carbon dioxide emissions. Each company pledges to reduce its emissions following an agreement made with WWF.

The results are reviewed by independent experts and the agreed target must be more ambitious than the company would have set on its own. It must also signify that the company is leading its sector in the reduction of greenhouse gas emissions.

In 2010, the Volvo Group became the world's first automotive industry manufacturer approved by WWF to participate in the program. In 2012, Volvo CE and Volvo Buses joined. Volvo Group's SDLG became the first Chinese company to be approved.

First commitment 2009-2014

In the agreement Volvo Group is committed to reducing:

- the total amount of carbon dioxide (CO₂) emitted by the Group's trucks, construction equipment and buses by more than 30 million tons by 2014, compared with vehicles manufactured in 2008
- CO₂ emissions from our production plants by 0.2 million tons (12%) before 2014, compared with 2008.

Our agreement also states that:

- the Volvo Group will develop a new truck prototype with 20% lower fuel consumption than a corresponding truck manufactured in 2008 and offer commercial trucks that operate on renewable gas before 2014
- Volvo CE will prepare a new prototype with considerably improved fuel efficiency compared with existing models
- Volvo Buses will expand the number of field tests with plug-in hybrid buses.

Interim results

Results for the period 2009-2013 (figures for 2014 will be available in late spring 2015) indicate that the Volvo Group is already ahead of target in key areas:

- CO₂ emissions from the Group's facilities have been reduced by 0.4 million tons, making them 20% lower than in 2008
- total lifetime emissions of the Group's products have been reduced by 40 million tons.

climate savers partnership with WWF

Renewed cooperation

The Volvo Group is renewing its partnership with a new ambitious commitment to the Climate Savers program. In addition to reducing emissions from products and production, the Volvo Group is now driving the development toward reducing carbon-dioxide emissions throughout the transport sector.

– Our commitment to WWF will generate concrete progress, and demonstrates that we are serious about our emission reduction efforts that harmonize with our vision of sustainable and zero emission transportation in the future. Climate Savers imposes very high demand on the Volvo Group, and we are proud to be able to continue the cooperation, says Volvo Group President and CEO, Olof Persson.

The Volvo Group is still the only automotive manufacturer that is a member of Climate Savers and the unique strategic cooperation will now increase. In addition to a promise to reduce emissions from vehicles and production during the 2015 to 2020 period, Volvo will implement a number of activities aimed at accelerating the development toward lower and ultimately zero carbon emissions throughout the transport and construction sector.

The commitment includes:

- A cumulative reduction of emissions from products and production by at least 40 million tons of carbon dioxide by 2020 compared with 2013.
- Developing truck prototypes with substantially lower fuel consumption compared with a corresponding truck today.
- Volvo CE will develop and demonstrate technologies with considerable efficiency improvements.
- Starting up a so-called City Mobility concept in at least five cities. City Mobility is the collective term for an offering in which Volvo Buses collaborates with cities and regions to find the best and most energy-efficient public transport solution. One example is to plan for the infrastructure required for electric city buses.

- Encourage and help ten selected suppliers to set targets on energy efficiency and carbon footprint.
- Hosting the Construction Climate Challenge (CCC) that aims to create a dialogue with construction industry representatives, academia and politicians.

– The transport sector has a very large impact on the climate. As part of a broader strategy to reduce global greenhouse gas emissions, voluntary initiatives from businesses are very important. The Volvo Group's commitments are good examples of how the transport sector can and should bring down its emissions across the value chain, with potential to change the future of transportation and construction. I welcome Volvo's commitment and encourage them to continue progressing towards ever more ambitious targets, and I hope their efforts will also encourage others to follow suit, says Marco Lambertini, Director General of WWF International.



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



Olof Persson
President and CEO

Marco Lambertini
Director General WWF International

Håkan Wirtén
Secretary General WWF Sweden

Volvo 7900 Electric Hybrid

The Volvo 7900 Electric Hybrid was launched at the International IAA Commercial Vehicles show in September 2014. Silent, cleaner and with significantly lower fuel consumption, it represents a new generation of public transportation solutions. Volvo has already signed contracts with several European cities for the first deliveries.

Volvo Buses is taking the next step in electrification with the launch of the Volvo 7900 Electric Hybrid. Its plug-in technology reduces fuel consumption and carbon dioxide by up to 75%, compared to a conventional diesel bus. Total energy consumption is reduced by 60%.

– I am very proud to launch this ground-breaking bus system. Electric-hybrid buses and full-electric buses are tomorrow's solution for urban public transport. They will allow us to reduce energy consumption, air pollution, climate impact and noise, which are some of the biggest challenges facing large cities worldwide, said Håkan Agnevall, President Volvo Bus Corporation.



Håkan Agnevall

Noise is a growing problem in many cities. The noise level near to a Volvo Electric Hybrid is in the range of normal conversation level. The Volvo 7900 Electric Hybrid runs in electric mode on average 70% of the route, silent and emission-free.

The Volvo 7900 Electric Hybrid offers great flexibility in operation; it can run as an electric bus in selected areas, but performs as a hybrid on any route. Charging at end stations takes 6 minutes. The Volvo 7900 Electric Hybrid shares the technology of the well-proven Volvo 7900 Hybrid, securing high uptime and availability.

A number of European cities are showing a keen interest in Volvo's Electric Hybrids. Hamburg, Edinburgh, Göteborg and Stockholm will implement the new bus system in 2014 and 2015. Series production is scheduled to start in 2016.

Three Volvo Electric Hybrids have run in a field test in Göteborg over the past year, a test that has verified the reduction in energy consumption and emissions.

In the beginning of 2015 eight Volvo Electric Hybrids will be put into regular operation in central Stockholm. This is part of ZeEUS, an EU project being conducted in six European countries.



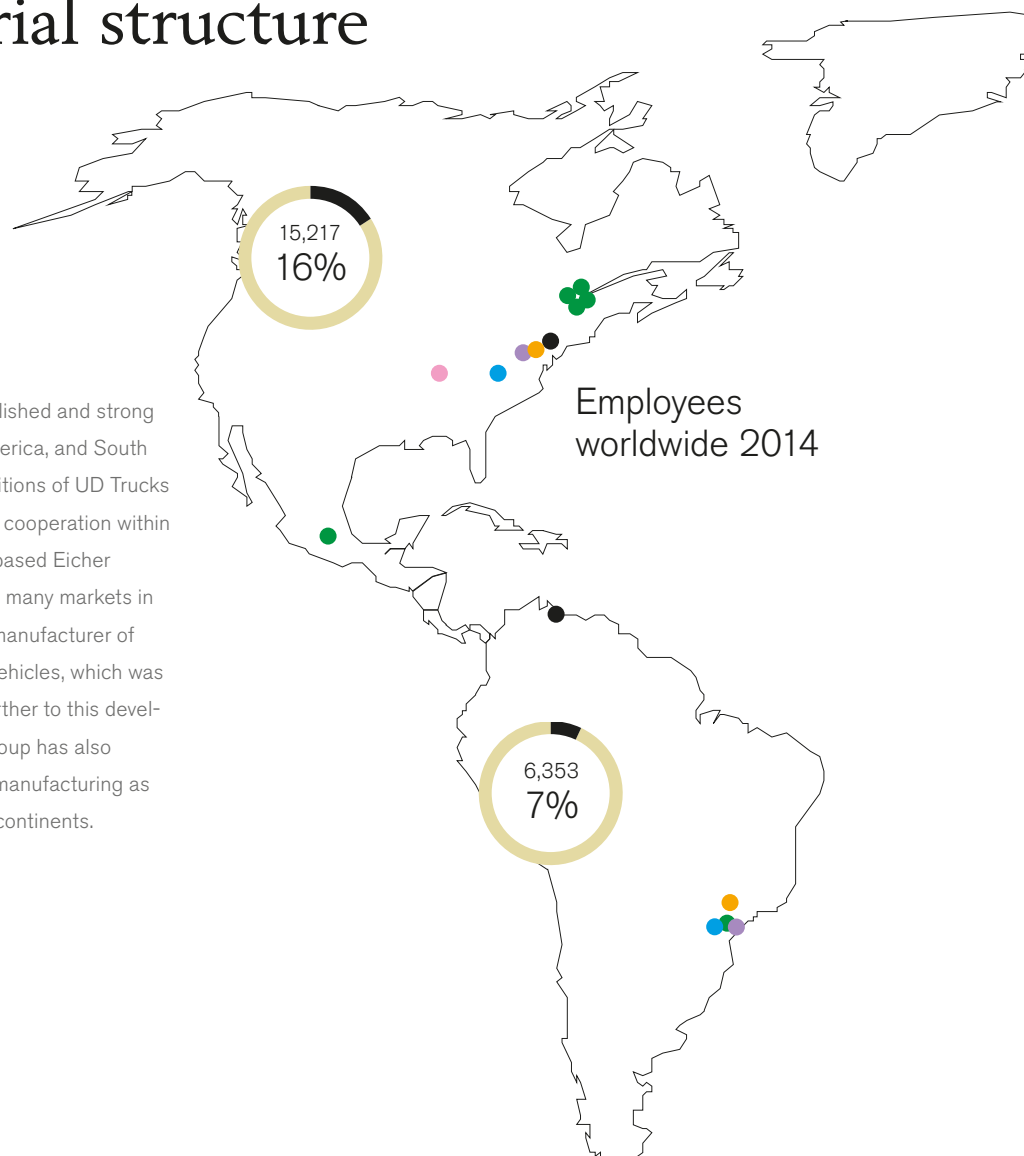
FACTS ABOUT VOLVO'S ELECTRIC HYBRID BUS

- The bus is equipped with an electric motor that is powered by lithium batteries. It also has a small diesel engine.
- The bus is charged quickly at charging stations via an overhead power connection. Recharging takes approx. six minutes at end stations.
- The bus is equipped with Zone Management; a telematics system which makes it possible to predefine, and download to the vehicle, the geographical areas where the bus should operate on electric drive.
- The bus can be driven about seven kilometres on electricity alone, covering the distance silently and entirely without exhaust emissions.
- Enables indoor bus stops
- 75% fuel saving
- 60% energy reduction
- 75% CO₂ reduction
- Passenger capacity: 95
- Electrical motor: Volvo I-SAM, output: 150 kW, torque, max (Nm) 1,200
- Gearbox: Volvo I-Shift
- Lithium-ion battery: voltage 600 V, capacity, total: 19 kWh

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 (SDLG) and the cooperation within trucks and buses with India-based Eicher Motors the position has been strengthened in many markets in Asia. The acquisition of 45% of the Chinese manufacturer of commercial vehicles Dongfeng Commercial Vehicles, which was completed in January 2015, will contribute further to this development. 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.

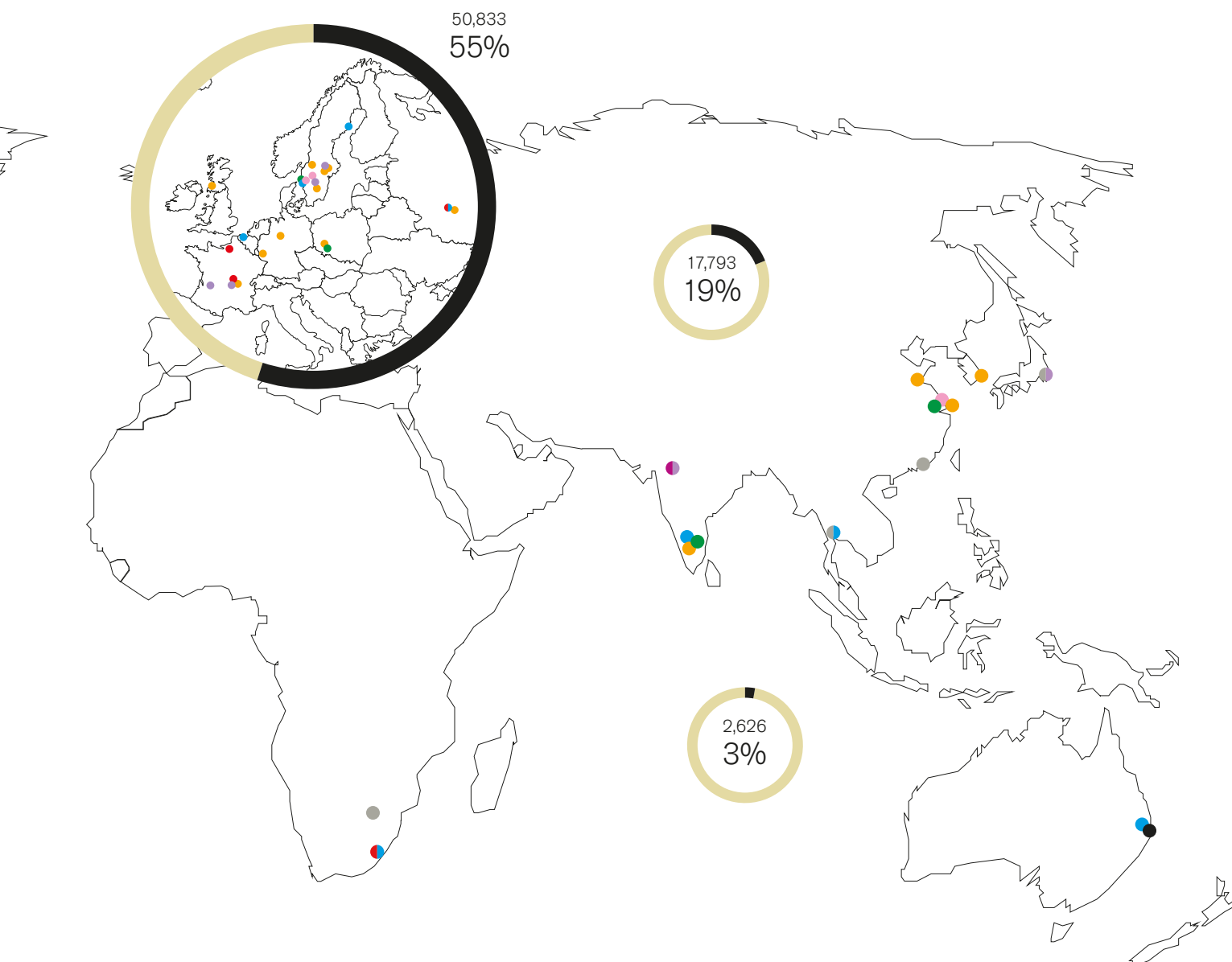


Share of employees

Group Trucks Operations

Major production facilities	North America	South America
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	Shippensburg (US)	Pederneiras (BR)
Buses	St Claire, St Eustache, St Francois du lac (CA) Mexico City (MX), Plattsburgh (US)	Curitiba (BR)
Volvo Penta	Lexington (US)	

* Ownership ≥ 50%



Europe	Asia	Other markets
	Pithampur* (IN)	
		Brisbane (AU)
Blainville, Bourg-en-Bresse (FR), Kaluga (RU)		Durban (ZA)
	Ageo (JP), Hangzhou* (CN), Bangkok (TH)	Pretoria (ZA)
Göteborg, Umeå (SE), Gent (BE), Kaluga (RU)	Bangalore (IN), Bangkok (TH)	Brisbane (AU), Durban (ZA)
Köping, Skövde (SE), Vénissieux (FR)	Ageo (JP), Pithampur* (IN)	
Arvika, Braås, Eskilstuna, Hallsberg (SE), Konz-Könen, Hameln (DE), Belley (FR), Kaluga (RU), Motherwell (UK)	Changwon (KR), Shanghai, Linyi* (CN), Bangalore (IN)	
Borås, Uddevalla (SE), Wrocław (PL)	Bangalore (IN), Shanghai* (CN)	
Göteborg, Vara (SE)	Shanghai (CN)	

HIGHER EFFICIENCY IN TRUCK MANUFACTURING

Several key measures are being implemented aimed at reducing manufacturing costs and strengthening the Group's competitiveness. The objective of the strategy is to balance the capacity between continents, increasing flexibility to enable manufacturing of different brands and models on the same assembly lines.





More efficient logistics and spare-parts management

Within the Group's truck business there is an extensive logistics operation responsible for all the flows of goods and products to and from the Group's production facilities as well as the supply of spare parts. To increase efficiency and delivery precision to end customers, the structure is being reviewed in Europe, North America and South Africa.

In Europe, the Group's spare-parts warehouse in Ghent, Belgium will increase, while Volvo CE's central warehouse in Eskilstuna, Sweden will be scaled down and converted into a regional warehouse for the Nordic market. At the same time, Eskilstuna will take over the stock from Göteborg, which will be closed. In North America, the management of spare parts with high turnover rates will be brought to a new central warehouse in Byhalia, Mississippi, while the warehouse in Columbus, Ohio will handle spare parts that are not used as frequently. This means that the three warehouses in Atlanta, Dallas and Memphis will be discontinued and the warehouses in Baltimore and Chicago will be significantly reduced. In South Africa, spare-parts management will be consolidated from three facilities into one.

Altogether, these changes mean an increased availability of spare parts to our customers with 400 fewer employees and lower costs.

European Optimization Program

In Europe, truck manufacturing is being optimized through the European Optimization Program, which consists of four structural changes. The first step was taken when manufacturing of medium-duty Volvo trucks was relocated from Ghent, Belgium to Blainville, France, which entailed that production of medium-duty trucks for both Volvo and Renault Trucks was concentrated to one plant. The second step was to optimize the assembly of heavy-duty trucks for the Volvo brand by discontinuing one of two assembly lines in Göteborg and optimizing the volumes between the Göteborg and Ghent plants. The space that was freed up in both Ghent and Göteborg is being used to facilitate a complete implementation of the Volvo Assembly Concept and component supply according to the fishbone principle and thereby significantly reduce logistics costs.

Finally, the cab trim operations in Umeå, Sweden will be relocated to Göteborg during the second quarter of 2015, while the plant in Umeå will focus even more on its main core operation – metal stamping, welding and painting of cabs.

All in all, the changes mean that the final assembly capacity will be retained with fewer employees and reduced logistics costs.

Restructuring in Japan

In Japan, extensive changes are being implemented to focus the operations on the domestic market, with associated adaptation of volumes. The industrial capacity will be reduced to 13,500 trucks and the operation will be concentrated to the main facility in Ageo. This means that all non-core operations will be discontinued, unutilized properties divested and old buildings and equipment will be dismantled. The workforce in Japan will be reduced to half the original size.

Additional restructuring

The measures also include discontinuing operations that have been deemed too small to operate efficiently. As a consequence of this, the crank shaft plant in Leganes, Spain has been discontinued and the volumes relocated to the facility in Skövde, Sweden. Contract manufacturing of Renault Trucks in Karsan, Turkey has been terminated and production of Renault Trucks' new models has been concentrated to existing plants in France. In addition, the Mack plant in Jacksonville has been closed and manufacturing concentrated to the main facility in Macungie. Group Trucks Operations has also discontinued the facilities for remanufacturing components in Eslöv and Eskilstuna, Sweden and moved the operation to Flen, Sweden and Ghent, Belgium to better utilize existing capacity.

Continuous improvements

In parallel with reducing structural cost, there is significant focus on continuous improvements based on the Lean principle. During 2014, a number of sites were selected for a special initiative in this area. The use of continuous improvement methodology will increase in significance over time to secure the long-term productivity progress in the Volvo Group. The pragmatic approach is to let the different sites learn from each other and use the more mature sites as mentors.

EFFICIENT PRODUCTION AND RESPONSIBLE SOURCING

Cornerstones of the Group's manufacturing operations



Global standards

An important tool is the Volvo Production System (VPS), which is used for many processes throughout the organization, including production, product development, logistics and administration. VPS is a way of working with the minimum resources necessary, and using methods that streamline operations and minimize productivity losses. It includes tools for measuring and improving workplace safety, health and well-being.

As employees influence the quality of products and services we deliver, transparency and clear communications with cross-functional teams are equally important aspects of VPS.

Quality, safety and environmental care are our corporate core values and are embedded in our sustainability approach. At each production unit, we have quality coordinators, safety delegates and environmental coordinators, and we measure, monitor and continuously improve our performance.

The Volvo Group conducts manufacturing in 19 countries worldwide. All production facilities comply with prevailing legislation and our minimum requirements for environmental management and improvement, chemicals, energy consumption, emissions to air and water, and waste management. To ensure compliance, environmental audits have been conducted group-wide since 1989.

All our wholly-owned production sites have certification for the ISO 9001 quality management system. 98% of our production is certified in accordance with the ISO 14001 environmental management standard. There was a new health and safety organization implemented during 2014 with the purpose to implement the Volvo Group minimum requirements for the area. The focus is to establish networks within the Volvo Group to work with health and safety both from an operational and strategic level.

More than 94% of our automotive products spend is with ISO 14001 or equivalent-certified suppliers.

Carbon-neutral manufacturing

The long term objective is that all plants in the Volvo Group should be CO₂ neutral and there is an on-going work to reach this objec-

Environmental, economic and social sustainability is a long-standing cornerstone of the Volvo Group business. We have adopted and developed tools, processes and production systems to help us set a global standard of excellence and guide our employees on responsible behavior.

PRINCIPLES

Volvo Production System (VPS) and Operational Development (OD) are aimed at:

- Improving processes
- Delivering results
- Developing people.

tive. Volvo CE's factory in Braås, Sweden was the first construction equipment production facility in the world to be powered entirely by renewable energy in 2013. Already in 2007, the Volvo plant in Ghent, Belgium was the first truck plant to set the standard for carbon-neutral truck manufacturing.

In November 2014, the Group's New River Valley (NRV) plant in Virginia, US, became carbon neutral in its electricity use. All electric power for the plant is now generated by methane gas from 13 landfills in the region. This is the latest milestone in the NRV plant's commitment to sustainability. Together with the Macungie plant in Pennsylvania and the Hagerstown plant in Maryland, the NRV plant's energy conservation efforts have been recognized with certification under both ISO 50001 standards and the U.S. Department of Energy's Superior Energy Platinum (SEP) program – the top international and U.S. certifications for driving continuous improvements in energy efficiency.

Licensable facilities in Sweden

In 2014, there were 15 licensable facilities in Sweden. The permits cover the general conditions for the operations such as the allowed production volumes and the environmental performance. All permits have specific site requirements set for e.g. emissions to the air, emissions to water and noise levels, all of which would have an impact on the neighbors and the environment. There is a continuous review of the environmental permits, but no environmental permits need to be renewed in 2015. During the year, there were no major environmental incidents.

More than 94% of our automotive products spend is with ISO 14001 or equivalent-certified suppliers.

94%

Energy efficiency

Our ambitions to increase energy efficiency and attain carbon neutrality are important both in terms of environmental and economic sustainability. The Volvo Group was the first automotive manufacturer to participate in the WWF Climate Savers program. Since 2008, the results indicate that we have reduced carbon emissions from our operations by 20%. This is already in excess of the 12% target we are committed to achieve by 2014. For further information, please see page 40.

Responsible sourcing

The Volvo Group's responsible sourcing processes aim to reduce the risk of incidents that may interrupt our supply flow or damage the Group's reputation, build long-term relationships with suppliers and meet growing customer expectations.

Since 1996, the Volvo Group has consistently increased supplier requirements on environmental issues, business ethics and social justice. Our supplier requirements are based on the principles contained in the Group's Code of Conduct, which is reviewed and updated regularly.

During 2014 a number of CSR roadshows were completed all over the world. The purpose was to train purchasers and Quality Engineers on business ethics, social justice and environmental issues affecting our supply chain. At the end of the year, the majority of the purchasers had been trained.

The Volvo Group is part of the European Automotive Working Group on Supply Chain Sustainability and during 2014 a work was done in order to harmonize the automotive industry's demands on suppliers. A harmonized evaluation will facilitate for suppliers to be correct and transparent. The new way of working will be implemented during 2015.

CSR assessment

In line with general automotive industry practice, the Volvo Group uses a self-assessment approach to evaluate supplier performance and compliance with our CSR requirements.

The focus for the Group is on suppliers in high risk countries. 57% of suppliers from countries considered to be 'high risk' from a CSR perspective have completed the self-assessment and passed.

80% of the Volvo Group purchasing spend of direct material derives from suppliers that completed the self-assessment during 2010–2014.

The main reason for not passing was a lack of adequate systems to enforce our CSR requirements down the chain to sub-contractors. Others failed due to a lack of action plans in case of lack of compliance.



WORLD-CLASS SERVICES AND DISTRIBUTION

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.

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.

Distribution of net sales 2014



The Volvo VM is a medium-heavy truck developed for South America. The truck is suited for various regional distribution and urban operations.

Renault Trucks enjoys challenges and has launched the RTEC, an aftersales challenge for its entire European dealer network. The aim is to develop skills and highlight the Renault Trucks



network's expertise in providing after-sales services to its current and future customers. Dubbed the RTEC

for "Road To Excellence Championship", this new challenge is aimed at inviting the best aftersales professionals in the Renault Trucks European network to compete against each other in teams. It will also be an opportunity for entrants to compare experiences from one country to another, discuss their expertise and enhance their skills so as to offer Renault Trucks customers services with an even higher level of excellence.

Every other year Volvo Trucks and Volvo Buses stage the VISTA competition, which is the world's largest competition for aftermarket personnel. UD Trucks holds the Gemba Challenge, which is an aftermarket competition for employees in Asia and Africa. Volvo CE also organizes a global competition for its aftermarket personnel, called the Volvo CE Masters.

**May the
best team
win!**



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.

Develop and increase interface with customers

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

The goal is that Volvo Group companies shall be regarded as number one in customer satisfaction, in terms of both products and services. The Volvo Group shall also be number one when the dealers' customers assess customer satisfaction.

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 2014, the services and aftermarket products business represented approximately 26% of the Volvo Group's net sales, compared with 27% during 2013, with a larger portion of sales stemming from North America where the aftermarket part of total sales is smaller than in for instance Europe.

Reliable products and service are
crucial to **customers' profitability**



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.

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.

Renault Trucks Optifuel

Renault Trucks offers customers the possibility for further increasing the savings through its Optifuel solutions, which is a structured offer addressing four main areas:

- 1) Configuration of the truck – use the right technology (i.e. Opti-driver, Optiroll, Optitrack) and the right equipment (i.e. deflectors, tyres) for the transport application at hand
- 2) Training the people – use Renault Trucks' "in-house" training program, based on thirty years of experience that enables considerable fuel savings
- 3) Monitoring the fuel consumption – use the right tool (i.e. Optifuel Infomax and Optifleet) to manage drivers and trucks
- 4) Maintaining long-term performance – use the Renault Trucks service network's know-how and experience, the latest technical innovations (i.e. Optifuel Retrofit) in order to maintain fuel efficiency throughout the truck's entire operational life.

Volvo Trucks Fuel Advice

Volvo Trucks 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%.



To stimulate fuel-efficient driving and reward especially skilled drivers, Volvo Trucks hosts The Drivers' Fuel Challenge, a global competition which is about driving as economically as possible on a specified route. After all the local rounds around the world had been completed the 23 best drivers faced each other in the world final on September 19, 2014 in Göteborg, Sweden where they competed for the prestigious title. In the end, Christian Scheifflinger from Austria (pictured to the left) was the winner of the title as the most fuel-efficient driver in the world. Tomi Roimola from Finland placed second and Aare Müil from Estonia placed third.

Volvo Trucks Fuel Advice

Fuel Advice consists 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.

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

Fuel costs represents a substantial part of a bus operator's costs. Volvo Buses offers a range of services aimed at minimizing fuel consumption. With the Fleet Management Report, the customer can measure and follow up each vehicle's performance in terms of fuel efficiency and emissions. Volvo I-Coaching is a tool located on the dashboard in the bus which gives instant feedback on driver behavior, helping the driver to drive more economically and safely. Volvo Buses also offers courses in Efficient Driver Training. In total, these measures can deliver fuel savings of about 10%.



STRONG MOMENTUM FOR BOTH TRUCK BRANDS IN NORTH AMERICA

The Group's North American truck business has been successful in recent years. Here is a look into how a consistent strategy built on four pillars – transformed distribution, captive components, aftermarket leadership, and strong brands – has delivered improved profitability and increased market share.

Transformed distribution

The North American truck distribution network is almost entirely privately owned, so developing the coast-to-coast support system that's vital to profitable growth requires a strong partnership with independent dealer groups.

Recent developments in the Mack Trucks and Volvo Trucks distribution networks make clear that the Group's private partners share our vision of the future, and are committed to providing each brand's customers with stronger network coverage and quality support.

Private dealers have invested more than USD 435 M since 2010 in new facilities, equipment and personnel. This has resulted in the addition of about 60 outlets and a 37% increase in service bay capacity. As our vehicles become increasingly sophisticated, the need for skilled technical support personnel continues to grow – so the network's doubling of technicians, and near tripling of highly skilled "Master Techs," is especially important.



Captive components: Volvo I-Shift converts North America

In addition to helping our brands deliver the optimized performance and fuel efficiency demanded by customers and regulators, proprietary powertrains represent an important ongoing source of revenue for the Group and our dealers.

While Mack has always offered proprietary engines, the push for increased Volvo power penetration is more recent – and has been remarkably successful. From representing only about a third of Volvo sales a decade ago, Volvo engines powered more than 92% of the trucks sold in 2014.

The impact of the Group's automated manual transmission has been even more impressive, and it could be argued that in this area, Volvo innovation has changed an entire market. Automated manual transmissions were mostly absent from North America in 2007 when Volvo's I-Shift became the first integrated solution to enter the market, and many in the industry thought the market would remain committed to manual gear boxes. But penetration of the I-Shift has skyrocketed – to the point that last year, it represented more than 75% of Volvo trucks sold. The Mack brand has experienced similarly rapid growth with its mDRIVE transmission, which in 2014 represented nearly 50% of highway vehicle sales, only four years after its introduction.

Aftermarket leadership

Improved distribution and growth in captive components also contributed to 2014 being the fifth straight year of record North American aftermarket sales for the Group; since 2009, the Group has consistently recorded annual growth of more than 18% in aftermarket sales per vehicle in operation. Beyond parts, this growth reflects increased sales of soft offers like extended warranties, contract maintenance, and leasing.

The Group has also been a leader in connected vehicle and remote diagnostics solutions. In 2012, Volvo Trucks was the first brand to introduce an integrated, robust remote diagnostics solution to North America, and the Mack brand followed in 2013. By the end of 2014, the systems were on more than 60,000 active vehicles – and have demonstrated the ability to reduce the average diagnostic time by up to 70%, and average repair times by more than 20%.

In 2014, the Group opened its new Uptime Center in North Carolina. This state-of-the-art facility co-locates personnel from every customer support function, connects them to customers and dealers with the latest telematics, communications, and case management tools, and makes it easy for cross-functional teams to quickly interact face-to-face when necessary to keep vehicles on the road.

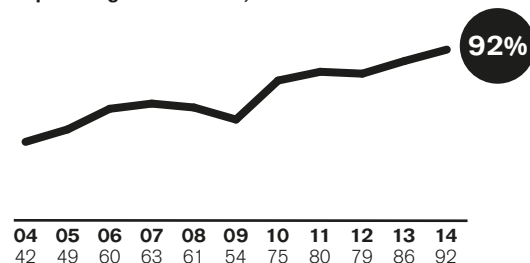
Strong brands

These initiatives have been complemented by ongoing activities to properly position and build on the brand images of Mack and Volvo Trucks. These efforts paid off in a 2014 market share increase to 21.2% (20.1) for the combined U.S. and Canadian retail market – a market that grew by 17.5%.

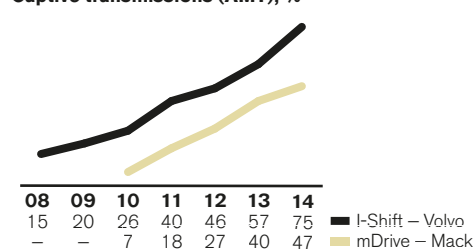
Market share growth was driven primarily by the Volvo brand, which increased its share of the combined U.S. and Canadian market to 12.4% (11.4), with especially strong growth in Canada (15.3% vs. 13.1% in 2013). The brand also succeeded in shifting its sales mix toward small and medium-sized regional fleets. By adding an 11-liter XE ("Exceptional Efficiency") powertrain package to the existing 13- and 16-liter versions, the brand drove 2014 sales of this integrated solution to nearly 30% of deliveries.

The Mack brand's overall share of the combined U.S. and Canadian market was flat at 8.7% because the long haul segment,

Captive engines for Volvo, %



Captive transmissions (AMT), %



**Model
year 2016
enhancements for
significant fuel
savings**



Volvo Trucks' model year 2016 VN series highway tractors in North America will deliver even greater fuel savings compared with previous generation models through an assortment of aerodynamic and powertrain enhancements. Further sculpting of airflow around the exterior and underneath the hood improves fuel efficiency by up to 3.5%. Volvo's new XE-Adaptive Gearing and Torque Management options can provide fuel efficiency improvements of more than 2.5%.

which is not core for the brand, grew significantly. But in its core segments, Mack maintained its number one heavy-duty position in both construction and refuse, and moved from fifth to second in the regional haul. The Mack Granite model was, for the second straight year, the number one selling heavy-duty conventional straight truck in the U.S.

In March, Mack launched a new brand identity system designed to better communicate the brand's forward-thinking approach to providing customer solutions, while honoring its 114-year history. A central element is a sleeker, more modern logo featuring the iconic Mack Bulldog – which has ridden above the grille on every truck since 1932 – poised confidently above the Mack word mark. The new system is part of a comprehensive effort to ensure that Mack fulfills its brand promise as "The American Truck You Can Count On."



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.

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 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 employees can expect from their employer, but also their own responsibilities.

A qualified talent pool

Multiple factors influence the availability of talent for our industries. These included diminishing interest in science, technology, engineering and mathematics in some developed markets, limitations in the educational system in some emerging markets and the long-term decline in the number of people in working age in developed markets.

In order to develop and attract a qualified talent pool for our industries, the Volvo Group is engaged in several initiatives, such as the Volvo Step, a one year vocational training program for unemployed youth in Sweden, and vocational training schools in for instance South America and Africa.

THE RIGHT COMPETENCE

To be an Employer of choice, our work environment needs to be attractive to a diverse, multigenerational workforce representing our markets and customers.



KEY FIGURES 2014

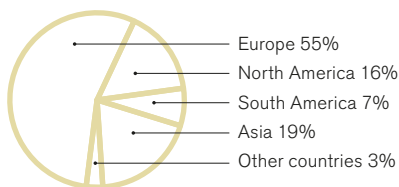
Number of permanent employees at year-end

92,822

Employee engagement in VGAS

72%**Volvo Group
University opened**

Key figures	2014	2013
Number of permanent employees at year-end	92,822	95,533
Number of temporary employees and consultants	11,749	14,794
Share of women, %	18	17
Share of women, Board Members, %	20	17
Share of women, Presidents and other senior executives, %	21	19

Geographic distribution of employees**Academic Partner Program**

The Volvo Group is also involved in a comprehensive series of cooperative ventures with research bodies and academic institutions to advance the technologies needed for future product development and to secure the access to competent employees.

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 building capability and creating relationships with students and potential employees to secure access to future competence.

There are two modules in place - Preferred Research Partners for collaborative research projects and Preferred Talent Partners for recruitment purposes. In total, the Volvo Group has 12 Preferred Talent Partners (T) and Preferred Research Partners (R) in APP globally: National Institute of Technology, Karnataka (T) in India, EM Lyon (T) and INSA Lyon (R, T) in France, Tsinghua University, Beijing (T) and Tongji University, Shanghai (T) in China, Chalmers University of Technology, Göteborg (R, T), University of Skövde (R), School of Business, Economics and Law, Göteborg (T) and Mälardalen University, Västerås/Eskilstuna (R) in Sweden, North Carolina State University (T) and Pennsylvania State University (R, T) in the U.S. and Sophia University (T) in Japan.

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. Diversity challenges the status quo way of thinking and makes the Group better able to understand customer needs, thus strengthening our market position. Diversity and inclusion have long been prioritized within Volvo.

Volvo Group University

The Volvo Group's own university has been up and running in Göteborg, Sweden since April 2014. The Volvo Group University (VGU) is the center of education and competency activities for the Group's employees. In Greensboro, Lyon and Bangalore there are also training facilities and VGU personnel.

Every year, half a million training days is allocated to the Volvo Group's employees and retail organization worldwide. With employees in more than 190 markets working on everything from product development and assembly to finances, marketing and sales, the competency level and further education of all employees is a crucial success factor for the Group.

– It is important that the training courses we offer support our strategy ahead, the transformation of the Volvo Group and enable culture. With the Volvo Group University, we ensure that training builds the expertise that will help us achieve our long-term targets, says Kristina Rejare, Head of the Volvo Group University.

– We know that our employees value the opportunities for further education during their professional lives. Having our own university increases both the quality of the training courses offered and secures synergies and efficiency within the Volvo Group, says Kristina Rejare.

VGAS 2014: Lower employee engagement

The major transformation work in the Volvo Group has affected the engagement of the Group's employees, losing four percentage points, from 76% to 72%. The performance excellence index, which captures if the Volvo Group has the right structures and processes to support customers, declined one percentage point compared to the 2013 result. This is also the case for the leadership effectiveness index, which declined from 71% to 70%.

Although not entirely unexpected, these signs are taken very seriously. By the end of 2014 managers at all levels of the organization were working actively to understand the results and build action plans. Key areas to focus on include empowering the employees, allowing them to take actions in support of the customer and finding ways to create motivation for the future. In particular, all leaders need to take the time to lead, and to communicate not only what the company decisions mean, and why we have made them, but also where they will take us. Finally, speed and decision-making as well as collaboration are improving but there is still room for improvement.

Personnel reductions

In the autumn of 2013 a Group-wide efficiency program was announced. It is based on cost-saving activities related to the implementation of the Group's strategies. Approximately 4,400 white-collar employees and consultants are affected by personnel reductions. A majority of the personnel reductions were implemented during 2014. During the year, a substantial number of blue-collar employees were also affected by the Group's restructuring measures.

The Volvo Group strives to have a close and good cooperation with unions. In conjunction with restructuring and reorganizations, a close dialog with the unions, as well as contacts with local authorities, of vital importance so that the changes can be carried out as efficiently and positive as possible for all parties involved.

THE VOLVO WAY



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.

HUMAN RIGHTS IN OPERATIONS

The Volvo Group's position on human rights is reflected in the Code of Conduct. It includes:

- Non-discrimination
- Non-tolerance of forced labor
- Non-tolerance of compulsory or child labor
- Freedom of association
- The right to collective bargaining
- The right of all employees to a healthy and safe work environment
- Working hours and compensation.

Training in Code of Conduct

A Group-wide training program was launched in November 2012 to support the implementation of the updated Code of Conduct, which was launched in September 2012. This training helps our employees and managers to reflect on their own attitudes and behavior in different situations. Since the launch of the updated Code of Conduct 23,115 white-collar employees (out of around 47,500) have participated in the web-based training.

All employees within the Volvo Group are expected and encouraged to report suspected violations of the Code of Conduct to their direct superiors or managers of their superiors. To support this, a Whistleblower procedure is available.

Read more in the Volvo Group's Sustainability Report 2014.

Volvo starts vocational training school in Morocco



Together with the UN agency UNIDO, USAID, and the OCP Foundation, the Volvo Group is starting a vocational training school for mechanics in Morocco. The school will be conducted in collaboration with local authorities and will train 150 students from Morocco, the Ivory Coast and Senegal every year.

– Trained mechanics will have the opportunity to gain work in countries with high unemployment, while Volvo will gain access to the trained personnel that is required in order to expand in Africa. By training local manpower, we will contribute to sustainable growth in the countries in which Volvo operates, says Niklas Gustavsson, Volvo Group Chief Sustainability Officer.

The Volvo Group's presence in Morocco dates back to the 1950s. The Group's high share of the truck market in combination with the country's investments in infrastructure makes Morocco a country where the Volvo Group can grow.

– The distinctive feature of this training academy lies within its ability to produce skills and expertise that can directly be employed in sectors that use heavy-duty equipment and that work on the big projects that are undertaken by Morocco, says Mr. Jamaledine El Aloua, General Secretary for the Moroccan Department of Vocational Training.





USAID
FROM THE AMERICAN PEOPLE



Sida

The trainee programs will commence in 2015 and the operation will be conducted on the same premises as the existing national vocational school Ecole des Métiers du Bâtiment et Travaux Publics, in the city of Settat.

Last year, the Volvo Group announced that vocational training schools for mechanics and drivers for trucks, buses and con-

struction equipment will be established in ten African countries. In collaboration with national education authorities, the Volvo Group will develop and finance the programs based on the industry's local competency requirements. The programs will be conducted in the countries that are strategically important in terms of business for the Volvo Group, and within the development strategies of SIDA and USAID.

Volvo's trainee programs in Africa constitute a further strategic development of a pilot project implemented by the Volvo Group through Volvo Construction Equipment in collaboration with the United Nations Industrial Development Organization, UNIDO and SIDA in Addis Ababa in Ethiopia.



The establishment of the training schools in Morocco is the result of a cooperation between the Volvo Group, the United States Agency for International Aid (USAID), The United Nations Industrial Development Organization (UNIDO), the OCP Foundation and the Moroccan Ministry of national education and vocational training.

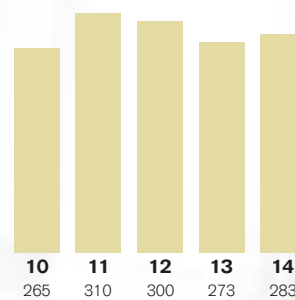


GROUP PERFORMANCE

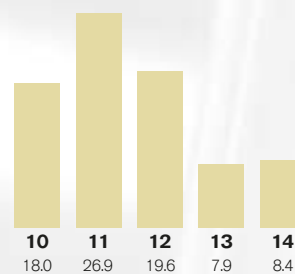
Since the streamlining towards commercial vehicles was initiated more than ten years ago, the Volvo Group has grown into the world's second largest manufacturer of heavy-duty trucks and one of the largest manufacturers of buses and construction equipment and is today also a leading manufacturer of heavy-duty diesel engines and marine and industrial engines. Year 2014 was characterized by mixed market conditions and internal measures to increase efficiency and profitability.



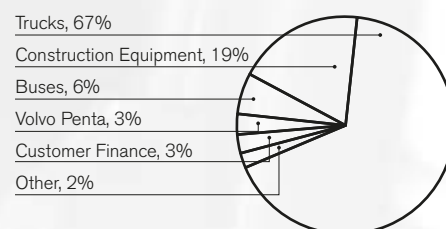
Volvo Group Net sales, SEK bn



Operating income excl. restructuring charges, SEK bn



Share of net sales 2104



GLOBAL STRENGTH

In a changing world

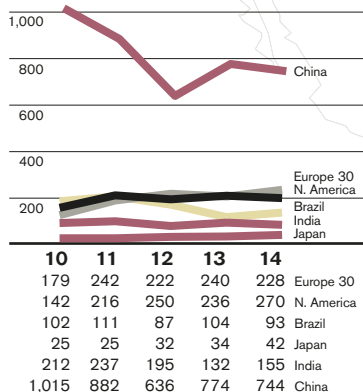
Since the streamlining towards commercial vehicles was initiated more than ten years ago, the Volvo Group has grown into the world's second largest manufacturer of heavy-duty trucks and one of the largest manufacturers of buses and construction equipment and is today also a leading manufacturer of heavy-duty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

DISTRIBUTION OF NET SALES BY GEOGRAPHY 2014

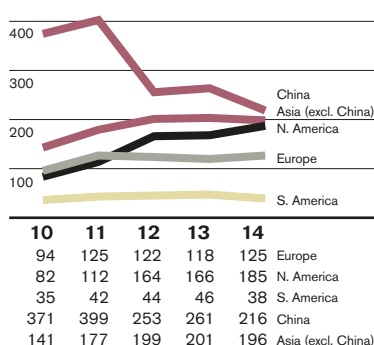
Europe, 38%
North America, 27%
South America, 10%
Asia, 18%
Other markets, 7%



Market development, heavy-duty trucks, Thousands



Market development, construction equipment, Thousands



NORTH AMERICA



- Net sales: SEK 76,258 M (63,088)
- Share of net sales: 27% (23)
- Number of employees: 15,217 (16,397)
- Share of Group employees: 16% (17)
- Largest markets: The U.S., Canada and Mexico.

- Strong development in the heavy-duty truck market, which grew by 14%, with increased market share for the Volvo Group.
- Successes for the Group's captive engines and gearboxes, which are delivered in a growing number of trucks.
- Improved profitability in the truck business.
- The construction equipment market grew by 11% with good growth in all segments of the market.

SOUTH AMERICA



- Net sales: SEK 26,958 M (29,758)
- Share of net sales: 10% (11)
- Number of employees: 6,353 (6,275)
- Share of Group employees: 7% (6)
- Largest markets: Brazil, Peru, Chile and Argentina.

- Demand in the important Brazilian truck market declined, mainly as a consequence of weak economic development. The heavy-duty truck market was down 11%.
- Considerable decline also in other markets, partly as an effect of lower demand for commodities and declining investments in the mining industry.
- New Volvo FH and Volvo FM launched. Market share gains.
- The South American construction equipment market was also considerably affected by the downturn in the mining industry and declined by 17%.

EUROPE



- Net sales: SEK 106,176 M (105,320)
- Share of net sales: 38% (39)
- Number of employees: 50,833 (52,334)
- Share of Group employees: 55% (55)
- Largest markets: France, the UK, Germany and Sweden.

- The market for heavy-duty trucks in Europe declined by 5%.
- Somewhat increased market share for Volvo and somewhat lowered market share for Renault Trucks.
- Renault Trucks T range voted International Truck of the Year 2015.
- The construction equipment market increased by 7%.

THE GROUP'S FIVE LARGEST MARKETS

UNITED STATES • FRANCE
BRAZIL • JAPAN
UNITED KINGDOM

OTHER MARKETS

- Net sales: SEK 21,481 M (20,942)
- Share of net sales: 7% (7)
- Number of employees: 2,626 (2,574)
- Share of Group employees: 3% (3)
- Largest markets: Australia, South Africa, Algeria, Morocco and New Zealand.

- Demand in Australia was negatively impacted by the downturn in the mining industry.
- The South African market was relatively stable with a recovery in GDP growth during the second half of the year.

ASIA



- Net sales: SEK 52,076 M (53,512)
- Share of net sales: 18% (20)
- Number of employees: 17,793 (17,953)
- Share of Group employees: 19% (19)
- Largest markets: Japan, China, South Korea, Turkey and India.

- Sharp and accelerating decline in the important Chinese market for construction equipment, which declined by 18%.
- Mixed development in the truck markets.
- Demand in Japan supported by infrastructure investments.
- Recovery in demand in the Indian truck market.
- Acquisition of 45% of the Chinese company Dongfeng Commercial Vehicles completed in January 2015.

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 Prevost.
- 2006** Acquisition of Japanese Nissan Diesel (Now UD Trucks) started. Completed in 2007.
- 2007** Acquisition of 70% 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.
- 2013** Agreement on acquisition of hauler business from Terex.
- 2014** Divestment of Volvo Rents in North America.
- 2015** Acquisition of 45% of Chinese company Dongfeng Commercial Vehicles.

SIGNIFICANT EVENTS

During 2014



Dongfeng is a new strong brand within the Group's truck business.

Chinese authority approved joint venture between the Volvo Group and Dongfeng Motor Group

On January 7, 2014 the National Development and Reform Commission (NDRC) in China gave its approval of the establishment of a joint venture between the Volvo Group and Dongfeng Motor Group Company Limited. Completion was subject to certain conditions including the approval of other Chinese authorities. As announced in January 2013, AB Volvo 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 includes the major part of DFG's medium- and heavy-duty commercial vehicles business. The transaction was completed in January 2015.

Divestiture of Volvo Rents completed

The divestiture of Volvo Rents was completed on January 31, 2014. The price amounted to USD 1.1 billion, corresponding to SEK 6.9 billion.

Volvo Group divested commercial real estate

On March 28, 2014 companies in the Volvo Group signed an agreement to sell commercial real estate to companies jointly owned by Hemfosa Fastigheter AB and AB Sagax, and to companies owned by AB Sagax. The purchase consideration, on a cash and debt free basis, was approximately SEK 2 billion.

Volvo Group Press releases 2014

THE FIRST QUARTER

21/01/2014 Another first for Volvo Group CO₂-neutral production **22/01/2014** Chinese authority approves joint venture between the Volvo Group and Dongfeng Motor Group **23/01/2014** Invitation to press and analyst conference in Stockholm **30/01/2014** Volvo scholarship for research on vehicular systems and hybrid technology **03/02/2014** Divestiture of Volvo Rents completed **06/02/2014** Report on the fourth quarter and the full year 2013 **18/02/2014** Matti Alahuhta, James W. Griffith and Kathryn V. Marinello nominated to AB Volvo Board **20/02/2014** Truck deliveries in January 2014 **28/02/2014** New number of votes in AB Volvo **03/03/2014** Annual General Meeting of AB Volvo **12/03/2014** AB Volvo publishes 2013 Annual Report **19/03/2014** Volvo Group introduces UD buses **20/03/2014** Truck deliveries in February 2014 **26/03/2014** AB Volvo publishes Sustainability Report 2013 **28/03/2014** Volvo Group to divest commercial real estate **31/03/2014** New number of votes in AB Volvo

Year 2014 was characterized by mixed market conditions and internal measures to increase efficiency and profitability.

Annual General Meeting of AB Volvo

The Annual General Meeting of AB Volvo held on April 2, 2014 approved the Board of Directors' proposal that a dividend of SEK 3.00 per share be paid to the company's shareholders.

Jean-Baptiste Duzan, Hanne de Mora, Anders Nyrén, Olof Persson, Carl-Henric Svanberg and Lars Westerberg were re-elected as members of the AB Volvo Board. Matti Alahuhta, James W. Griffith and Kathryn V. Marinello were elected as new members of the Board. Carl-Henric Svanberg was reelected as Chairman of the Board. The registered accounting firm PricewaterhouseCoopers AB was reelected as the company's auditor for a period of four years. Carl-Olof By, representing AB Industrivärden, Lars Förberg, representing Cevian Capital, Yngve Slyngstad, representing Norges Bank Investment Management, 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. A remuneration policy for senior executives was adopted in accordance with the Board of Directors' motion.

Moreover, the Meeting adopted the Board of Directors' motion concerning a long-term, share-based incentive program for a maximum of 300 senior executives in the Volvo Group comprising the years 2014–2016, including transfer of treasury shares to the participants in the program as matching-and performance shares,

based on the same principles as the program adopted by the Annual General Meeting held in 2011, however with a certain adjustment of the performance targets.

Volvo Construction Equipment finalized acquisition of hauler business from Terex

On May 30, 2014 the acquisition of Terex's hauler business was completed. The purchase consideration amounted to USD 160 M (approx. SEK 1 billion) on a cash and debt-free basis. The deal includes the main production facility in Motherwell, Scotland and two product ranges that offer both rigid and articulated haulers. It also includes the distribution of haulers in the U.S. as well as a 25.2% holding in Inner Mongolia North Hauler Joint Stock Co. (NHL), which manufactures and sells rigid haulers under the Terex brand in China. In 2013, the acquired businesses (excluding NHL) had net sales of approximately USD 228 M (approx. SEK 1.5 billion) and an operating income of approximately USD 9.5 M (approx. SEK 60 M).

Volvo Group signed EUR 3.5 billion revolving credit facilities

On July 1, the Volvo Group through its subsidiary Volvo Treasury AB signed new credit facilities of EUR 3.5 billion. The new facilities replace the company's existing EUR 2,000 M and EUR 1,200 M revolving credit facilities signed in 2011 and 2012. The new facilities consist of one facility amounting to EUR 2,300 M with a tenor of five years and a second one amounting to EUR 1,200 M with a tenor of three years. Both have one plus one year extension options.

Volvo Group ordered by US Court to pay penalties in engine emission case

On July 19, 2014 the Volvo Group disclosed that the U.S. Court of Appeals for the District of Columbia Circuit had ruled that the Volvo Group should pay penalties and interest of approximately SEK 508 M following a dispute between the Volvo Group and the U.S. Environmental Protection Agency (EPA) regarding emission compliance of diesel engines. The Court of Appeals affirmed a District Court's ruling that model year 2005 Volvo Penta engines violated the provisions of a Consent Decree. This had a negative impact on the Group's operating income of SEK 422 M in the third quarter of 2014 in the segment Group functions and other.

Further cost-reductions and changed format for external follow-up

On October 24, it was announced that the Volvo Group increases its ambition in the structural cost-reduction efforts and there will be increased expected restructuring charges in the Strategic Program 2013–2015. At the same time, the format for external follow-up was changed. Please see page 24 for more information.

On May 30, 2014 the previously announced acquisition of **Terex's** hauler business was completed.



THE SECOND QUARTER



02/04/2014 Award for technology behind "The Epic Split" **02/04/2014** Annual General Meeting of AB Volvo **07/04/2014** Volvo Group University opens today
11/04/2014 Invitation to press and analyst conference in Stockholm **15/04/2014** Assar Gabrielsson Award for research that may provide better treatment of glandular cancer **15/04/2014** Volvo Group completes real estate transaction **25/04/2014** Volvo Group – the first quarter 2014 **30/04/2014** New number of votes in AB Volvo
30/04/2014 Annual Report of Volvo Treasury AB (publ) **19/05/2014** The Volvo Group studies potential to test electric roads in a city **21/05/2014** Truck deliveries in April 2014 **30/05/2014** New number of votes in AB Volvo **02/06/2014** Volvo Construction Equipment finalizes the acquisition of the hauler business from Terex
17/06/2014 Unique gearbox for heavy vehicles on the Volvo FH **18/06/2014** Truck deliveries in May 2014 **27/06/2014** Scott Rafkin new President of Volvo Financial Services **30/06/2014** New number of votes in AB Volvo **30/06/2014** Logistics agreement to reduce environmental impact



Volvo CE will transfer backhoe loaders and motor graders to **SDLG** to improve profitability.

Volvo CE transfer backhoe loaders and motor graders to SDLG to improve profitability

As part of the Volvo Group's ongoing activities to improve profitability and reduce costs, Volvo CE on November 13, 2014 announced that it will discontinue development and production of its current product line of Volvo-branded backhoe loaders and motor graders. In the future, these products will instead be manufactured by Volvo CE's Chinese company SDLG. Combined with other efficiency enhancement measures, this will result in a workforce reduction of about 1,000 employees, of whom the majority is in Poland, the U.S. and Brazil.

Provision for expected credit losses for Volvo CE

On November 21, 2014 it was announced that Volvo CE's operating income for the fourth quarter of 2014 would be negatively impacted by a provision for expected credit losses in China. The provision impacted the operating income in the fourth quarter of 2014 in an amount of SEK 660 M.

Provision related to EU antitrust investigation

After an evaluation of the Statement of Objections, issued by the European Commission on November 20, 2014 in the on-going anti-trust investigation relating to the time period prior to January 18, 2011, the Volvo Group on November 25, 2014 announced that it had decided to make a provision of EUR 400 M. The provision impacted the operating income negatively in the fourth quarter 2014.

Volvo issued hybrid bond

On December 4, 2014 AB Volvo announced that it had successfully issued a hybrid bond via its wholly-owned subsidiary Volvo Treasury AB, amounting to EUR 1.5 billion in order to further strengthen the Group's balance sheet and prolong the maturity structure of the debt portfolio. The hybrid bond is accounted for as a loan and subordinated to all other financial liabilities currently outstanding. The

hybrid bond will be eligible for 50% equity treatment from both Moody's and S&P when calculating Volvo's credit ratios.

EVENTS AFTER BALANCE SHEET DATE

Completion of the acquisition of 45% of Dongfeng Commercial Vehicles

On January 5, 2015 AB Volvo announced that it had completed the acquisition of 45% of the Chinese automotive manufacturer Dongfeng Commercial Vehicles Co., Ltd (DFCV). The purchase consideration amounted to RMB 5.5 billion. DFCV includes most of Dongfeng's operations in heavy- and medium-duty commercial vehicles. The transaction strengthens the Volvo Group's position in medium-duty trucks significantly while the Group will become one of the world's largest manufacturers of both medium- and heavy-duty trucks.

In 2013, DFCV's pro-forma sales amounted to RMB 35 billion (SEK 37 billion) and the pro-forma operating income to RMB 950 million (SEK 1 billion). The total Chinese market for heavy-duty trucks amounted to about 774,000 vehicles in 2013, while the corresponding figure for the medium-duty truck market was 286,000 vehicles. DFCV had a leading position in both the heavy-duty and medium-duty segments, with sales of 120,600 heavy-duty trucks and 51,000 medium-duty trucks, corresponding to market shares of 15.6% and 17.8%, respectively.

During the first three quarters of 2014, DFCV's sales amounted to RMB 26 billion (SEK 28 billion) and the operating profit to RMB 1.1 billion (SEK 1.2 billion). During the same period, DFCV sold 85,000 heavy-duty and 31,000 medium-duty trucks. On September 30, 2014, DFCV had a net financial asset of RMB 3 billion (SEK 3.6 billion).

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

THE THIRD QUARTER

01/07/2014 Invitation to Volvo Group Capital Markets Day in Ghent, Belgium on March 5, 2015 **01/07/2014** Volvo Group signs EUR 3.5 bn revolving credit facilities **03/07/2014** Invitation to the Volvo Group report on the first six months 2014 **18/07/2014** Volvo Group – the second quarter 2014 **19/07/2014** Volvo Group ordered by US Court to pay penalties in engine emission case **21/07/2014** Volvo Buses and ABB in electro mobility cooperation **13/08/2014** Olof Persson appointed co-chairman of the UN advisory group on sustainable transport **21/08/2014** Volvo Group developing safety system at the world's most advanced test track **21/08/2014** Truck deliveries in July 2014 **28/08/2014** Volvo's engineers at Gothenburg's upper-secondary schools **29/08/2014** New number of votes in AB Volvo **29/08/2014** Semi-Annual Report of Volvo Treasury AB (publ) **11/09/2014** The Volvo Group one of the world's most sustainable companies **18/09/2014** Truck deliveries in August 2014



On January 5, 2015 the acquisition of 45% of the Chinese commercial vehicle manufacturer **Dongfeng Commercial Vehicles** was completed.

THE FOURTH QUARTER

04/10/2014 Volvo Ocean Race sets sail in October **10/10/2014** Invitation to press and analyst conference in Stockholm **20/10/2014** Environment Prize-winner uses satellites to reveal human impact **24/10/2014** Volvo Group – the third quarter 2014 **24/10/2014** Changes to Volvo's Group management **12/11/2014** Volvo the most sustainable company in the automotive sector in Brazil **13/11/2014** Volvo CE transfers backhoe loaders and motor graders to SDLG to improve profitability **19/11/2014** Truck deliveries in October 2014 **20/11/2014** Volvo starts vocational training school in Morocco **20/11/2014** The Volvo Group receives Statement of objections from the European Commission regarding on-going antitrust investigation **21/11/2014** Provision for expected credit losses for Volvo CE in China **25/11/2014** Volvo makes provision related to EU antitrust investigation **26/11/2014** Volvo to renew Climate Savers partnership with WWF **27/11/2014** Change in Volvo's Executive Team **04/12/2014** Volvo issues hybrid bond **18/12/2014** Truck deliveries in November 2014



TRUCKS

CONTINUED PRODUCT RENEWAL AND RESTRUCTURING

Demand was good in North America and Japan as a result of the economies developing well. On the other hand the European market showed little or no growth and the South American market was weak with the main market in Brazil declining sharply as a consequence of lower GDP growth. After a weak 2013, the heavy-duty truck market in India rebounded while the Chinese market declined.

Varying market conditions

In 2014, the heavy-duty truck market in Europe 30 (EU plus Norway and Switzerland) declined by 5% to 227,600 trucks compared with 240,400 in 2013 when demand was strong as an effect of prebuys of Euro 5 trucks ahead of the new emissions regulations Euro 6. For 2015 the total market is expected to be at a level of about 240,000 heavy-duty trucks.

In 2014, the total North American retail market for heavy-duty trucks increased by 14% to 270,300 vehicles (236,800). For 2015, the total market is expected to reach a level of about 310,000 heavy-duty trucks.

In 2014, the Brazilian market decreased by 11% to 92,700 heavy-duty trucks (103,800). For 2015 the total market in Brazil is expected to continue to decline to about 75,000 heavy-duty trucks.

In Japan the total market for heavy-duty trucks rose by 25% to 42,200 vehicles (33,800). The Japanese market for medium-duty trucks grew by 27% to 46,200 trucks (36,400). For 2015 the total market in Japan is expected to be at a level of about 40,000 heavy-duty trucks and 45,000 medium-duty trucks.

In India, the total market for heavy-duty trucks grew by 18% to 154,800 trucks (131,700). On the other hand, the total Indian market for medium-duty trucks declined by 18% to 62,300 trucks (76,300). For 2015 the total market in India is expected to reach a level of about 160,000 heavy-duty trucks and about 73,000 medium-duty trucks.

In China, the total market for heavy-duty trucks declined by 4% to 743,700 vehicles (773,900). The total market for medium-duty trucks declined by 15% to 243,500 vehicles (286,400). For 2015 the total market in China is expected to reach a level of about 730,000 heavy-duty trucks and 220,000 medium-duty trucks.

During 2014 market conditions varied significantly between different parts of the world.

Facts The truck operation's product offer stretches from heavy-duty trucks for long-haulage and construction work to light-duty trucks for distribution. The offering also includes maintenance and repair services, financing and leasing.

Position on world market Volvo Group is the world's second largest manufacturer of heavy-duty trucks.

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

As of January 2015, Dongfeng is also included.

Number of regular employees 58,067 (58,542)

Share of Group net sales, %



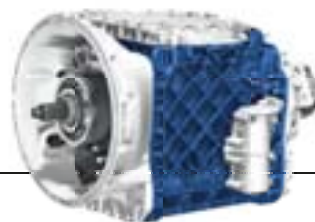
Volvo Trucks launches unique gearbox

During the year Volvo Trucks launched I-Shift Dual Clutch, the first transmission on the market with a dual clutch system for heavy vehicles. Thanks to power-shift gear changes without any interruption in power delivery, torque is maintained and the truck does not lose any speed during gear changes.

For the driver, the result is more comfortable and efficient progress on the road.

I-Shift Dual Clutch is a transmission consisting of two input shafts and a dual clutch. This

means that two gears can be selected at the same time. It is the clutch that determines which of the gears is currently active. I-Shift Dual Clutch is based on I-Shift, but the front half of the gearbox has been redesigned with entirely new components. Transmissions with dual clutches are already used in cars, but Volvo Trucks is the first manufacturer in the world to offer a similar solution for series-produced heavy vehicles.



In general the Volvo Group maintained or increased its market positions in the main markets. In Europe the combined market share for heavy-duty trucks amounted to 24.4% (24.3) and in North America it increased to 20.1% (18.8). In Brazil the market share in heavy-duty trucks increased to 21.3% (20.0) while it amounted to 18.8% (18.7) in Japan. In India the market share for Eicher amounted to 30.7% (30.4) in the medium-duty segment and to 4.3% (4.4) in the heavy-duty segment.

Orders and deliveries

In 2014, a total of 203,124 trucks were delivered from the Group's wholly-owned operations, an increase of 1% compared to 200,274 trucks in 2013. Deliveries increased in North America and Asia while they declined in Europe and South America.

Order intake to the Group's wholly-owned operations increased by 3% to 219,791 (214,301) trucks with an increase noted in North America, flat order intake in Asia and decreases in Europe and South America.

Improved underlying profitability

In 2014, net sales in the truck operations increased by 7% to SEK 190,904 M (178,474). Adjusted for changes in exchange rates, net sales increased by 5%.

Operating income excluding restructuring charges amounted to SEK 5,622 M (6,824), while the operating margin excluding restructuring charges was 2.9% (3.8). Restructuring charges amounted to SEK 1,464 M (679). Operating income was negatively impacted by a provision of SEK 3,790 M related to the EU antitrust investigation.

Excluding restructuring charges and the provision, the improvement in underlying profitability compared to 2013 is mainly an effect of improved gross margins from positive price realization in Europe, higher volumes and gross margins in North America, lower operating expenses from the efficiency program as well as higher earnings in the aftermarket. This was partly offset by lower volumes and gross margins in South America.

Earnings were negatively impacted by SEK 1,404 M from lower net capitalization of research and development expenses compared with 2013. Changes in currency exchange rates had a negative impact on operating income of SEK 260 M compared with 2013.

Roll-out of new products continued

In Europe, Volvo Trucks' new truck generation continued to be successful and advanced its position in the market and Renault Trucks' products were delivered to an increasing number of customers. Renault Trucks' new T-range was voted "International Truck of the Year 2015". For more information on Renault Trucks' T-range please see page 34.

Among product news in North America, Volvo Trucks announced Model Year 2016 enhancements for significant fuel savings. Volvo Trucks' VN series highway tractors will deliver even greater fuel savings compared with previous generation models through an assortment of aerodynamic and powertrain enhancements.

Among news on the Mack side were a new LR Refuse series and Mack mDRIVE Automated Manual Transmission was made standard on the Mack Pinnacle model.

In the fall the Volvo facilities in Curitiba, Brazil were host to the successful launch of new Volvo truck range. By mid-November, more than 3,000 truck customers, dealers and sales staff from Brazil and Latin America had taken part in the introduction of the

Net sales by market

SEK M	2014	2013
Europe	72,757	73,640
North America	53,696	40,314
South America	19,669	23,318
Asia	29,264	26,740
Other markets	15,518	14,462
Total	190,904	178,474

Deliveries by market

Number of trucks	2014	2013
Europe	72,458	82,088
North America	57,714	44,755
South America	23,741	29,137
Asia	32,339	28,692
Other markets	16,812	15,602
Total	203,124	200,274

Non-consolidated operations

Eicher (100%)	30,375	31,422
DND (100%)	107	213
Total volumes	233,606	231,909

Renault Trucks' complete new range

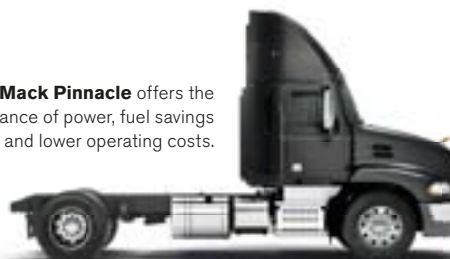
Renault Trucks has a completely new range of trucks for long-distance haulage, construction and distribution applications. Since the introduction in 2013 the trucks have been rolled-out in a growing number of markets.



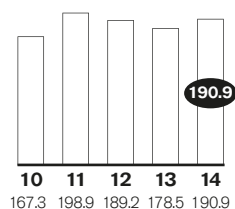
new Volvo FH, Volvo FM and Volvo FMX - the largest update of the Volvo range in Brazil to date. The new trucks began reaching dealerships in January 2015.

During the year, the new Volvo Trucks range also arrived in Asia. Over a two-week event, taking place in Seoul, Korea, the new Volvo Trucks range was introduced to customers and media from all over Asia - with overwhelming feedback. Starting May, 12 more than 1,600 visitors went through a product experience program that allowed them to learn everything about Volvo Trucks' new product range.

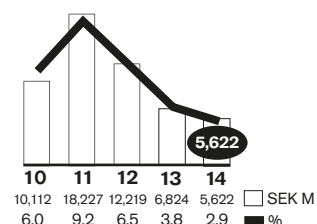
The Mack Pinnacle offers the perfect balance of power, fuel savings and lower operating costs.



Net sales, SEK bn



Operating income* and operating margin*



*Excl. restructuring charges

In Japan, UD Trucks launched the new Quon, which takes fuel efficiency, uptime, safety, payload and drivability to new levels. It is specifically designed to meet the transportation industry's challenges by optimizing driver and transport efficiency. There were over 3,500 visitors to test drive events throughout Japan.

The new products, which shall contribute to the Group's long-term growth and profitability, have been well received by both dealers and customers. The Group's new and stronger product programs have also provided dealers with stronger faith in the future and motivation for them to continue to invest and contribute to the development of the Group's brands.

Restructuring ongoing

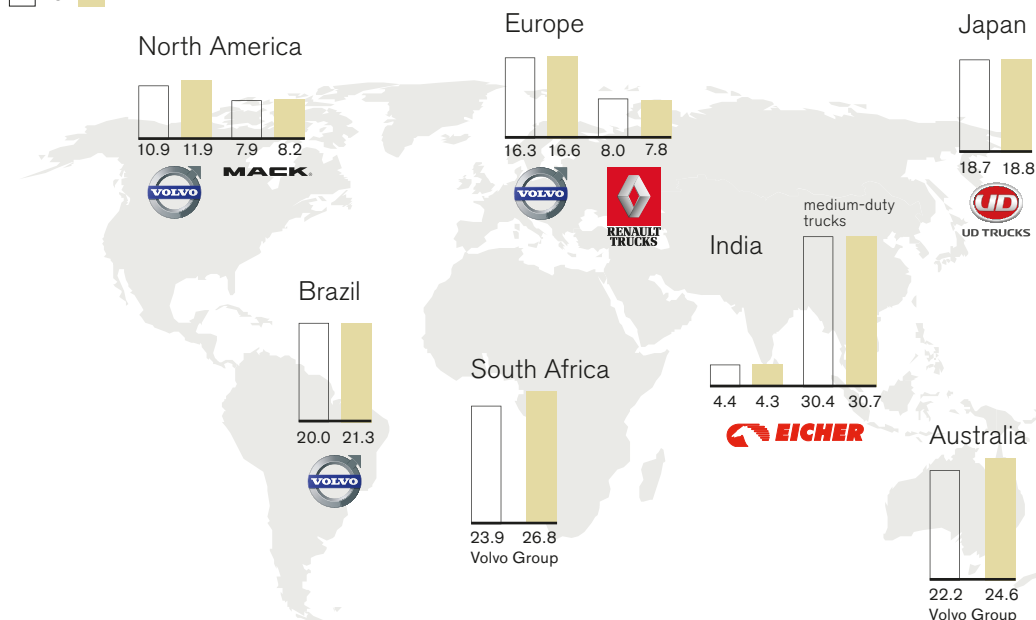
In the truck business there are activities ongoing to increase efficiency and reduce costs in the sales and service organization as well as within manufacturing. These measures are the next step in the transformation of the Group to higher profitability.

In 2014, the optimization of the truck manufacturing in Europe started. One production line for heavy-duty trucks was closed and production of medium-duty trucks was consolidated from two to one plants. The component plant in Leganes in Spain was closed. At the same time, the major adaptation of the Japanese industrial system continued. There are further activities to reduce costs within truck manufacturing. Read more on page 46.

In October it was decided to reorganize Group Trucks Sales in order to increase efficiency and reduce costs.

Market shares, heavy-duty trucks, %

13 14



The new Quon from UD Trucks takes fuel efficiency, uptime, safety, payload and drivability to new levels. It is specifically designed to meet the transportation industry's challenges by optimizing driver and transport efficiency. The exterior of the new Quon remains almost unchanged as all significant changes can be found inside the truck: engine and transmission have been improved to decrease operating costs and improve drivability, new safety features have been added to enable safer driving and a complete range of services is available to optimize uptime and fuel-efficiency. With all these new features, UD Trucks wants to prove that Quon is the most productive and fuel-efficient truck on the Japanese market.

The new UD Quon – a major step towards higher fuel-efficiency





CONSTRUCTION EQUIPMENT

MARKET HEADWINDS impacted PROFITABILITY

Established in 1832 in Eskilstuna, Sweden, Volvo Construction Equipment (Volvo CE) provides machines, attachments and services for the construction, extraction, waste processing and materials handling industries. Distributing its products via a global network of dealers, it is a leader in excavators, articulated haulers, wheel loaders – and a range of smaller equipment, such as compact excavators and skid steer loaders. The road machinery range includes compactors and pavers. Its Chinese-built range of SDLG-branded products includes excavators, wheel loaders, backhoe loaders, compactors and motor graders, while its newly-acquired Terex Trucks has a worldwide field population of rigid and articulated haulers. The company's offerings also include customer support agreements, attachments, financing, leasing and used equipment sales.

North America up, China sharply down

Measured in units sold, the total world market for heavy, compact and road machinery equipment shrank by 4% in 2014, compared to 2013. The European market was up by 7%, while Asia (excluding China) fell by 2%, South America was down by 17% and China fell by a severe 18%. North America gained momentum, however, recording growth of 11%. Volvo CE's global deliveries declined by 13% to 61,317 machines during 2014, compared with 70,786 in 2013.

During 2014 net sales decreased by 1% to SEK 52,855 M (53,437). Net sales increased in North America and Europe whereas they declined in Asia, South America and Other markets. Adjusted for changes in exchange rates, net sales decreased by 4%.

Operating income excluding restructuring charges declined to SEK 1,231 M (2,592) and the operating margin excluding restructuring charges amounted to 2.3% (4.9). Restructuring charges amounted to SEK 579 M (0). Operating income was negatively

The market decline in China weighed on volumes and profitability in 2014. With core product ranges renewed, production flexibility remains in focus to cope with market volatility.

Facts Volvo CE manufactures a range of equipment for construction applications and related industries.

Position on world market Volvo CE is a leading manufacturer of rigid and articulated haulers, wheel loaders, excavators, road development machines and compact construction equipment.

Brands Volvo, SDLG (Lingong) and Terex Trucks.

Number of regular employees 14,901 (14,663)

19 (20)

Share of Group net sales, %



impacted by lower sales volumes, low capacity utilization and a provision for expected credit losses in China amounting to SEK 660 M. The provision followed an extended period of declining demand, low machine utilization, primarily in the mining industry, and lower raw materials prices leading to a weakening of the financial positions of dealers and customers in the country. Currency exchange rates had a negative impact of SEK 224 M on operating income compared with 2013.

Product development

2014 saw Volvo CE unveil an overhaul of its core product range. New machines included new series of wheel loaders, excavators and articulated haulers, as well as a number of emissions-compliant road machinery introductions. All new machines meet, where necessary, the low-emission requirements of Stage IV/Tier 4 Final legislation, which came into force on January 1st, 2014. The previously announced acquisition of Terex Corporation's hauler business was completed during 2014. Now rebranded as Terex Trucks, the company adds its ranges of rigid and articulated haulers to the Volvo CE product portfolio.

Volvo CE's products and services are offered in more than 125 countries through proprietary or independent dealers. Customers are using the machines in quarries & aggregates, energy related industries (oil & gas), heavy infrastructure, utilities, road construction, building, demolition, recycling industry, industrial material handling, and forestry industry. Through the global distribution network, Volvo CE can offer worldclass after-market support with Volvo parts, service and support agreements, as well as used equipment sales and leasing.

Volvo CE is a leading manufacturer of wheel loaders and articulated haulers



Net sales by market

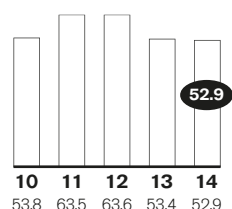
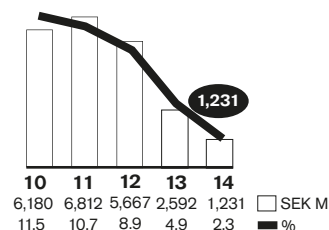
SEK M	2014	2013
Europe	17,215	16,356
North America	10,784	8,319
South America	3,234	3,314
Asia	18,458	21,911
Other markets	3,164	3,539
Total	52,855	53,437

Deliveries by market

Number of machines	2014	2013
Europe	14,174	13,522
North America	7,127	5,240
South America	3,669	3,568
Asia	33,648	44,892
Other markets	2,699	3,564
Total deliveries	61,317	70,786

Of which:

Volvo	36,755	38,155
SDLG	24,445	32,631
Of which in China	19,964	27,559

Net sales, SEK bn**Operating income* and operating margin***

*Excl. restructuring charges

The Volvo EC250D excavator is made for heavy-duty production, excelling at applications that require brute force earth moving and heavy craning to deep excavations.

Product rationalization set to improve profitability

To adapt the cost structure and address profitability of certain products, Volvo CE announced that it was to discontinue product development and production of Volvo-branded backhoe loaders and motor graders in Europe and Americas. In the future some of these models will be produced by its Chinese company SDLG and delivered on selected markets. Combined with other efficiency enhancement measures, including ceasing making milling machines, this will result in a workforce reduction of about 1,000 employees.

Investments

Changes to the industrial footprint included the inauguration of the state-of-the-art technology center in Jinan, China. Engineers at the 50,000 m² site will develop products and components for customers in emerging markets. The company also opened a new test and development center in Hapcheon, Korea. In addition, Volvo CE inaugurated a new Customer Center at its North American headquarters in Shippensburg, Pennsylvania.

Low emissions were in focus in the company's operations, with its factory Braås, Sweden becoming Volvo CE's first carbon neutral premises and the first construction equipment production facility in the world to be powered entirely by renewable energy.





BUSES

POSITIVE trend in ELECTRO- MOBILITY

Volvo Buses has sales representation in 85 countries and a comprehensive service network, with more than 1,500 dealerships and workshops worldwide. Production facilities are located in Europe, North America, South America and Asia.

Focus on electromobility

In 2014 the Volvo 7900 Electric Hybrid was launched. It represents the second step in Volvo Buses' electro mobility strategy, and is an important part of the city customer offer. The Electric Hybrid reduces fuel consumption by 60% and carbon dioxide by up to 75%. Read more on page 46.

During 2014 a number of European cities embarked on the electrification journey together with Volvo Buses. Two Electric Hybrids started in commercial traffic in Hamburg, and in the beginning of 2015 eight Volvo Electric Hybrid buses started traffic in Stockholm. Volvo Buses also received an order for 25 Electric Hybrids for Edinburgh.

In parallel, Volvo is collaborating with a number of other cities worldwide to create system solutions for sustainable city traffic, based on electro mobility. Agreements on cooperation have been signed with the cities of Shanghai and Curitiba in 2014.

During the year Volvo Buses entered into partnerships with ABB and Siemens regarding electric charging infrastructure for electric hybrid and full electric Volvo buses. The cooperation enables deliveries of complete electrified transport solutions to cities.

Within the framework of ElectriCity, the Volvo Group, together with a number of stakeholders from industry, public authorities and academia are developing Göteborg's first electric-bus line, scheduled for commercial traffic in June 2015. At least one of the bus-stops will be indoors.

Volvo Buses is one of the world's leading bus manufacturers, with a strong focus on vehicles and systems for sustainable public transport. The product range includes complete transport systems, city buses, intercity buses and coaches as well as services in financing, vehicle, fleet and traffic management.

Facts The 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. The offer also comprises complete transport systems for electromobility including charging infrastructure.

Position on world market Volvo Buses is one of the world's largest producers of buses.

Brands Volvo, Prevost, Nova Bus, Sunwin Bus and UD Bus.

Number of regular employees 6,900 (6,648)

Share of Group net sales, %

6 (6)



Reinforcing coach safety leadership

Volvo Buses strengthened its safety position during 2014 by introducing Volvo's Forward Collision Warning and Emergency Braking, which automatically assists you in emergency braking if an impact is imminent, significantly reducing the risk of severe injuries. The introduction is three years ahead of the legal requirements being implemented in Europe in 2018.

Development in Asia

Volvo Buses put further focus on export from India to reach new customers and grow the business. Following exports to neighbouring countries in South Asia, in 2014 Volvo Buses developed a coach in India for the South African market. It was successfully introduced and positively received by customers.

Sunwin Bus, Volvo Buses' joint venture in China, is also experiencing a positive development in export of Sunwin products.

A UD Bus range was introduced in India in the first quarter of 2014. A first order of one hundred buses to the region of Karnataka in India was signed during the year.

New, efficient organizational structure in North America

In 2014, a new organizational structure was introduced in North America; Volvo Buses North America. It merges Volvo Buses' operations and the organizations of Prevost and Nova Bus into one. The goal is to become an even more competitive and attractive player in the industry and to optimize the portfolio of products and services.

Prevost celebrated 90 years. Prevost, the leading manufacturer of premium motor coaches and commuters, marked the 90th anniversary of its founding in 1924. From Eugène Prevost's first wooden-frame bus body to today's iconic Prevost X3-45 and H3-45 models, Prevost has been known for its unwavering commitment to quality, innovation, and attention to detail. The theme of the 90th anniversary was "Moving forward since 1924".



Prevost H3-45

Volvo Buses' North American subsidiary, Nova Bus, received an order for 414 low floor city buses for MTA New York City Transit during 2014. Prevost officially opened manufacturing facility in Plattsburg, where the production of 300 commuter buses for New York started.

Electromobility trend continues in South America

The trend towards electromobility, with large interest in hybrid technologies for public transport, continues in South America. Volvo Buses has received orders for 137 hybrids to Colombia. In addition an order of 155 conventional buses was received for Transmilenio, the BRT (Bus Rapid Transit) system in Bogotá. A new bus dealer has been opened in Andina, Colombia.

Positive earnings in slow market

The global bus market remained on low levels during 2014. Europe experienced a positive development during the first half of the year, but the market slowed down during the second half. The Asian market is slowly recovering, from low levels. In South America, the Brazilian city bus market is slow, while the coach market is gradually recovering. In North America, the coach and commuter markets continue to improve.

Volvo Buses delivered 8,759 buses during 2014, compared to 8,910 units in 2013, a decline of 2%. Order intake totaled 7,888 buses, which was 18% lower than in 2013.

In 2014 net sales increased by 12% to SEK 18,645 M (16,707). Adjusted for currency fluctuations, sales decreased by 8%. Operating income excluding restructuring charges amounted to a positive SEK 98 M (negative: 190), and the operating margin excluding restructuring charges was a positive 0.5% (negative 1.1). Restructuring charges amounted to SEK 6 M (0). Operating income was impacted by a positive mix, an improved aftermarket and internal cost efficiency programs, while operational disturbances in one of the plants had a negative impact. Compared to 2013, operating income was positively impacted by currency exchange rates in an amount of SEK 81 M.

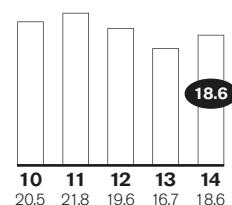
Net sales by market

SEK M	2014	2013
Europe	6,139	5,429
North America	6,721	5,929
South America	2,559	1,836
Asia	1,892	2,055
Other markets	1,334	1,457
Total	18,645	16,707

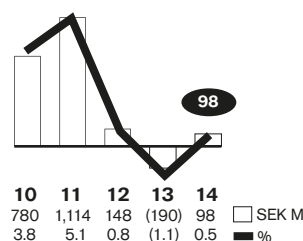
Deliveries by market

Number of buses	2014	2013
Europe	2,221	2,146
North America	1,590	1,752
South America	2,985	2,434
Asia	1,242	1,822
Other markets	721	756
Total	8,759	8,910

Net sales, SEK bn



Operating income (loss)* and operating margin*



* Excl. restructuring charges



The Volvo Hybrid Driveline is world-leading in both fuel efficiency and uptime.



VOLVO PENTA

CONTINUED GOOD PROFITABILITY

Volvo Penta adds significant volumes for the Volvo Group's total production of diesel engines. Approximately 10% of total production in the Group's European diesel engine plants and more than half of the Group's global volumes of 16-liter engines are delivered to Volvo Penta's customers.

Industrial

The Industrial business segment, accounting for about half of sales, is the part of Volvo Penta's operation that generates the largest strategic engine volumes for the Volvo Group. With unique performance, installation benefits and environmental features, Volvo Penta's engines strengthen the competitiveness of a growing number of global customers. By leveraging the strength of the Volvo Group's service networks, Volvo Penta is able to offer efficient support in the form of global service and aftermarket services.

Throughout 2014 Volvo Penta has been releasing a complete line of 5, 8, 11, 13 and 16 liter off-road engines compliant with several stages of emission legislation, including the most stringent Tier 4 Final. A major advantage of Volvo Penta's off-road engine range to OEMs is that all engines share the same technical solution – making designing global product ranges much easier for OEMs. The new range has been received well in the market; the Tier4F solution is considered world-class and has attracted many new customers during 2014.

Marine Leisure

To the greater public, Volvo Penta is best known for its leading marine drive systems – for both leisure and commercial boats. For decades, products such as the Aquamatic sterndrive, Duoprop and IPS have given Volvo Penta a global reputation as an innovative engine supplier to most of the strongest brands in the leisure boat industry.

In 2015 Volvo Penta IPS (Inboard Performance System) will celebrate its ten-year anniversary in the market. It has helped to progressively strengthen Volvo Penta's leading positions in Marine

The Volvo Group's high-technology diesel engines create a unique competitive edge for its trucks, construction equipment and buses. Volvo Penta is in charge of sales of the Group's engines to external customers, including boat builders and manufacturers of industrial products, such as container handling and mining equipment.

Facts 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.

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.

Brands Volvo Penta

Number of regular employees 1,422 (1,412)

3 (3)

Share of Group net sales, %



Leisure. In recent years Volvo Penta IPS has also taken the steps needed to power larger vessels in triple and quad installations, a solution which is appreciated among builders of both commercial and leisure craft.

As electronics make inroads into the marine industry, Volvo Penta is developing integrated features beyond the engine and propulsion components. Under an Easy Boating concept, Volvo Penta is working toward "helm-to-prop" solutions with a strong focus on comfort and user-friendliness.

Marine Commercial

In the Marine Commercial segment, Volvo Penta supplies engines and drive systems to be used under the harshest of conditions. The engines can be used for a wide variety of applications but the focus is on high speed transportation of people and goods. Examples of applications include pilots, sea-rescue, ferries, coast guard and off-shore wind farm supply vessels. In the Marine Commercial segment, Volvo Penta leverages on its IPS concept that provides unique environmental and maneuverability features as well as significantly reduced fuel consumption.

Some significant orders were received during 2014 which confirmed the attractiveness of the concept to professional users. The Marine Commercial business is project based and Volvo

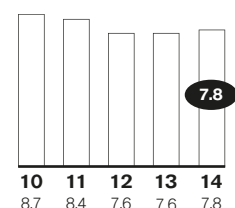
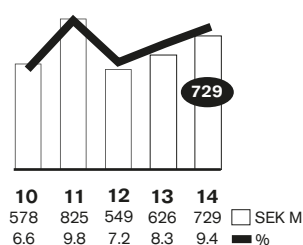
Net sales by market

SEK M	2014	2013
Europe	3,779	3,714
North America	1,584	1,491
South America	386	297
Asia	1,615	1,692
Other markets	425	356
Total	7,790	7,550

Engine volumes

Number of units	2014	2013
Marine engines ¹	17,413	17,427
Industrial engines	15,295	17,651
Total	32,677	35,078

¹ Excluding outboard engines.

Net sales, SEK bn**Operating income* and operating margin***

*Excl. restructuring charges



Volvo Penta's new Glass Cockpit System changes the design of the boat's driver environment from scratch. It's an all-integrated control and monitoring system that puts you in command of all the information gathered on one or more high-tech displays.

Penta works in close cooperation with shipyards, designers and operators to ensure that the propulsion system in each case satisfies the demands of the operator.

Volvo Penta's marine customers have access to one of the world's strongest service support organizations comprising approximately 4,000 service points worldwide.

Market Development

After several years of a declining European leisure boat market, the trend for 2014 was flat, lingering at 2013 year's levels. In the U.S. the total boat market grew, but the sterndrive segment continued to have a weak development. In the wake of the low global demand for leisure boats, the consolidation trend in the boat industry continued. During the year, several leading boat brands underwent ownership and management changes, at the same time as large parts of the boat industry were forced to continue cutbacks and rationalization measures. In parallel a few boat builders are becoming more global.

In the Industrial segment, Volvo Penta has been supplying engines to materials handling OEMs for more than a half century, and the competitiveness of the engines has resulted in sales to world-leading customers. The material handling segment was stable during the year. The construction segment where Volvo Penta sell engines used in crushers, pumps, cranes, compressors and other applications decreased during the year. In 2014, the Asian construction market continued to decrease from a low level while the European market was stable, and the American market slowly increased. The mining industry was on a low level. The power genset industry is stable in most areas of the world with positive annual growth rate and Volvo Penta saw an increase in the demand at the end of 2014.

Positive earnings development

Volvo Penta's net sales increased by 3% to SEK 7,790 M compared with SEK 7,550 M in 2013. Adjusted for changes in exchange rates, net sales were on the same level as in 2013.

Operating income excluding restructuring charges totaled SEK 729 M, compared with SEK 626 M in the preceding year and the operating margin was 9.4% (8.3). Restructuring charges amounted to SEK 5 M (0). Earnings were positively impacted primarily by a favorable product mix. Changes in currency exchange rates had a positive impact in an amount of SEK 155 M.



VOLVO FINANCIAL SERVICES

GOOD

PROFITABILITY,

growth and portfolio performance

VFS financial solutions are offered with the sales of Volvo Group vehicles and equipment, and are available with other service and aftermarket products such as service contracts, repair and maintenance contracts, insurance, etc. through seamless integration at the point-of-sale with Volvo Group dealers. This approach delivers a convenient one stop-shopping experience for the customer.

Record volume

Improved commercial activities globally, enhanced by strong market conditions in North America resulted in the highest recorded volume, penetration and managed asset levels in VFS' history. This growth along with good portfolio performance, pricing control and productivity gains yielded good profitability for VFS in 2014.

Operational efficiencies and process standardization were key activities for VFS in 2014. Scalable business platforms and higher service levels resulted in significant operating leverage by enabling growth without requiring commensurate cost increases. Capital market activities such as syndications and asset-backed securitizations also played an important role in increasing profitability and return on equity by enhancing VFS' funding structure, reducing Volvo Group risk exposure and supporting additional Volvo Group sales.

Good growth and portfolio performance

VFS benefited from Volvo Group delivery levels being maintained in the truck business, a stronger economic environment in North America, and a steady recovery in most served markets. VFS' portfolio growth and performance in 2014 was highlighted by high origination volumes and improving portfolio performance metrics including lower customer delinquencies, repossessions, inventory, and write-off levels.

Volvo Financial Services ("VFS") offers competitive financial solutions which strengthen long-term relationships with Volvo Group customers and dealers. As the number one provider of financial solutions for Volvo Group product sales, VFS consistently adds value for its customers and builds loyalty to the Volvo Group brands.

Facts VFS conducts customer financing in 42 countries in the world.

Position on world market Volvo Financial Services operates exclusively to support the sales of vehicles and equipment which are produced by the Volvo Group. In doing so, VFS enhances the competitiveness of Volvo Group products and helps secure loyalty to the Volvo Group brands.

Number of regular employees 1,339 (1,355)

3 (3)

Share of Group net sales, %

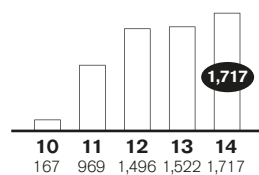


In the Americas, record managed assets and retail volumes were achieved and the portfolio performed very well in terms of delinquencies and write-offs.

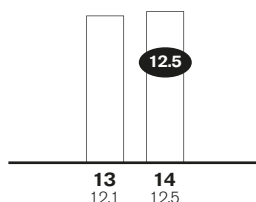
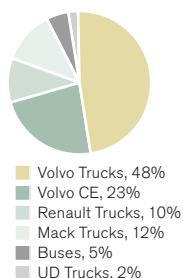
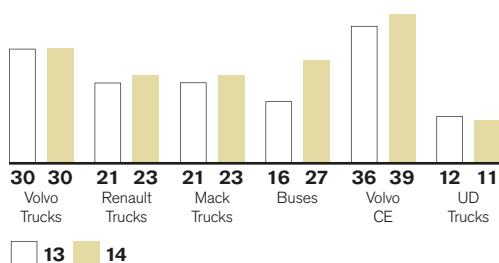
EMEA (Europe, Middle East and Africa) achieved increased volume for the year and record market shares overall. In addition, the portfolio performance improved significantly with low levels of delinquency and inventory in most served markets.

In APAC (Asia Pacific), asset levels remained stable despite the slower demand in China, particularly for construction equipment in the mining sector. Good cost control and strong pricing discipline resulted in good profitability, despite delinquencies in China continuing to be on elevated levels.

In all VFS markets, and particularly in developing markets, downturn preparedness is a key objective regardless of the current business cycle.

Operating income*, SEK M

*Excl. restructuring charges

Return on shareholders' equity, %**Distribution of credit portfolio****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.



VFS closed the year 2014 with a credit portfolio of SEK 117 billion.

Customer finance operations

Total new financing volume in 2014 amounted to SEK 54.7 billion (47.0). Adjusted for changes in exchange rates, new business volume increased by 13.5% compared to 2013. In total, 54,819 new Volvo Group vehicles and machines (51,466) were financed during the year. In the markets where financing is offered, the average penetration rate was 28% (27).

As of December 31, 2014, the net credit portfolio amounted to SEK 117,101 M (103,873). The funding of the credit portfolio is matched in terms of maturity, interest rates and currencies in accordance with Volvo Group policy. For further information, see note 4 to the Consolidated financial statements.

The operating income excluding restructuring charges amounted to SEK 1,717 M compared to SEK 1,522 M in the previous year. Restructuring charges amounted to SEK 5 M (0). Return on shareholders' equity was 12.5% (12.1). The equity ratio at the end of the year was 8.0% (8.1). Improvements in gross income and provisions along with good cost control are the drivers of the overall increase in profitability.

During the year, credit provision expenses amounted to SEK 858 M (923) while write-offs of SEK 715 M (719) were recorded. The write-off ratio for 2014 was 0.66% (0.71). At the end of December 31, 2014, credit reserves were 1.33% (1.31) of the credit portfolio.

RISKS AND UNCERTAINTIES

Managed risk-taking

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

Risks may be due to events in the world and can affect a given industry or market. Risks can be specific to a single company. At the Volvo Group, work is carried out daily to identify, measure and manage risks – 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.

AB Volvo has, for a number of years, worked with enterprise risk management (ERM), which is a systematic and structured process to identify, understand, aggregate, report and mitigate the risks that might threaten the Group's objectives. The aim of ERM is to improve business performance and optimize the costs of managing risk; i.e. protecting and enhancing the Volvo Group's enterprise value. ERM contributes to meeting the high standards of corporate governance expected from the Group's stakeholders and is looked upon as an integral part of good corporate governance as reflected in the Swedish Corporate Governance Code.

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, political risks and government regulations.
- **Financial risks** – such as currency fluctuations, interest rate fluctuations, market value of shares or similar instruments, credit risk and liquidity risk.
- **Operational risks** – such as market reception of new products, reliance on suppliers, protection 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 undergo 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 quickly to changes in demand, in particular to the ability to adapt production levels and operating expenses.

Intense competition

Continued consolidation in the industry is expected to create fewer but stronger competitors. The major competitors are Daimler, Iveco, MAN, Navistar, Paccar, Scania, Sinotruk, Brunswick, Caterpillar, CNH, Cummins, Deere, Hitachi, Komatsu and Terex. 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 components, uncertainty regarding underlying economic conditions, changes in import regulations, excess inventory and increased competition. Overcapacity within the industry can occur if there is a lack of demand, potentially leading to increased price pressure.

Extensive government regulation

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

Most of the regulatory challenges regarding products relate to reduced engine emissions. The Volvo Group is a leading company 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.

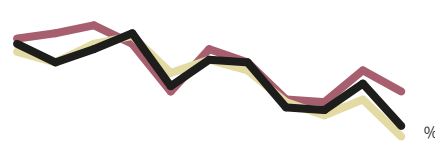
Currencies



04	05	06	07	08	09	10	11	12	13	14	
6.7	7.9	6.9	6.5	7.8	7.2	6.7	6.9	6.5	6.4	7.8	SEK/USD
9.0	9.4	9.0	9.4	10.9	10.4	9.0	8.9	8.6	8.9	9.5	SEK/EUR
6.5	6.7	5.8	5.8	8.6	7.7	8.3	9.0	7.5	6.1	6.5	SEK/100 JPY

Source: Reuters

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



04	05	06	07	08	09	10	11	12	13	14	
4.0	3.3	3.8	4.4	2.4	3.4	3.3	1.6	1.5	2.5	0.9	Sweden
3.7	3.3	4.0	4.3	2.9	3.4	3.0	1.8	1.3	1.9	0.5	Europe
4.2	4.4	4.7	4.0	2.2	3.8	3.3	1.9	1.8	3.0	2.2	The U.S.

Source: Reuters

Government bonds, 10 year benchmarks

Local protectionism leading to changes to local content requirements can put the Volvo Group at a disadvantage compared to local competitors, cause increased sourcing costs or require Volvo to make significant investment not necessary from an operational point of view.

Geopolitical uncertainty

Volvo is active in more than 190 countries and political instability, armed conflicts and civil unrest may impact Volvo's ability to trade in affected areas. Rapid change in inflation, devaluations or regulations can sustain Volvo significant losses, impairment of assets or costs due to underutilized assets.

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 106–107. 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. Customer 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. A majority of the Group's costs also stems from other countries than Sweden. To reduce currency exposure, the Volvo Group strives to have manufacturing located in the major markets. However, 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

There are three main areas of credit risks for the Volvo Group. Firstly, within its Industrial Operations the Group sells products with open credits to customers and issues credit guarantees for customers' commercial vehicles and equipment. The majority of the outstanding credit guarantees at year-end relates to Chinese retail customers within Construction Equipment. Secondly, the customer finance activity in Volvo Financial Services manages a significant credit portfolio, equivalent to SEK 117 billion at year-end 2014. The portfolio is largely secured by the title to the financed commercial vehicles and equipment. However, in the case of customer default, the value of the repossessed commercial vehicles and equipment may not necessarily cover the outstanding financed amount. Lastly, a part of the Group's credit risk is related to the investment of the financial assets of the Group. The majority has been invested in interest-bearing securities issued by Swedish real estate financing institutions or deposited with the Group's core banks.

Liquidity risk

The Volvo Group strives to have a sound preparedness by always having liquid funds and committed facilities to cover the Group's expected liquidity needs for a period of 12–18 months in a scenario with no access to capital markets.

Market risk from investments in shares or similar instruments

The Volvo Group has invested in listed shares with a direct exposure to the capital markets. The majority of this exposure is relating to the investments in Eicher Motors Ltd and Deutz AG. Please see note 5 for further information. Furthermore, the Volvo Group is indirectly exposed to market risks from shares and other similar instruments as a result of capital in independent pension plans with asset management with exposure to these types of instruments. Please see note 20 for further information.

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.

Resale value commitments

When selling products the Volvo Group at times enters into resale value commitments. At the time of the sale the evolution of the used commercial vehicle and equipment market may be uncertain, potentially leading to too high commitments, impacting the future profitability.

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 2014 to Renault s.a.s. for license fees amounted to SEK 6.0 M (5.2).

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 21 Other Provisions and 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, although it declined in 2014.

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.

Information about licensable facilities in Sweden is provided on page 48.

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 business requires access to capital to be able to invest. 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 are intended to 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 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, in accordance with the Volvo Group policy. For further information, please see note 4 to the Consolidated financial statements.

Diversified funding sources give flexibility and support the global presence

The Volvo Group has centralized the 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.

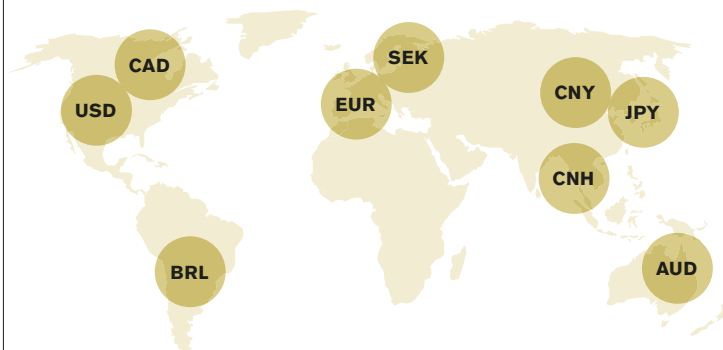
Volvo Treasury is increasing the possibility to access capital markets at all times through diversified funding sources. Furthermore, the Volvo Group's global presence is supported by bond programs on all major debt capital markets in the world. Besides the access to capital markets around the world, the Volvo Group uses different instruments, such as bilateral bank funding, corporate bonds and certificates, hybrid bonds, 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

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 for a number of other stakeholders when it comes to creating long-term relationships. A strong credit rating has a positive effect on the ability to attract and finance customers' purchases of the Group's products and on the trust from suppliers. It also gives access to more funding sources and lower cost of funds.

The Volvo Group has contractual relations with two global Credit Rating Agencies (CRA's) for solicited credit ratings; Standard & Poors' Rating Services (S&P) and Moody's Investors Service (Moody's). Both S&P and Moody's held their ratings unchanged during 2014. S&P's credit rating is BBB, negative and Moody's rating is Baa2, negative.

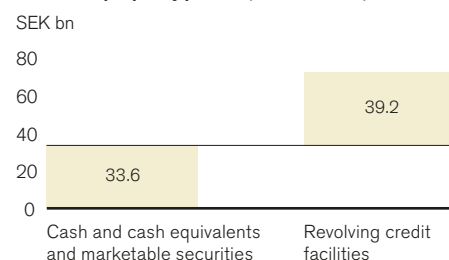
Geographically diversified market programs



Credit rating, on February 26, 2015

	Short-term	Long-term
Moody's (Global)	P-2	Baa2, negative
S&P Corporate Credit Rating	A2	BBB, negative
S&P Nordic National Scale	K-2	-
DBRS (Canada)	R-2 (high)	-
R&I (Japan)	a-1	A, stable

Volvo Group liquidity position, December 31, 2014



THE SHARE

The most traded share in Stockholm

Many of the world's leading stock markets had a positive development in 2014. The price of the Volvo B share ended the year on the same level as the start of the year.

The Volvo share is listed on Nasdaq Stockholm, 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 Nordic.

The Volvo share was unchanged

In general, developments on the leading stock exchanges were positive during 2014. On Nasdaq Stockholm, the broad OMXSPI index rose by 12% (23) during the year.

On Nasdaq Stockholm the share price for the Volvo A share increased by 1%, and at year-end the price for the Volvo A share was SEK 85.40 (84.50). The lowest price paid was SEK 72.50 on October 16, and the highest price paid was SEK 106.50 on April 25.

The share price for the Volvo B share was more or less unchanged at SEK 84.70 (84.45) at year-end. The lowest price paid was SEK 71.00 on October 16, and the highest price paid was SEK 105.70 on April 25.

In 2014, a total of 2.1 billion (1.9) Volvo shares at a value of SEK 192 billion (179) were traded on Nasdaq Stockholm, corresponding to a daily average of 8.7 million shares (7.7). The Volvo share was the most traded share on Nasdaq Stockholm in 2014. At year-end, Volvo's market capitalization totalled SEK 181 billion (180).

According to Fidessa, the trading on Nasdaq Stockholm accounted for 48% (48) 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 2014 a total of 6,183,853 A shares were converted to B shares, representing 1.2% of the outstanding A shares at the end of 2013.

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

Ownership changes

During the year both Industrivärden and Cevian Capital increased their holdings in AB Volvo. At year end, Industrivärden was the largest owner followed by Cevian Capital, Norges Bank Investment Management, SHB and Alecta, when measured as share of voting rights.

Dividend

The Board proposes a dividend of SEK 3.00 per share for the financial year of 2014, which would mean that a total of SEK 6,090 M would be transferred to AB Volvo's shareholders. For the preceding year a dividend of SEK 3.00 per share was paid out.

Communication with shareholders

Dialogue 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 shares 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.

MEMBER OF
**Dow Jones
Sustainability Indices**
In Collaboration with RobecoSAM

Dow Jones Sustainability Index

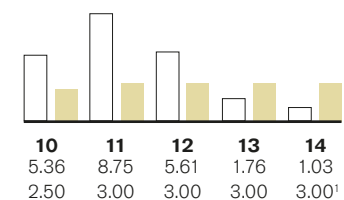
The Volvo Group once again qualifies for the Dow Jones Sustainability World Index (DJSI). The Volvo Group receives a particularly good rating for its work with environmental issues.

In the ranking, the world's 3,000 largest companies are assessed on the basis of their strategies, imple-

mentation and results in areas such as business ethics, environmental consideration and social criteria with the focus on their ability to generate long-term value. The Volvo Group is among the top 300 companies included on the list. There are companies across all industries with a common denominator; they outperform their peers in numerous sustainability metrics.

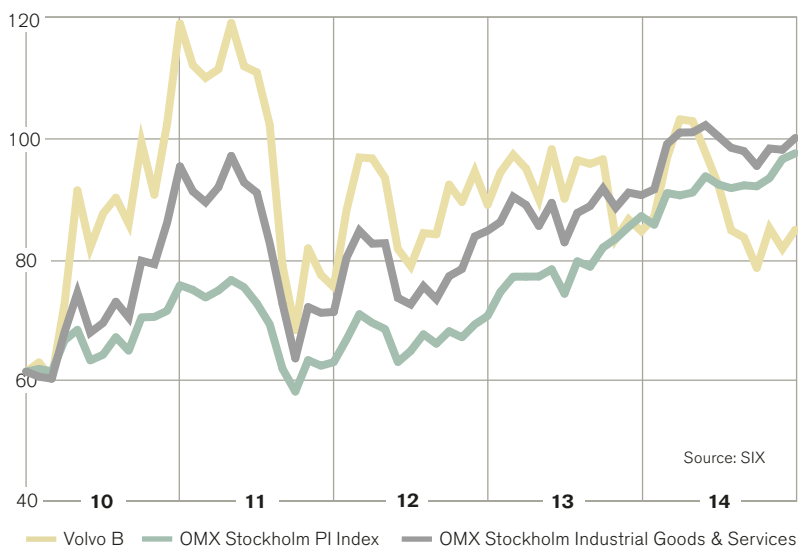
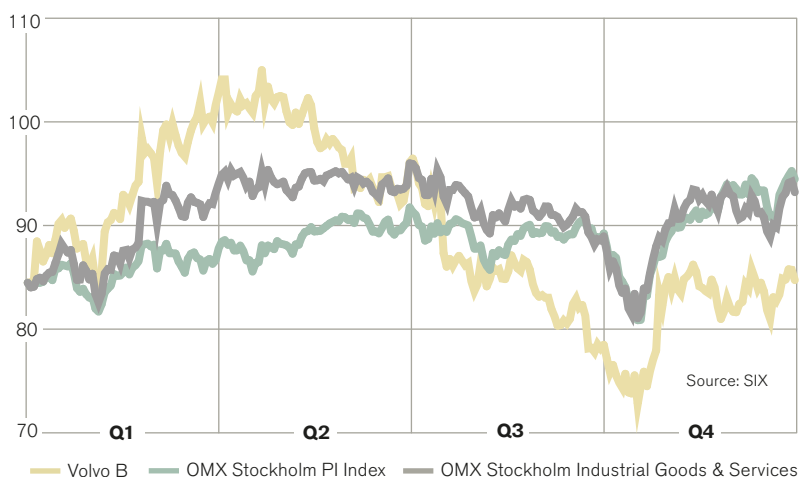
The Volvo Group has also been acknowledged for its climate strategy, an important part of the Group's vision of becoming world leader of sustainable transport solutions. Other highlighted areas are the clear direction and focus for guiding its corporate citizenship programs and the Volvo Group's dedication to innovation for both products and processes.

Earnings and dividend per share, SEK



□ Diluted earnings per share
■ Dividend per share

¹ Proposed by the Board of Directors

Price trend, Volvo Series B shares, 2010–2014, SEK**Price trend, Volvo Series B shares, 2014, SEK****The largest shareholders in AB Volvo, December 31¹**

	2014	2013
Industrivärden	22.0	20.2
Cevian Capital	13.4	11.0
Norges Bank Investment Management	6.2	6.3
SHB ²	5.8	5.8
Alecta	4.6	4.4

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 78,353,598 class B shares comprising in total 4.7% of the number of registered shares on December 31, 2014.

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

Share capital, December 31, 2014

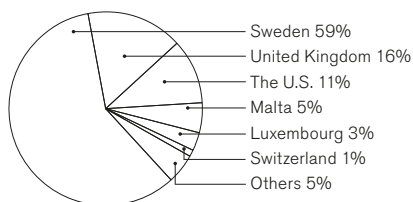
Registered number of shares ¹	2,128,420,220
of which, Series A shares ²	513,115,100
of which, Series B shares ³	1,615,305,120
Quota value, SEK	1.20
Share capital, SEK M	2,554
Number of shareholders	237,871
Private persons	223,346
Legal entities	14,525

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

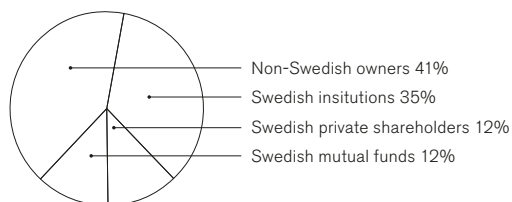
¹ The number of outstanding shares was 2,029,338,487 on December 31, 2014.

² Series A shares carry one vote each.

³ Series B shares carry one tenth of a vote each.

Ownership by country¹

¹ Share of capital, registered shares.

Ownership categories¹

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.

Shareholder value - Long-term value creation

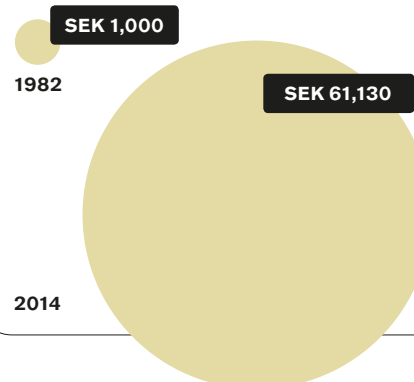
The Volvo Group strives to create long-term value for its shareholders.

The Volvo Group's origins can be traced to 1927, when the first serial produced Volvo car rolled out of the factory in Göteborg, 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.

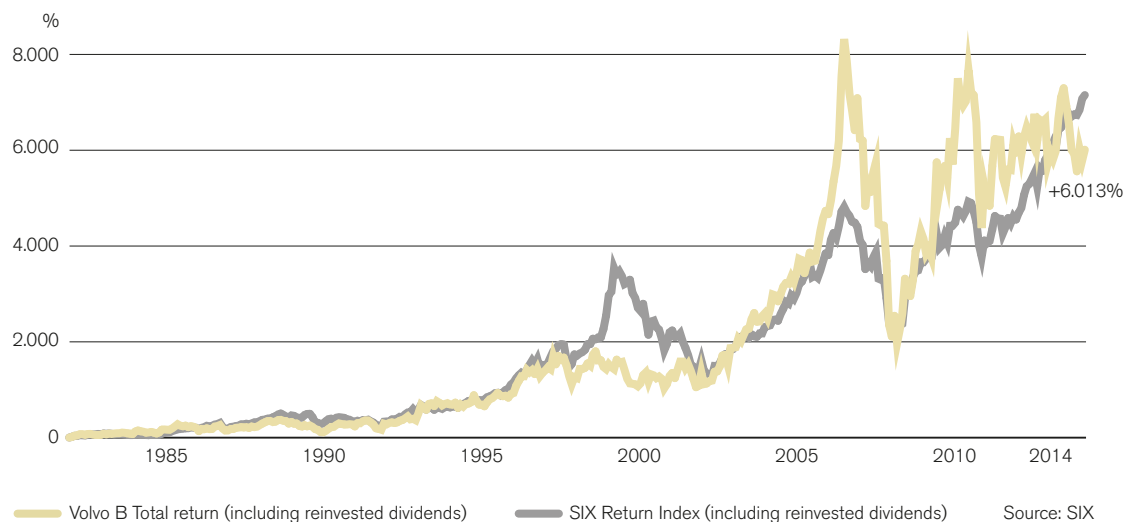
The graph shows the total return for the Volvo B share, measured as the share price development with all dividends re-invested, since December 30, 1982, which is as far back as the comparison index, SIX Return Index, stretches. SIX Return Index measures the total return for the Stockholm Stock Exchange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

The graph shows that SEK 1,000 invested in the Volvo B-share in 1982 had grown to SEK 61,130 at the end of 2015, under the condition that all dividends have been reinvested in Volvo B shares.

SEK 1,000 invested in Volvo B shares on December 30, 1982, was worth SEK 61,130 at the end of 2014.



Accumulated total return of the Volvo B share



CORPORATE GOVERNANCE

The Volvo Group appreciates the value of sound corporate governance as a fundamental base in achieving a trusting relation with shareholders and other key parties. The Swedish Corporate Governance Code, which is applied by the Volvo Group, aims at empowering the shareholders and creating a sound balance of power between shareholders, the board of directors and the senior management. Sound corporate governance, characterized by high standards when it comes to transparency, reliability and ethical values, has always been a well-established guiding principle within the Volvo Group's operations.



Significant events 2014

In March, the Volvo Group decided to sell non-strategic real estate, mainly located in Göteborg, for a purchase consideration amounting to approximately SEK 2 billion.

A review of what is core and non-core in the Group's IT operations was initiated during autumn.

In November, it was decided that Volvo Construction Equipment shall discontinue product development and production of backhoe loaders and motor graders in Europe and Americas and transfer these operations to its Chinese company, SDLG.

Higher ambition in structural cost-reduction efforts and increased expected restructuring charges in the Strategic Program 2013–2015 were communicated during fall.

A hybrid bond was issued in December via Volvo Treasury AB amounting to EUR 1.5 billion.

A reorganization of the truck sales operation was implemented as from January 1, 2015, entailing a merger of the previous three trucks sales and market regions into one sales organization.

As a result of the reorganization of the truck sales operation but also with the aim of creating a smaller and more efficient management team, the number of members of Volvo's Group Executive Team was reduced from 16 to 10 as from January 1, 2015.

Chairman's word

Sound corporate governance is a fundamental guiding principle for the Volvo Group. It is a key factor in building trusting relations with shareholders and other stakeholders and to ensure that the Volvo share is considered as a good investment.

The Board plays an important role in sound corporate governance. It is responsible for the Volvo Group's organization, the overall strategic direction and the performance of the company. In this context the Board has the task of supporting as well as challenging the executive management.

During 2014, the Board has thoroughly discussed the structures and procedures for the Board's work in order to ensure that its time and efforts are focused on discussions on strategic issues and other matters of great importance for the Volvo Group. This has resulted in updated work procedures and a well thought through work plan, entailing that a few recurrent important focus areas have been selected for each ordinary meeting. In order to cover all matters, the number of ordinary annual meetings has further increased from six to nine in the recent past, while the length of the ordinary meetings has been considerably prolonged and voluntary training sessions for the Board members have been introduced.

Further, the industrial competence of the Board has been strengthened, through the addition of new appointed Board members with relevant industrial background. This gives a solid base for valuable discussions and has strengthened the ability to support and challenge management in an effective way.

I am confident that with the good structure and focus of the Board's work and the highly competent and experienced Board members, the Board will be able to contribute to a positive development of the Volvo Group for the benefit of the shareholders, employees and other stakeholders.



Carl-Henric Svanberg

The Swedish Corporate Governance Code

AB Volvo's shares are admitted to trading on the Nasdaq Stockholm and accordingly, Volvo complies with Nasdaq 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.corporategovernanceboard.se.

In 2014, Volvo deviated from Rule 9.9 of the Code ("Fixed salary during a period of notice and severance pay are together not to exceed an amount equivalent to the individual's fixed salary for two years") by approving, under separation arrangements with two members of the Group Executive Team (the "Executives"), payment to those Executives of pension premiums corresponding to the period from the termination of the employment, however from the age of 60 at the earliest, until the age of 65, in addition to salary during the 12-month termination period and 12 months' severance pay. The premium payments correspond to about one annual salary for each Executive. The reason for the deviation was a reorganization within the Group entailing among other things that the number of Group Executive Team members decreased from 16 to 10 and that the two Executives' respective positions did not remain.

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

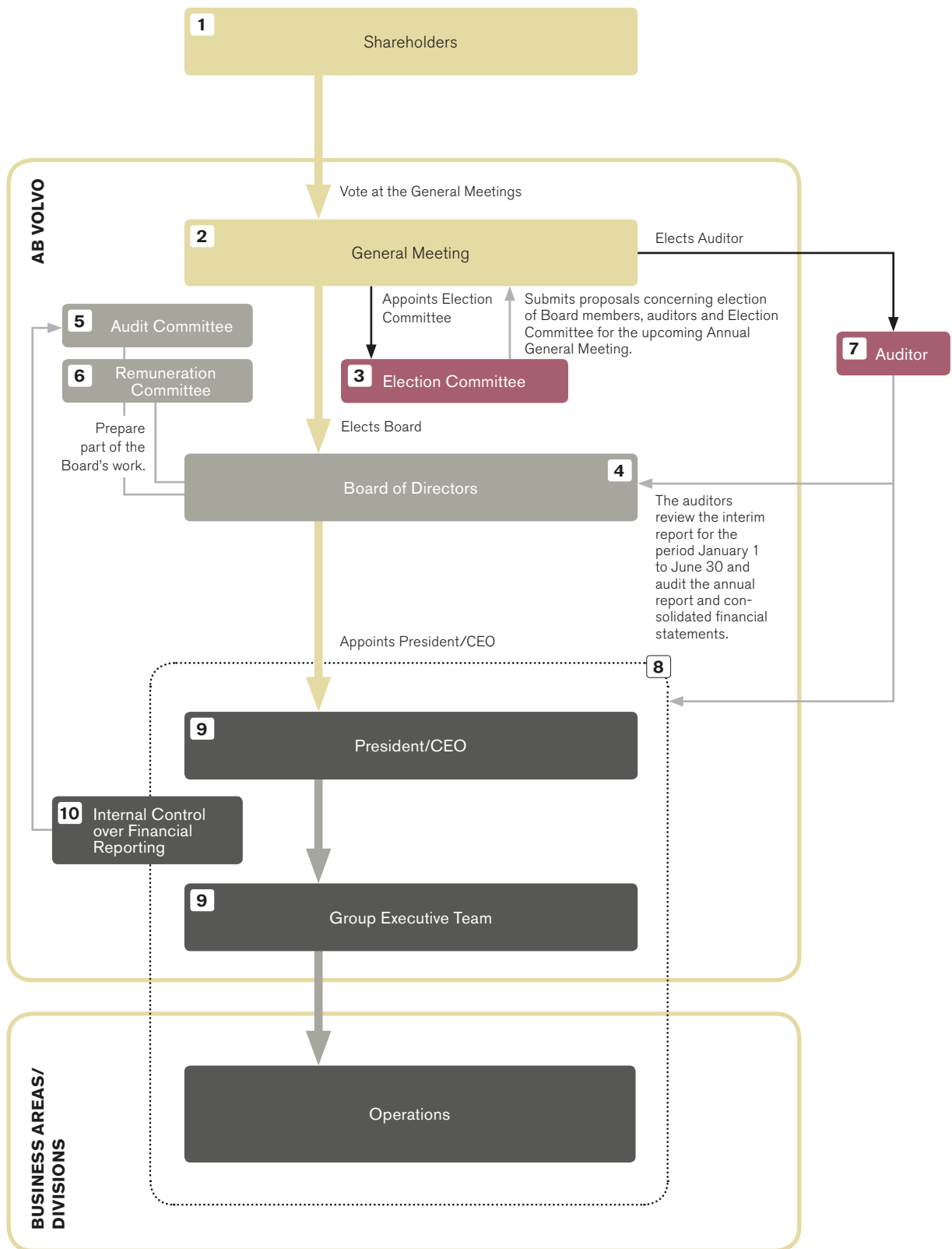
The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the General Meetings of AB Volvo, which is the Parent Company in the Volvo Group, the shareholders exercise their voting rights with regard to for example the composition of the Board of Directors of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



1 Shares and shareholders

AB Volvo's share register is kept by Euroclear Sweden AB. On December 31, 2014, Volvo had 237,871 shareholders according to the share register. The largest shareholder on that date was AB Industrivärden, with 21.1 percent of the votes based on the number of registered shares. Cevian Capital held 12.9 percent of the votes, Norges Bank Investment Management held 6.0 percent of the votes, and Svenska Handelsbanken together with SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen held 5.6 percent 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 are converted to series B shares. Implementation of such conversions entails that the total number of votes in the company decreases.

At the end of 2014, the total number of shares in AB Volvo amounted to 2,128,420,220, of which series A shares accounted for 513,115,100 and series B shares accounted for 1,615,305,120. The total number of votes amounted to 674,645,612.

For more information about the Volvo share and its shareholders, refer to the Board of Director's report on pages 87–89 of the 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 adopting the income statement and the balance sheet is called the Annual General Meeting. The Annual General Meeting of Volvo is normally held in Göteborg. 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 of Directors, directors' fees and elects, when applicable, 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.



AB Volvo's Annual General Meeting 2014 was held on April 2, 2014 in Lisebergshallen in Göteborg.

3 Election Committee

Annual General Meeting 2014

Volvo's Annual General Meeting 2014 was held on Wednesday, April 2, 2014 in Göteborg. The Meeting was attended by 1,218 shareholders, either in person or by proxy, representing 55.68 percent of the votes in the company. Attorney Sven Unger was elected Chairman of the Meeting. Members of the Board and of the Group Executive Team were present at the Meeting. Authorized Public Accountants Peter Clemedtson, Volvo's Lead Partner, and Johan Rippe were also present, representing the company's auditor PricewaterhouseCoopers AB.

The Annual General Meeting 2014 decided to pay a dividend of SEK 3.00 per share. The Meeting further resolved to reelect Board Members Jean-Baptiste Duzan, Hanne de Mora, Anders Nyrén, Olof Persson, Carl-Henric Svanberg (as Chairman) and Lars Westerberg, and to elect Matti Alahuhta, James W. Griffith and Kathryn V. Marinello as new Board Members. In addition, the registered firm of auditors PricewaterhouseCoopers AB was reelected for a period of four years.

The further resolutions of the Meeting are included in the complete minutes from the Annual General Meeting 2014 which, together with other information about the Meeting, are available at www.volvogroup.com.

Annual General Meeting 2015

Volvo's Annual General Meeting 2015 will be held on Wednesday, April 1, 2015 in Konserthuset, Göteborg. For further information about the Annual General Meeting 2015, please refer to the fold-out in the end of the Annual Report and Volvo's website www.volvogroup.com.

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 important assignments and holding of shares in Volvo.

Composition

In accordance with instructions for the Election Committee adopted by the Annual General Meeting 2014, the Annual General Meeting shall elect 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 may however not exceed seven.

In accordance with its instructions, Volvo's Annual General Meeting 2014 resolved to appoint the following individuals as members of the Election Committee:

- Carl-Henric Svanberg, Chairman of the Board,
- Carl-Olof By, representing AB Industrivärden,
- Lars Förberg, representing Cevian Capital,
- Yngve Slyngstad, representing Norges Bank Investment Management, 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.



During the period January 1, 2014 to December 31, 2014, AB Volvo's Board consisted of nine members elected by the Annual General Meeting, and three members and two deputy members appointed by employee organizations.

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, 2014 to December 31, 2014, 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 2014 reelected Jean-Baptiste Duzan, Hanne de Mora, Anders Nyrén, Olof Persson, Carl-Henric Svanberg and Lars Westerberg as Board Members, and Carl-Henric Svanberg as Chairman of the Board. Matti Alahuhta, James W. Griffith and Kathryn V. Marinello were elected as new Board Members. 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 26, 2015, and the year they were elected on the Volvo Board, is presented in the "Board of Directors" section on pages 100–101.

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 2014, the Election Committee presented the following assessment concerning independence of the Board members elected by the Annual General Meeting 2014.

Matti Alahuhta, Jean-Baptiste Duzan, James W. Griffith, Kathryn V. Marinello, Hanne de Mora, Carl-Henric Svanberg and Lars Westerberg were all considered independent of the company and the 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 the company management.

Anders Nyrén was considered independent of the company and company management.

Since AB Industrivärden, prior to the Annual General Meeting 2014, controlled more than 10 percent of the votes in the company, Anders Nyrén, due to his capacity as President and CEO of AB Industrivärden, 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.

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 verify that the Board's resolutions are implemented. The work procedures further refer to the charter of the Audit Committee and the charter of the Remuneration Committee for the tasks assigned to the respective committee.

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 2014

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 2014, there were nine regular meetings, two extraordinary meetings and one statutory meeting. The attendance of Board members at these meetings is presented in the table on page 99.

The Board has during 2014 focused on measures to strengthen the balance sheet, profitability efforts and cost reduction initiatives.

As a measure to strengthen the balance sheet the board decided in March to divest non-strategic commercial real estates, mainly located in Göteborg, for a total purchase consideration of approximately SEK 2 billion.

The Board further decided to issue a hybrid bond via Volvo Treasury AB in December amounting to EUR 1.5 billion, in order to further strengthen the Group's balance sheet and to prolong the maturity structure of the debt portfolio. The hybrid bond will be accounted for as a loan and subordinated to all other financial liabilities currently outstanding and the bond will be eligible for 50 percent equity treatment from the credit rating agencies Moody's and S&P when calculating Volvo's credit ratios.

In November it was decided that Volvo Construction Equipment shall discontinue product development and production of backhoe loaders and motor graders in Europe and Americas and transfer these operations to its Chinese company SDLG, with the purpose of adapting the cost structure and addressing the product profitability.

Further it has been decided to initiate a review of what is core and non-core in the Group's IT operations, with the objective to reduce structural costs and improve the profitability of the Group.



In October 2014, the Board of Directors visited the Group's businesses in France, including a visit at Valbonne Renault Trucks Test Track Center.

The above mentioned decisions relating to Volvo Construction Equipment and the IT review are part of the increased ambitions as regards the structural cost reduction efforts, which were announced in the fall. The ambition is to reduce the Group's structural costs by SEK 10 billion and to have all activities implemented by the end of 2015 with a full-year saving-effect in 2016.

The board has further devoted time to organizational matters, such as the implementation of a more efficient truck sales organization, entailing that the previous three sales divisions were merged into one global division as of January 1, 2015. Further the Group Executive Team was reduced from 16 to 10 members as from January 1, 2015, partly as a consequence of the reorganization of the truck sales operation, but also with the purpose of creating a smaller and more efficient management team. As part of the Board's organizational discussion, the Board also regularly discusses the succession planning for senior executive positions within the Group. In addition, the Board continuously evaluates the performance of the CEO.

During 2014, the Board has also focused on risk-related matters, and has kept itself continuously updated about the declining market in China for particularly construction equipment, resulting in decreased profitability and weakened financial position for construction equipment customers and dealers. The risk for future credit losses in China has thus

increased and as a consequence Volvo Construction Equipment recognized a provision of SEK 660 M in the fourth quarter of 2014. The Board has further devoted time and efforts to follow the on-going EU investigation, in which the EU Commission issued a Statement of Objection to among others the Volvo Group in November. A provision of EUR 400 M was recorded as a result of the evaluation of the Statement of Objections.

The Board further took decisions on investments during 2014, mainly relating to product renewal projects.

The Board usually visits a Volvo Group facility once a year, and in October 2014 the Board visited the Group's facilities in France.

In addition to the above the Board reviewed the financial position of AB Volvo and the Volvo Group on a regular basis and acted in order to ensure that there are efficient systems for follow-up and control of the business and the 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 2014 and without the presence of management at one occasion.

During 2014 the Board performed its yearly evaluation 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 the 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. Further the Audit Committee has the task of reviewing and overseeing the impartiality and independence of the company's auditors. The Audit Committee is 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, it is the Audit Committee's task 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 2014

At the statutory Board meeting following the Annual General Meeting 2014, the following Board members were appointed members of the Audit Committee:

- Lars Westerberg,
- Jean-Baptiste Duzan,
- Hanne de Mora

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 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 2014 is presented above under the "Independence requirements" section on page 96. All members of the Audit Committee are highly familiar with accounting matters and the accounting standards that apply for an international Group such as the Volvo Group.

The Audit Committee met with the external auditors without the presence of management at four occasions during 2014 in connection with the Audit Committee meetings. 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 10 regular meetings during 2014. The attendance of Board Members at Committee meetings is presented in the table on page 99.

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 2014

At the statutory Board meeting following the Annual General Meeting 2014, the following Board members were appointed members of the Remuneration Committee:

- Carl-Henric Svanberg,
- James W. Griffith,
- Anders Nyrén

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 being a member of the Remuneration Committee, shall be independent of the company and the company management. The Election committee's assessment of independence prior to the Annual General Meeting 2014 is presented under the "Independence requirements" section on page 96.

The Remuneration Committee held four meetings during 2014. The attendance of Board Members at Committee meetings is presented in the table on page 99.

Remuneration to Board members

The Annual General Meeting resolves on fees to be paid to the Board Members elected by the shareholders. The Annual General Meeting held on April 2, 2014, 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 3,250,000 and each of the remaining Members elected by the shareholders should receive a fee of SEK 950,000 with the exception of the President. The Chairman of the Audit Committee should receive 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 Boards composition and attendance at meetings January 1, 2014 - December 31, 2014

Member	Board (12 incl. statutory)	Audit Committee (10)	Remuneration Committee (4)
Carl-Henric Svanberg	12		4
Matti Alahuhta ¹	10		
Peter Bijur ²	2	2	
Jean-Baptiste Duzan	12	10	
James W. Griffith ¹	10		3
Kathryn V. Marinello ¹	10		
Hanne de Mora	11	8	
Anders Nyrén	12		4
Olof Persson	12		
Ravi Venkatesan ²	2		
Lars Westerberg	12	10	
Ying Yeh ²	1		1
Mats Henning, employee representative, ordinary member ³	8		
Peteris Lauberts, employee representative, ordinary member ⁴	4		
Mikael Sällström, employee representative, ordinary member	11		
Berth Thulin, employee representative, ordinary member	12		
Lars Ask, employee representative, deputy member	10		
Hans Hansson, employee representative, deputy member ⁵	4		
Tommy Olsson, employee representative, deputy member ⁶	8		
Total number of meetings	12	10	4

1 Joined the Board on April 2, 2014.

2 Stepped down from the Board on April 2, 2014.

3 Joined the Board as employee representative, ordinary member, on May 9, 2014.

4 Stepped down from the Board as employee representative, ordinary member, on May 9, 2014.

5 Stepped down from the Board as employee representative, deputy member, on May 9, 2014.

6 Joined the Board as employee representative, deputy member, on May 9, 2014.

Board of Directors

BOARD MEMBERS
ELECTED BY THE
ANNUAL GENERAL
MEETING



Carl-Henric Svanberg
*Chairman of the Board,
Chairman of the
Remuneration Committee*



Matti Alahuhta



Jean-Baptiste Duzan
Member of the Audit Committee



James W. Griffith
*Member of the
Remuneration Committee*

Education	Master of Science, B. Sc. Business Administration.	Master of Science, Doctor of Science.	Graduate of the Ecole Polytechnique.	B Sc Industrial Engineering, MBA from Stanford University.
Born	1952	1952	1946	1954
Member of the Volvo Board	Chairman of the Volvo Board since April 4, 2012.	Since April 2, 2014.	Since April 1, 2009.	Since April 2, 2014.
Position and board memberships	Board Chairman: BP p.l.c.	Board Chairman: DevCo Partners Oy, Outotec Corpora- tion, Aalto University Foundation and Confederation of Finnish Industries. Board member: UPM Kymmene Corporation, ABB Ltd and Kone Corporation.	Independent consultant. Board member: Nissan Motor Co. Ltd.	Board member: Illinois Tool Works Inc.
Principal work experience	Has held various positions at Asea Brown Boveri (ABB) and at Securitas AB; President and Chief Executive Officer of Assa Abloy AB; President and Chief Executive Officer of Telefon-aktiebolaget LM Ericsson; member of the External Advisory Board of the Earth Institute at Columbia University and the Advisory Board of Harvard Kennedy School.	Has held several management positions in the Nokia Group – President of Nokia Telecommu- nications, President of Nokia Mobile Phones and Chief Strat- egy Officer of the Nokia Group; President of Kone Corporation between 2005–2014 and between 2006–2014 also Chief Executive Officer.	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 Presi- dent, 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 independent con- sultant.	Began his career at The Timken Company in 1984, where he has held several management posi- tions, such as responsible for Timken's bearing business activi- ties in Asia, the Pacific and Latin America and for the company's automotive business in North America. Until 2014 President and Chief Executive Officer at Timken Company.
Holdings in Volvo, own and related parties	700,000 Series B shares	42,300 Series B shares.	1,000 Series B shares.	20,000 Series B shares.

BOARD MEMBERS APPOINTED BY THE EMPLOYEE ORGANISATIONS



Mats Henning
Employee representative, ordinary member








Mikael Sällström
Employee representative, ordinary member



Berth Thulin
Employee representative, ordinary member

Born	1961	1959	1951
Member of the Volvo Board	Since May 9, 2014.	Since September 7, 2009.	Deputy member 1999–2009, ordinary member since June 16, 2009.
Background within Volvo	With Volvo since 1982.	With Volvo 1980–1999 and since 2009.	With Volvo since 1975.
Holdings in Volvo, own and related parties	250 Series B Shares.	None	1,425 Series B shares.

				
Kathryn V. Marinello	Hanne de Mora <i>Member of the Audit Committee</i>	Anders Nyrén <i>Member of the Remuneration Committee</i>	Olof Persson <i>President and CEO</i>	Lars Westerberg <i>Chairman of the Audit Committee</i>
BA from State University of New York at Albany and MBA from Hofstra University.	BA in Economics from HEC in Lausanne, MBA from IESE in Barcelona.	Graduate of the Stockholm School of Economics, MBA at UCLA, Honorary Doctor of Economics.	B. Sc. in Business Administration and Economics.	M.Sc. Engineering, Bachelor Business Administration.
1956	1960	1954	1964	1948
Since April 2, 2014.	Since April 14, 2010.	Since April 1, 2009.	Since September 1, 2011.	Since April 4, 2007.
Senior Advisor, Ares Management, LLC. Board member: General Motors Company and Nielsen.	Board Chairman: a-connect (group) ag. Board member: Sandvik AB and IMD Foundation Board.	President and Chief Executive Officer of AB Industrivärden. Board Chairman: Sandvik AB and Svenska Handelsbanken. Board member: AB Industrivärden, Ernström & Co AB, Svenska Cellulosa Aktiebolaget SCA, Stockholm School of Economics and SSE Association, Vice preses IVA.	President of AB Volvo and Chief Executive Officer of the Volvo Group since 2011. Board Chairman: Co-Chairman of United Nations's High-level Advisory Group on Sustainable Transport. Board member: Member of the ERT (European Round Table of Industrialists) and the Royal Swedish Academy of Engineering Sciences.	Board Chairman: Husqvarna AB. Board member: SSAB Svenskt Stål AB, Sandvik AB, Meda AB and Stena AB.
Has held several management positions at Citibank, Chemical Bank New York (now JP Morgan Chase), First Bank Systems and First Data Corporation; Division President General Electric Financial Assurance Partnership Marketing and Division President General Electric Fleet Services; President and Chief Executive Officer of Ceridian Corporation and subsequently also Chairman; Board Chairman, President and Chief Executive Officer of Stream Global Services, Inc.	Credit Analyst Den Norske Creditbank in Luxembourg 1984, various positions in 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 global consulting firm and talent pool a-connect (group) ag since 2002.	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 OM at 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.	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.	President and CEO of Gränges AB, ESAB AB and Autoliv Inc.
None	3,000 Series B shares.	5,200 Series B shares.	164,830 shares, including 164,779 Series B shares.	60,000 Series A shares.

DEPUTIES APPOINTED BY THE EMPLOYEE ORGANISATIONS



Lars Ask
Employee representative, deputy member

Tommy Olsson
Employee representative, deputy member

1959
Since June 16, 2009 (deputy member).

1955
Since May 9, 2014 (deputy member).

With Volvo since 1982.

With Volvo 1974–1977 and since 1983.

None

None

SECRETARY TO THE BOARD



Sofia Frändberg
Secretary to the Board
Master of Laws

1964

Secretary to the Board since April 1, 2013.

Executive Vice President Corporate Legal & Compliance and General Counsel.

39,598 shares, including 38,153 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 2014 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 Partner.

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 clients are SKF AB and Ratos AB.

His unlisted clients include Stena AB and Wallenbergstiftelsen.

Born 1956.

Johan Rippe

Authorized Public Accountant.

Partner.

Auditor since 2010.

Johan Rippe's other clients include Stena AB, Stena Metall 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 Volvo's 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 several financial targets for the operations, primarily in relation to growth and profitability, which have been effective since 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, 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

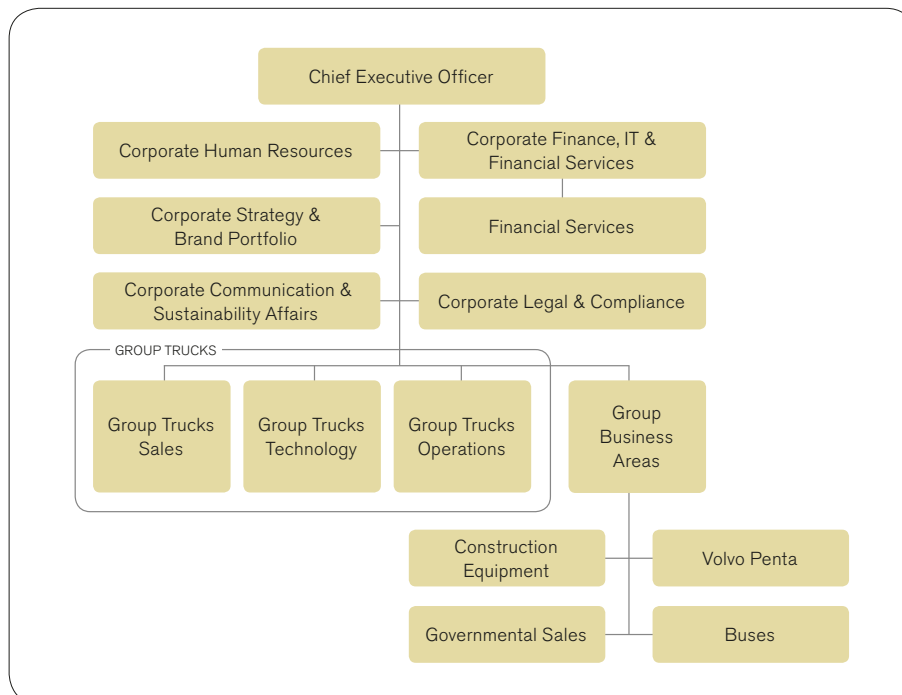
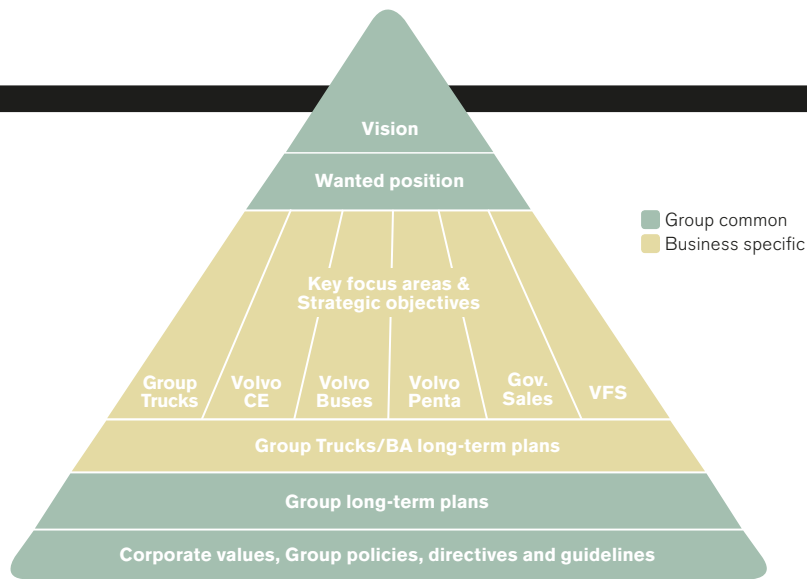
Another key component of the governance and control is the Group's policies and directives, such as the Code of Conduct and policies pertaining to investments, financial risks, accounting, financial control and internal audit, which contain Group wide operating and financial rules for the operations, 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 as per January 1, 2015 organized into three divisions. The previous three sales divisions are merged into one sales division, Group Trucks Sales (GTS), with responsibility for all sales and marketing activities for all truck brands in the Volvo Group. The division is also responsible for the Group's joint venture Volvo Eicher Commercial Vehicles together with Eicher Motors Ltd in India. There is also a division with responsibility for product development of engines, transmissions and trucks, Group Trucks Technology (GTT). Finally, Group Trucks Operations (GTO) is a division within Group Trucks with responsibility for purchasing and 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 five Corporate Functions: Corporate Human Resources, Corporate Communication & Sustainability Affairs, Corporate Finance, IT & Financial Services, Corporate Legal & Compliance and Corporate Strategy & Brand Portfolio, 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 IT Services and Business Services.



9 Group Management

Group Management

From January 1, 2015, the Group Executive Team has 10 members including the CEO. In addition to the CEO, the Group Executive Team comprises the Executive Vice Presidents of the three Group Trucks divisions, the Executive Vice President Business Areas, and the Executive Vice Presidents of the five Corporate Functions. The members of the Group Executive Team report directly to the CEO.

The CEO is responsible for managing the day-to-day operations of the Volvo Group and is authorized to take decisions on matters that do not require Board approval. The CEO leads the operations of the Group mainly through the Group Executive Team but also through individual follow-ups with the respective Group Executive Team members and the heads of the Business Areas not represented in the Group Executive Team.

The Executive Vice Presidents of the three Group Trucks divisions manage the daily operation of the divisions mainly through their respective Executive Management Team. In addition to taking decisions on matters related only to the own division, the Truck divisions' Executive Management Teams (with the involvement of relevant stakeholders from other functions) take decisions also on matters that have an impact on or requires involvement from more than one Truck Division, Business Area and/or Group Function.

Further, the Business Areas Construction Equipment, Buses, Volvo Penta and Governmental Sales and some Group Functions have separate decision foras for important matters called Business Review Meetings, which are normally headed by a Group Executive Team member.

All the above bodies affect control and monitoring of the Group's financial development, strategies and targets and take 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 2014 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 percent of the fixed salary and, as regards the other Group Executive Team members, a maximum of 60 percent of the fixed salary. In 2014, members of the Group Executive Team were entitled to variable salary according to a program for variable remuneration to senior executives determined by the Board. The performance targets defined in the program for the Group Executive Team members were related to operating margin and 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 Group Executive Team members have during 2014 participated in the Group's long-term, share-based incentive plan for senior executives comprising the years 2014–2016 which was adopted by the Annual General Meeting 2014. The plan applies during the financial years 2014 until and including 2016 and consists of three yearly plans. The participants invest in Volvo shares during each yearly plan, up to a maximum of 15 percent of the fixed gross base salary for Group Executive Team members and 10 percent of the fixed gross base salary for other participants. On the conditions that the participant remains an employee within the Volvo Group and also retains the invested Volvo shares for at least three years after the investment date, one matching share per invested share and a



Olof Persson
President and CEO

Joachim Rosenberg
Executive Vice President Group Trucks Sales

Torbjörn Holmström
Executive Vice President Group Trucks Technology

	Olof Persson <i>President and CEO</i>	Joachim Rosenberg <i>Executive Vice President Group Trucks Sales</i>	Torbjörn Holmström <i>Executive Vice President Group Trucks Technology</i>
Education	B. Sc. in Business Administration and Economics.	M. Sc. Industrial Engineering and Management, M. Sc. Financial Economics, M. Sc. Business and Economics.	M. Sc. Mechanical Engineering.
Born	1964	1970	1955
Principal work experience	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. Member of the Group Executive Team since 2006. With Volvo since 2006.	Has held various senior positions in the Volvo Group, most recently as Executive Vice President Group Trucks Sales & Marketing APAC 2012–2014. 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.	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.
Board memberships	Co-chairman of United Nation's High-level Advisory Group on Sustainable Transport. Member of the ERT (European Round Table of Industrialists) and the Royal Swedish Academy of Engineering Sciences. Member of the Volvo Board since 2011.		
Holdings in Volvo, own and related parties	164,830 shares, including 164,779 Series B shares.	36,064 Series B shares.	64,725 Series B shares.

						
Mikael Bratt <i>Executive Vice President Group Trucks Operations</i>	Håkan Karlsson <i>Executive Vice President Group Business Areas</i>	Jan Gurander <i>Executive Vice President Corporate Finance, IT & Financial Services</i>	Sofia Frändberg <i>Executive Vice President Corporate Legal & Compliance and General Counsel</i>	Kerstin Renard <i>Executive Vice President Corporate Human Resources</i>	Karin Falk <i>Executive Vice President Corporate Strategy & Brand Portfolio</i>	Henry Sténson <i>Executive Vice President Corporate Communication & Sustainability Affairs</i>
	M. Sc. Engineering.	Master of Science.	Master of Laws.	B. Sc. Sociology.	B. Sc. Business Admin- istration.	
1967	1961	1961	1964	1961	1965	1955
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.	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.	Chief Financial Officer & Senior Vice President Finance Volvo Car Corporation 2011–2013. CFO MAN Diesel & Turbo SE 2010. CFO MAN Diesel SE 2008–2009. Group Vice President and CFO Scania AB 2001–2006. President of Business Unit Finance AB Volvo 1999–2001. Senior Vice President & Finance Director Scania AB 1998–1999. Member of the Group Executive Team since 2014. With Volvo 1999–2001 and since 2014.	Responsible for Corporate Legal & Compliance and General Counsel of the Volvo Group since April 1, 2013. Head of Corporate Legal at AB Volvo 1998–2013. Corporate Legal Counsel at AB Volvo 1994–1997. Member of the Group Executive Team since April 1, 2013. With Volvo since 1994. Secretary to the Board of Volvo since April 1, 2013.	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.	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.	2012–2014 Brunswick Group Partner. Senior Vice President Corporate Communications Ericsson 2002–2011. Senior Vice President SAS Group Communications 1998–2002. Senior Vice President Communications Volvo Car Corporation 1995–1998. Vice President Automotive Communication AB 1993–1994. Vice President Communications & Public Affairs Volvo Aero 1989–1993. Member of the Group Executive Team since 2015. With Volvo 1989–1993 and 1995–1998 and since 2015.
	Board member of the Confederation of Swedish Enterprise. Chairman of the Industry Assembly, UITP Vice-President.			Board member Teknikföretagen.		Board member Vestas Wind Systems A/S, Denmark.
115,154 shares, including 114,262 Series B shares.	74,064 shares, including 72,439 Series B shares.	8,530 Series B shares.	39,598 shares, including 38,153 Series B shares.	26,059 shares, including 25,899 Series B shares.	18,995 shares, including 16,755 Series B shares.	10,300 Series B shares

Group Management

number of performance shares per invested share could be allotted. As for the matching shares, no allotment will be made for a yearly plan if the Annual General Meeting held the following year resolves that no dividend should be distributed to the shareholders. Allotment of performance shares is conditional on the Volvo Group's ROE reaching at least 10 percent for the annual plan 2014, 11 percent for the annual plan 2015 and 12 percent for the annual plan 2016. Maximum allotment of performance shares is effected if ROE reaches 25 percent for the annual plan 2014, 26 percent for the annual plan 2015 and 27 percent for the annual plan 2016. Maximum allotment of performance shares under a yearly plan amounts to seven shares per invested share for the CEO, six shares per invested share for Group Executive Team members and five shares per invested share for other participants.

The Remuneration Committee conducts an annual evaluation of the remuneration policy, Volvo's system for variable remuneration to executives and the long-term, share-based incentive program to senior executives, and the Board prepares a special report of this evaluation and the conclusions. The report on the evaluation for 2014 will be available on Volvo's website no later than two weeks prior to the Annual General Meeting 2015, 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

As a result of the merger of the previous three sales regions in the truck operation into a single global sales organization, and with the purpose of creating a smaller and more efficient management team, the number of members of the Group Executive Team was reduced from 16 to 10 including the CEO as from January 1, 2015. This was achieved by the following changes:

- The merger of the three sales and marketing organizations in Group Trucks resulting in one Group Executive Team member instead of three.
- The head of Volvo Construction Equipment and the head of Volvo Financial Services are no longer members of the Group Executive Team. The head of Volvo Construction Equipment will continue to report to the Executive Vice President Business Areas and the head of Volvo Financial Services will continue to report to the Group's Chief Financial Officer.
- Corporate Process & IT has been relocated organizationally under the Group's Chief Financial Officer.
- The Corporate Sustainability & Public Affairs and Corporate Communication staff functions were merged into a single unit resulting in one Group Executive Team member instead of two.

After the organizational change, the Group Executive Team comprises of the CEO, the Executive Vice Presidents of the three Group Trucks divisions, the Executive Vice President Business Areas, and the Executive Vice Presidents of the five Corporate Functions.

On January 1, 2015, Henry Sténson joined the Volvo Group and the Group Executive Team, and assumed the position as Executive Vice President Corporate Communication & Sustainability Affairs.

10 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 has a function for internal control with the objective to provide support for management, allowing them to continuously provide solid and improved internal controls relating to financial reporting. Work that is conducted through this function is primarily based 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.

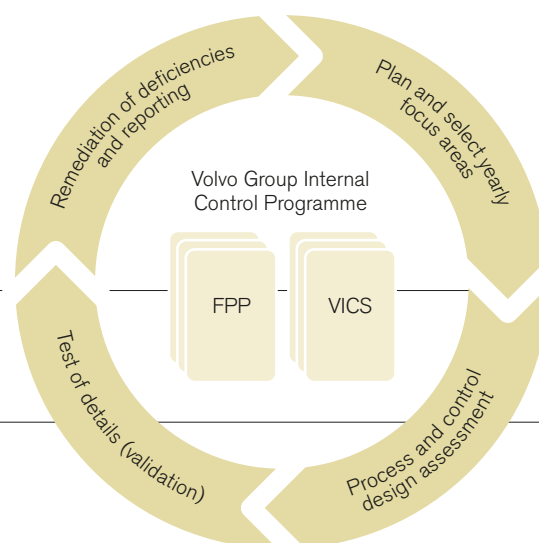
Volvo also has a Corporate Audit function with the primary task of independently monitoring that companies in the Group follow the principles and rules that are stated in the Group's directives, policies and instructions for financial reporting. The head of the Corporate Audit function reports directly 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 organization's responsibility and authority structure. 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.

Volvo Group Internal Control Programme
Yearly evaluation of the effectiveness of internal control over financial reporting (ICFR) within the Volvo Group.



Auditor's report on the Corporate Governance Report

Risk assessment

Risks relating to financial reporting are evaluated and monitored by the Board through the Audit Committee inter alia through identifying risks that could be considered as material, and through the mitigating control objectives. The risk assessment is based on a number of criteria, such as the complexity of the accounting principles, revaluation principles of assets or liabilities, complex and/or changing business circumstances, etc. The risks together with mitigating control objectives are collected in a framework for internal control over financial reporting, Volvo Internal Control Standard (VICS).

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. Business processes are designed to ensure that potential errors or deviations in the financial reporting are prevented, discovered and corrected by implementing control activities that correspond to the control objectives defined in the VICS framework. 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.

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 compliant 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 the framework for internal control over financial reporting, Volvo Internal Control Standards (VICS).
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.

To the annual meeting of the shareholders of AB Volvo (publ), corporate identity number 556012-5790

It is the Board of Directors who is responsible for the Corporate Governance Report for the year 2014 on pages 90–107 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance Report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance Report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Göteborg, February 26, 2015

PricewaterhouseCoopers AB

Peter Clemetson
Authorized Public Accountant
Lead Partner

Johan Rippe
Authorized Public Accountant
Partner

Göteborg, February 26, 2015
AB Volvo (publ)
The Board of Directors



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Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2013.



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FINANCIAL PERFORMANCE

Improved underlying profitability

For the Volvo Group 2014 was a year with improved underlying profitability in a mixed economic environment.

INCOME STATEMENTS VOLVO GROUP

SEK M		Industrial Operations		Customer Finance		Eliminations		Volvo Group	
		2014	2013	2014	2013	2014	2013	2014	2013
Net sales	Note 6, 7	275,999	265,420	10,111	9,539	(3,162)	(2,337)	282,948	272,622
Cost of sales		(217,251)	(209,307)	(5,923)	(5,534)	3,162	2,337	(220,012)	(212,504)
Gross income		58,748	56,113	4,188	4,005	-	-	62,937	60,118
Research and development expenses		(16,656)	(15,124)	-	-	-	-	(16,656)	(15,124)
Selling expenses		(25,778)	(26,904)	(1,670)	(1,602)	-	-	(27,448)	(28,506)
Administrative expenses		(5,367)	(5,824)	(41)	(38)	-	-	(5,408)	(5,862)
Other operating income and expenses	Note 8	(6,931)	(2,710)	(766)	(843)	-	-	(7,697)	(3,554)
Income from investments in joint ventures and associated companies	Note 5, 6	46	96	-	-	-	-	46	96
Income (loss) from other investments	Note 5	49	(31)	1	-	-	-	50	(30)
Operating income		4,111	5,616	1,712	1,522	-	-	5,824	7,138
Interest income and similar credits		328	381	-	-	-	-	328	381
Interest expenses and similar charges		(1,994)	(2,810)	-	-	-	-	(1,994)	(2,810)
Other financial income and expenses	Note 9	931	11	-	-	-	-	931	11
Income after financial items		3,377	3,199	1,712	1,522	-	-	5,089	4,721
Income taxes	Note 10	(2,287)	(451)	(568)	(468)	-	-	(2,854)	(919)
Income for the period		1,091	2,748	1,145	1,054	-	-	2,235	3,802
Attributable to:									
Equity holders of the parent company								2,099	3,583
Minority interests	Note 11							136	219
								2,235	3,802
Basic earnings per share, SEK	Note 19							1.03	1.77
Diluted earnings per share, SEK	Note 19							1.03	1.76

OTHER COMPREHENSIVE INCOME

SEK M		2014	2013
Income for the period		2,235	3,802
<i>Items that will not be reclassified to income statement:</i>			
Remeasurements of defined benefit pension plans		(2,833)	3,904
<i>Items that may be reclassified subsequently to income statement:</i>			
Exchange differences on translation of foreign operations		5,998	(1,634)
Share of OCI related to joint ventures and associated companies		198	(135)
Accumulated translation difference reversed to income		33	37
Available-for-sale investments		3,067	470
Change in cash flow hedge reserve	Note 19	24	9
Other comprehensive income, net of income taxes		6,487	2,651
Total comprehensive income for the period		8,722	6,453
Attributable to:			
Equity holders of the parent company		8,334	6,196
Minority interests		388	257
		8,722	6,453

Volvo Group

Net sales

Net sales increased by 4% explained mainly by the 7% sales increase for Trucks business area. While Buses, Volvo Penta and Customer Finance also contributed positively, Construction Equipment experienced a slight decline. The divestment of Volvo Rents, which was part of Corporate Functions, Group Functions & Other segment, on 31 January 2014 contributed to lower the sales in 2014. Changes in currency exchange rates mainly related to USD, EUR and GBP impacted sales positively.

Operating income

Operating income decreased by SEK 1.3 billion compared to previous year. The positive gross income impact was offset by costs of non-recurring nature. The increased gross income was mainly related to Trucks business areas but also Bus and Volvo Penta made positive contribution while Construction Equipment had a negative development compared to previous year.

The operating income was negatively impacted by the EU antitrust litigation provision of SEK 3.8 billion and provision for expected credit losses related to credit guarantees in China of SEK 0.7 billion. Furthermore the provision of SEK 0.4 billion related to the engine emission case in US (EPA) and increased cost for restructuring measure of SEK 1.9 billion had a negative impact on operating income. The capital gain of SEK 0.8 billion from the divestment of non-strategic property and SEK 0.2 billion from release of a provision related to the divestment of Volvo Rents impacted operating income positively. The comparable figures for 2013 included a write down of Volvo Rents of SEK 1.5 billion.

Net financial items

Net interest expense for the Volvo Group amounted to SEK 1.7 billion compared to SEK 2.4 billion in the preceding year. Interest expenses decreased due to lower financial liabilities and lower interest rates on outstanding debt.

Other financial income and expense was positively impacted by SEK 1.1 billion (0.2) from revaluation of derivatives related to hedging.

» Read more in Note 9 Other financial income and expenses.

Income taxes

The tax expense for the year amounted to SEK 2.9 billion (0.9) corresponding to a tax rate of 56% (20). The high tax rate is mainly explained by the provision for the EU antitrust litigation not being tax deductible.

Income for the period and earnings per share

The income for the period amounted to SEK 2,235 M (3,802), corresponding to diluted earnings per share of SEK 1.03 (1.76). The return on shareholders' equity was 2.8% (5).

Net sales by business area, SEK M	2014	2013	%
Trucks	190,904	178,474	7
Construction Equipment	52,855	53,437	(1)
Buses	18,645	16,707	12
Volvo Penta	7,790	7,550	3
Corporate Functions, Group Functions & Other	8,162	12,410	(34)
Eliminations	(2,356)	(3,158)	(25)
Industrial Operations¹	275,999	265,420	4
Customer Finance	10,111	9,539	6
Reclassifications and eliminations	(3,162)	(2,336)	35
Volvo Group	282,948	272,622	4

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

Operating income (loss) by business area, SEK M	2014	2013
Trucks	4,157	6,145
Construction Equipment	652	2,592
Buses	92	(190)
Volvo Penta	724	626
Corporate Functions, Group Functions & Other	(1,689)	(3,606)
Eliminations	176	49
Industrial Operations	4,111	5,616
Customer Finance	1,712	1,522
Volvo Group	5,824	7,138

Operating margin, %	2014	2013
Trucks	2.2	3.4
Construction Equipment	1.2	4.9
Buses	0.5	(1.1)
Volvo Penta	9.3	8.3
Industrial Operations	1.5	2.1
Volvo Group	2.1	2.6

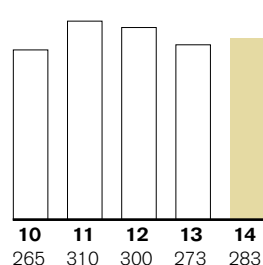
Change in operating income, SEK bn	Change (excluding currency)	Currency impact	Total
Operating income 2013			7.1
Change in gross income Industrial Operations	3.2	0.3	3.5
Change in gross income Customer Finance	0.2	0.0	0.2
Lower credit losses ¹	0.1	0.0	0.1
Change in group structure ²	0.1	0.0	0.1
Lower capitalization of development cost	(2.3)	0.0	(2.3)
Lower research and development expenditures	0.9	(0.2)	0.7
Lower selling and administrative expenses	0.9	(0.3)	0.6
Volvo Rents revaluation of assets held for sale 2013 and divestment ³	1.7	0.0	1.7
Provision related to EU antitrust investigation	(3.7)	(0.1)	(3.8)
Provision related to engine emission case in the U.S	(0.4)	0.0	(0.4)
Provision for expected credit losses for Volvo CE	(0.7)	0.0	(0.7)
Divestment of commercial real estate	0.8	0.0	0.8
Restructuring and efficiency program	(1.9)	0.0	(1.9)
Other	0.2	(0.1)	0.1
Operating income 2014			5.8

1 Of the lower credit losses SEK 0.1 billion are related to Customer Finance.

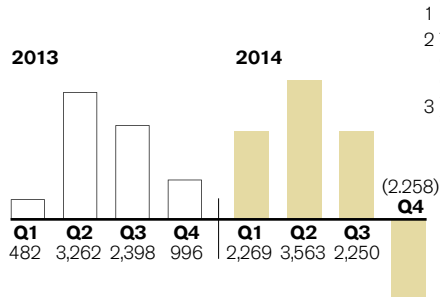
2 The net effect on operating income from changes in group structure is SEK 0.1 billion. The gross effect is negative SEK 0.9 billion on gross income, SEK 0.9 billion on selling expenses and SEK 0.1 billion on credit losses.

3 » Read more in Note 3 Acquisitions and divestments of shares in subsidiaries.

Net sales, SEK bn



Operating income, SEK M



Industrial Operations

Net sales increased by 4% driven predominantly by the 22% increased sales in North America reflecting the growing economic momentum in the region with improved sales for all of Volvo Group's business areas. In South America sales decreased by 10% as a result of decreased demand for Trucks due to decreased GDP growth and business activity across the continent. Brazil, being the main market in South America, has also been affected by the more stringent terms for financing from state owned development bank with significant increased interest rates and down payment requirement which affects demand negatively.

Western Europe has had a stable sales development where the decreased volumes have been offset by price realization for the new truck models for Volvo and Renault Trucks. Eastern Europe has declined mainly as a result of the geopolitical uncertainties surrounding Russia.

Sales development in Asia has been positive for Trucks while Construction Equipment has experienced a 25% decline in sales due to deteriorating demand in predominately China as a result of reduced construction and infrastructure projects.

Furthermore the weakening of SEK towards the currencies in major markets has had a positive impact of sales in 2014.

Improved underlying profitability

Gross income increased by SEK 2.6 billion in the year which is mainly explained by positive volume development for vehicle sale and price realization on the new Volvo and Renault Trucks models. Positive impact from price realization was also visible for both vehicle and service and aftermarket in North America while margin pressure on vehicle sale for Trucks in Brazil impacted gross income negatively in the period. Additionally the negative demand development in Asia in general, and China in particular, for Construction Equipment had a negative volume and margin impact in the period. Gross income was also negatively impacted in the period due to low capacity utilization in the production system for both Construction Equipment and Trucks.

Except for the changes in gross income, operating income was negatively impacted by increased research and development cost of SEK 1.5 billion where the lower expenditure in the period was offset by lower capitalization con-

tributing to an overall increase in cost. The decreased expenditure level for research and development is due to reduced activity level after the launch of the new ranges for Volvo and Renault Trucks brand and implemented cost saving measures. Furthermore the selling and administrative cost decreased by SEK 1.6 billion due to reduced launch cost, cost saving measures and the divestment of Volvo Rents.

Other operating income and expenses increased by SEK 4.2 billion compared to previous year and as described on page 111 main drivers are costs of non-recurring items related to litigations, credit losses as well as divestment of assets and subsidiaries.

Impact of exchange rates on operating income

Operating income for 2014 was negatively impacted by approximately SEK 0.4 billion as a consequence of changes in currency exchange rates when compared with 2013, primarily related to net flows in foreign currency.

» Read more in Note 4 Goal and policies in financial risk management in section Currency risks.

Income Statement Industrial Operations, SEK M	2014	2013
Net sales	275,999	265,420
Cost of sales	(217,251)	(209,307)
Gross income	58,748	56,113
Gross margin, %	21.3	21.1
Research and development expenses	(16,656)	(15,124)
Selling expenses	(25,778)	(26,904)
Administrative expenses	(5,367)	(5,824)
Other operating income and expenses	(6,931)	(2,710)
Income from investments in joint ventures and associated companies	46	96
Income from other investments	49	(31)
Operating income (loss) Industrial Operations	4,111	5,616
Operating margin, %	1.5	2.1

Net sales by market area, SEK M	2014	2013	%
Western Europe	86,011	84,293	2
Eastern Europe	17,826	18,626	(4)
North America	73,358	60,237	22
South America	25,837	28,751	(10)
Asia	51,717	52,805	(2)
Other markets	21,249	20,708	3
Total Industrial Operations	275,999	265,420	4

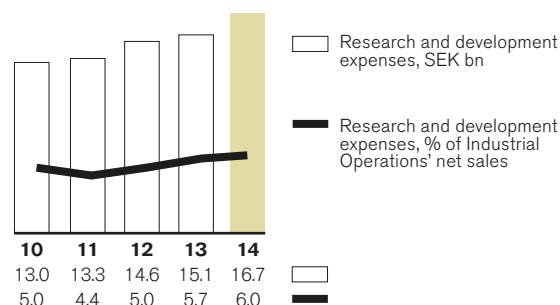
Impact of exchange rates on operating income

Compared with preceding year, SEK M

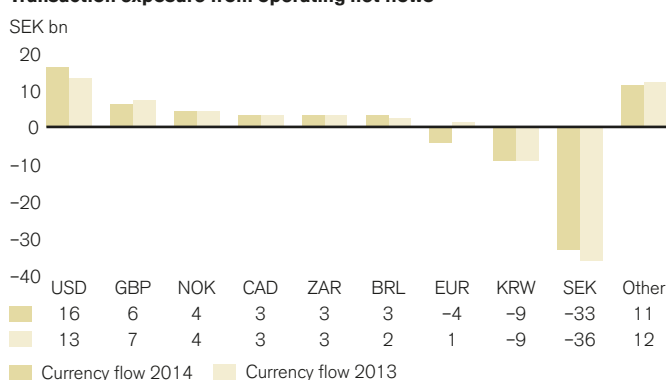
Net sales ¹	6,498
Cost of sales	(6,222)
Research and development expenses	(254)
Selling and administrative expenses	(444)
Total effect of changes in exchange rates on operating income	(422)

1 The Volvo Group sales are reported at monthly average rates.

Research and development expenses



Transaction exposure from operating net flows¹



1 The graph above represents the transaction exposure from commercial operating net cash flows in foreign currency in Industrial Operations, expressed as net surpluses or deficits in key currencies. The deficit in SEK and KRW is mainly an effect of expenses for manufacturing plants in Sweden and Korea, but limited external revenues in those currencies. The EUR deficit on the other hand, is the net of significant gross volumes of sales and purchases made by many entities around the globe in EUR. The surplus in USD is mainly generated from external sales within the US and emerging markets.

» Read more in Note 4 Goals and policies in financial risk management regarding Industrial Operations transaction exposure from operating net flows as well as currency effects on sales and operating income.

Customer Finance Operations

The Customer Finance operations recorded strong levels of new business volume during the year, driven primarily from the markets in Europe and America. Adjusted for changes in exchange rates, the new business volume increased by 13.5% compared to 2013. Financing penetration of new Volvo Group products improved during the year.

The gross-credit portfolio increased, on a currency-adjusted basis by 2.4% when compared to 2013. Growth was achieved net of sale of Volvo Rents, which reduced the credit port-

folio by SEK 6.3 billion during the year. Overall portfolio performance and credit reserves improved with continued strong performance noted in North America. 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 4** Goal and policies in financial risk Management in section cash flow risks.

The operating income for 2014 improved to SEK 1,717 M (1,522) excluding restructuring charges of SEK 5 M (0). The positive impacts are mainly due to profitable growth, improved portfolio performance and operating expense control.

During the year, Volvo Financial Services syndicated approximately SEK 8.3 billion of the credit portfolio across a number of markets, including SEK 3.7 billion in Brazil, to support funding and risk diversification strategies, effectively reducing concentration risk and freeing up credit capacity to support sales.

Income Statement Customer Finance, SEK M	2014	2013
Finance and lease income	10,111	9,539
Finance and lease expenses	(5,923)	(5,534)
Gross income	4,188	4,005
Selling and administrative expenses	(1,711)	(1,640)
Credit provision expenses	(858)	(923)
Other operating income and expenses	98	79
Operating income	1,717	1,522
Income taxes	(568)	(468)
Income for the period	1,149	1,054
Return on Equity, %	12.5	12.1

Key ratios, Customer Finance ¹	2014	2013
Number of financed units	54,819	51,466
New financing volume, SEK billion	54.7	47.0
Credit portfolio net, SEK billion	117	104
Credit provisions expenses SEK M	858	923
Operating income, excl. restructuring charges SEK M	1,717	1,522
Credit reserves, % of credit portfolio	1.33	1.31
Return on shareholders' equity, %	12.5	12.1
Total penetration rate, %	28	27
Penetration by business area¹, %		
Volvo CE	39	36
Volvo Trucks	30	30
Renault Trucks	23	21
Mack Trucks	23	21
Buses	27	16
UD Trucks	11	12

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



FINANCIAL POSITION

Strengthened financial position

Net debt in the Volvo Group's Industrial Operations amounted to SEK 26.4 billion at December 31, 2014, equal to 37.6% of shareholders' equity. Excluding provisions for post-employment benefits the Industrial Operation's net debt amounted to SEK 9.9 billion, which equal to 14.2% of shareholders' equity.

BALANCE SHEET VOLVO GROUP - ASSETS

		Industrial Operations		Customer Finance		Eliminations		Volvo Group	
SEK M		Dec 31 2014	Dec 31 2013	Dec 31 2014	Dec 31 2013	Dec 31 2014	Dec 31 2013	Dec 31 2014	Dec 31 2013
Assets									
Non-current assets									
Intangible assets	Note 12	37,010	36,479	105	109	-	-	37,115	36,588
Tangible assets	Note 13								
Property, plant and equipment		54,821	51,819	94	87	-	-	54,915	51,906
Investment property		266	327	-	-	-	-	266	327
Assets under operating leases		19,484	17,013	17,872	13,714	(6,138)	(5,055)	31,218	25,672
Financial assets									
Investments in joint ventures and associated companies	Note 5	4,821	4,377	-	-	-	-	4,821	4,377
Other shares and participations	Note 5	5,004	1,944	13	6	-	-	5,017	1,950
Non-current customer-financing receivables	Note 15	1,205	727	51,380	49,466	(1,254)	(6,401)	51,331	43,792
Deferred tax assets	Note 10	15,022	12,326	809	840	-	-	15,831	13,166
Prepaid pensions	Note 20	126	11	-	11	-	-	126	22
Non-current interest-bearing receivables	Note 16	1,041	550	22	34	378	(104)	1,441	480
Other non-current receivables	Note 16	3,528	3,017	150	128	(165)	(208)	3,513	2,937
Total non-current assets		142,328	128,590	70,445	64,395	(7,179)	(11,768)	205,594	181,217
Current assets									
Inventories	Note 17	45,364	40,964	169	189	-	-	45,533	41,153
Current receivables									
Customer-financing receivables	Note 15	623	679	48,063	40,854	(850)	(1,464)	47,836	40,069
Tax assets		2,918	1,692	496	57	-	-	3,414	1,749
Interest-bearing receivables	Note 16	1,736	1,645	345	473	(968)	(1,209)	1,113	909
Internal funding ¹		4,374	2,256	-	-	(4,374)	(2,256)	-	-
Accounts receivable	Note 16	30,495	29,170	400	245	-	-	30,895	29,415
Other receivables	Note 16	13,950	12,207	1,984	1,383	(1,265)	(936)	14,669	12,654
Non interest-bearing assets held for sale	Note 3	288	8,102	-	-	-	-	288	8,102
Interest-bearing assets held for sale	Note 3	-	2	-	-	-	-	-	2
Marketable securities	Note 18	6,927	2,570	385	21	-	-	7,312	2,591
Cash and cash equivalents	Note 18	24,178	25,660	2,470	1,679	(406)	(371)	26,242	26,968
Total current assets		130,853	124,947	54,312	44,901	(7,863)	(6,236)	177,302	163,612
Total assets		273,181	253,537	124,757	109,296	(15,042)	(18,004)	382,896	344,829

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

Net financial debt, excluding provisions for post-employment benefits, in the Industrial Operations amounted to SEK 9.9 billion, equal to 14.2% of shareholders equity, which is a decrease of SEK 9.9 billion compared to the end of December 31, 2013. The change is mainly explained by positive operating cash flow of SEK 6.4 billion, the positive effect on financial debt from the divestment of assets of SEK 6.9 billion related to Volvo Rents and the divestment of commercial real estate offset by the dividend paid to AB Volvo shareholders, negative currency effects and the acquisition of Terex hauler business. Including post-employment benefits the Industrial Operations net debt amounted to SEK 26.4 billion, equal to 37.6% of shareholders' equity.

» Read more in note 3 regarding Volvo Group's acquisitions and divestments of shares in subsidiaries.

The Volvo Group's liquid funds, i.e. cash and cash equivalents and marketable securities, amounted to SEK 33.6 billion on December 31, 2014 which includes SEK 0.2 (0.2) billion that is not available for use by the Volvo Group and SEK 6.1 billion (7.7) where other limitations exist, mainly liquid funds in countries where exchange controls or other legal restrictions apply. This means 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 by the Group's operations in the respective country.

» Read more in Note 18 Marketable securities and liquid funds.

In addition to the liquid funds, granted but unutilized credit facilities amounted to SEK 39.2 billion as of December 31, 2014, an increase of SEK 7.3 billion compared to year-end 2013. On July 1, 2014 the Volvo

Group through its subsidiary Volvo Treasury AB signed new credit facilities of EUR 3.5 billion replacing the company's existing facilities in EUR.

AB Volvo issued a hybrid bond in 2014 through its subsidiary Volvo Treasury AB, amounting to EUR 1.5 billion in order to further strengthen the Volvo Group's balance sheet and prolong the maturity structure of the debt portfolio.

» Read more in Note 22 Liabilities regarding the Volvo Group's new credit facilities in EUR and the hybrid bond.

Total assets in the Volvo Group amounted to SEK 382.9 billion as of December 31, 2014, an increase of SEK 38.1 billion compared to year-end 2013. This is mainly a result of increased customer-financing receivables due to portfolio growth in the Customer Finance Operations, the acquisition of Terex hauler

BALANCE SHEET VOLVO GROUP - SHAREHOLDERS' EQUITY AND LIABILITIES

		Industrial Operations		Customer Finance		Eliminations		Volvo Group	
SEK M		Dec 31 2014	Dec 31 2013	Dec 31 2014	Dec 31 2013	Dec 31 2014	Dec 31 2013	Dec 31 2014	Dec 31 2013
Equity and liabilities									
Equity attributable to the equity holder of the Parent Company	Note 19	68,382	67,134	9,943	8,906	-	(8)	78,325	76,032
Minority interests	Note 11	1,723	1,333	-	-	-	-	1,723	1,333
Total equity		70,105	68,467	9,943	8,906	-	(8)	80,048	77,365
<i>Non-current provisions</i>									
Provisions for post-employment benefits	Note 20	16,580	12,249	103	73	-	-	16,683	12,322
Provisions for deferred taxes	Note 10	201	324	2,595	2,082	-	-	2,796	2,406
Other provisions	Note 21	12,463	6,005	231	183	46	2	12,740	6,190
Total non-current provisions		29,244	18,578	2,929	2,338	46	2	32,219	20,918
<i>Non-current liabilities</i>	Note 22								
Bond loans		68,877	46,585	-	-	-	-	68,877	46,585
Other loans		27,395	31,219	13,013	12,182	(1,254)	(6,537)	39,154	36,864
Internal funding ¹		(59,955)	(34,027)	42,997	35,761	16,958	(1,734)	-	-
Other liabilities		17,549	14,315	607	665	(4,424)	(3,503)	13,732	11,477
Total non-current liabilities		53,866	58,092	56,617	48,608	11,280	(11,774)	121,763	94,926
Current provisions	Note 21	12,390	11,246	76	58	7	0	12,473	11,304
<i>Current liabilities</i>	Note 22								
Loans		32,130	46,806	9,266	6,705	(1,443)	(1,959)	39,953	51,552
Internal funding ¹		(20,267)	(38,090)	42,002	39,659	(21,735)	(1,569)	-	-
Non interest-bearing liabilities held for sale	Note 3	130	332	-	-	-	-	130	332
Interest-bearing liabilities held for sale	Note 3	-	18	-	-	-	-	-	18
Trade payables		56,351	53,685	296	216	-	-	56,647	53,901
Tax liabilities		2,558	1,072	135	48	-	-	2,693	1,120
Other liabilities	Note 22	36,674	33,331	3,493	2,758	(3,197)	(2,696)	36,970	33,393
Total current liabilities		107,576	97,154	55,192	49,386	(26,375)	(6,224)	136,393	140,316
Total equity and liabilities		273,181	253,537	124,757	109,296	(15,042)	(18,004)	382,896	344,829

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

Change in net financial position, Industrial Operations, SEK bn		2014	2013
Net financial position at the beginning of period		(32.1)	(38.0)
Cash flow from operating activities		14.3	14.6
Investments in fixed assets		(9.1)	(13.7)
Disposals		1.1	0.6
Operating cash flow		6.4	1.5
Investments and divestments of shares, net		0.1	0.0
Acquired and divested operations, net		7.7	0.4
Capital injections (to)/from Customer Finance Operations		0.7	0.4
Currency effect		(0.5)	3.4
Dividend paid to AB Volvo shareholders		(6.1)	(6.1)
Dividend paid to minority shareholders		-	(0.2)
Remeasurements of defined benefit pension plans		(3.6)	6.0
Pension payments and costs, net		0.7	0.3
Other changes		0.2	0.2
Total change		5.7	5.9
Net financial position at end of period		(26.4)	(32.1)

Net debt, Industrial Operations, SEK bn

2013				2014			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(42.7)	(41.5)	(42.8)	(32.1)	(34.5)	(37.8)	(37.4)	(26.4)

Net financial position, SEK M		Industrial Operations		Volvo Group	
		Dec 31 2014	Dec 31 2013	Dec 31 2014	Dec 31 2013
<i>Non-current interest-bearing assets</i>					
Non-current customer-financing receivables					
		-	-	51,331	43,792
Non-current interest-bearing receivables					
		1,041	550	1,441	480
<i>Current interest-bearing assets</i>					
Customer-financing receivables					
		-	-	47,836	40,069
Interest-bearing receivables					
		1,736	1,645	1,113	909
Internal funding					
		4,374	2,256	-	-
Interest-bearing assets held for sale					
		-	2	-	2
Marketable securities					
		6,927	2,570	7,312	2,591
Cash and bank					
		24,178	25,660	26,242	26,968
Total financial assets		38,256	32,683	135,275	114,811
<i>Non-current interest-bearing liabilities</i>					
Bond loans					
		(68,877)	(46,585)	(68,877)	(46,585)
Other loans					
		(27,395)	(31,219)	(39,154)	(36,864)
Internal funding					
		59,955	34,027	-	-
<i>Current interest-bearing liabilities</i>					
Loans					
		(32,130)	(46,806)	(39,953)	(51,552)
Internal funding					
		20,267	38,090	-	-
Interest-bearing liabilities held for sale					
		-	(18)	-	(18)
Total financial liabilities		(48,180)	(52,511)	(147,984)	(135,019)
Net financial position excl. post-employment benefits		(9,924)	(19,828)	(12,709)	(20,208)
Provision for post-employment benefits, net		(16,454)	(12,238)	(16,557)	(12,300)
Net financial position incl. post-employment benefits		(26,378)	(32,066)	(29,266)	(32,508)

» Cont.

business and positive currency movements of SEK 27.2 billion related to revaluation of assets in foreign subsidiaries, offset by the divestment of assets related to Volvo Rents and of commercial real estate.

The value of other shares and participations increased by SEK 3.0 billion compared to previous year. The increase is driven by the fair value adjustment of Eicher Motors Ltd. recognized through other comprehensive income.

» **Read more in Note 5** Investments in joint ventures, associated companies and other shares and participations regarding other shares and participations.

» **Read more in Note 19** Equity and number of shares regarding the change in other reserves.

The Group's intangible assets amounted to SEK 37.1 billion as of December 31, 2014. Investments in research and development amounted to SEK 1.4 billion (3.8), resulting in a net value of capitalized development costs of SEK 12.5 billion at the end of the year. Compared to prior year there has been a shift in the research and development net, from net capitalization to net amortization, as many projects was finalized in 2013. The Volvo Group's total goodwill amounted to SEK 21.5 billion as of December 31, 2014, an increase by SEK 1.5 billion compared to year-end 2013 mainly as a result of translation differences. The goodwill is tested for impairment on an annual basis.

» **Read more in Note 12** Intangible assets regarding the impairment test on goodwill.

The tangible assets increased by SEK 8.5 billion during 2014, mainly related to increase in assets under operating leases and translation differences.

The value of inventories increased by SEK 4.4 billion. The increase is related to both finished products within Trucks and Construction Equipment and production material.

The value of assets held for sale amounted SEK 0.3 billion as of December 31, 2014 compared to SEK 8.1 billion at year-end 2013. The amount last year was related to the divestment of Volvo Rents and to the divestment of commercial real estate which were completed during 2014.

» **Read more in Note 3** regarding assets and liabilities held for sale.

The net value of assets and liabilities related to pensions and similar obligations amounted to SEK 16.6 billion as of December 31, 2014, an increase of SEK 4.3 billion compared to year-end 2013. In 2014 the Volvo Group recognized a negative remeasurement effect impacting the pension obligation SEK 5.5 billion, mainly driven by lower discount rates in the US, Belgium, France, the UK and Sweden. On the asset side a positive remeasurement effect amounting to SEK 1.9 billion was recognized. In total the remeasurement recognized through other comprehensive income had a negative impact of SEK 3.6 billion on the provision for post-employment benefits.

» **Read more in Note 20** Provisions for post-employment benefits.

As of December 31, 2014 the shareholders' equity for the Volvo Group amounted to SEK 80.0 billion compared to SEK 77.4 billion at year-end 2013. The equity ratio was 20.9% compared to 22.4% on December 31, 2013. At the same date the equity ratio in the Industrial operations amounted to 25.7% (27.0).

CASH FLOW STATEMENT

Improved operating cash flow

During 2014, operating cash flow in the Industrial Operations amounted to a positive SEK 6.4 billion (1.5).

The cash flow within Industrial Operations was positively affected by an operating income of SEK 8.6 billion excluding the non-cash items related to the EU antitrust investigation and expected credit losses in China in a total amount of SEK 4.5 billion. In addition, the cash flow has been positively impacted by higher depreciations than investments in an amount of SEK 3.6 billion. This was offset by an increase of working capital of SEK 3.3 billion. Accounts receivables decreased by SEK 1.3 billion, inventories increased by SEK 1.6 billion and the trade payables decreased by SEK 1.0 billion.

Refer to section Investments below for more information on the main reasons for the decrease in investments compared to previous year.

Financial items and paid income taxes had a SEK 4.5 billion negative effect on cash flow within Industrial Operations, mainly through payments of interests and income tax.

Operating cash flow within Customer Finance was negative SEK 5.3 billion (7.6), mainly due to increased customer-financing receivables and investment in leasing vehicles.

Investments

The Industrial Operations' investments in fixed assets and capitalized research and development during 2014 amounted to SEK 8.6 billion (12.2). The decrease is mainly related to lower capitalization of research and development but also lower investments in fixed assets.

Capital expenditures in Trucks amounted to SEK 5.7 billion (8.4). The major investments refer to finalization of the extensive product renewals that have taken place, including emission regulation Euro 6, the new UD Quon for Japan and the new Volvo-range introduced in South America, with both product development activities and required adaptations in the plants. There are also larger investments in the plants in order to reduce manufacturing costs, with the European optimization program and rationalizations in the US plants as main areas. The investments in dealer networks and workshops are mainly done in Europe and Asia (mainly Japan and Thailand), primarily for upgrade and replacements. South America is investing in a new customer training center.

Capital expenditures for Construction Equipment amounted to SEK 1.3 billion (2.3). The major investments during 2014 related to the new customer center in Shippensburg, investments within our SDLG brand and various investments related to our CAST (Common Architecture Shared Technology) program. The product related investments during the year refer mainly to Tier 4 final, the last emission regulations in Europe and North America.

The investments in Buses were SEK 0.3 billion (0.4), and in Penta SEK 0.3 billion (0.3).

Total investments in leasing assets during 2014 amounted to SEK 0.5 billion (1.5).

The investment level for property, plant and equipment during 2014 was lower than previous years. During 2015, investments in property, plant and equipment are expected to be on the same level as in 2014. The optimization of the industrial and logistic footprint, dealer investments and product related tooling will continue to be the main areas.

Acquisitions and divestments

The divestiture of Volvo Rents was completed on January 31, 2014.

The divestiture of commercial real estate was finalized in the second quarter of 2014.

The acquisitions of the hauler manufacturing business from Terex Inc. was finalized on May 30, 2014.

In total acquired and divested operations in 2014 had a positive impact on cash flow of SEK 7.4 billion (0.9).

» **Read more in Note 3** regarding Acquisitions and divestments of shares in subsidiaries and **Note 29** Cash flow.

Financing and dividend

Net borrowings increased cash and cash equivalents by SEK 6.7 billion during 2014 (13.0).

» **Read more in Note 29** Cash flow regarding movements during the year on the net borrowings.

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

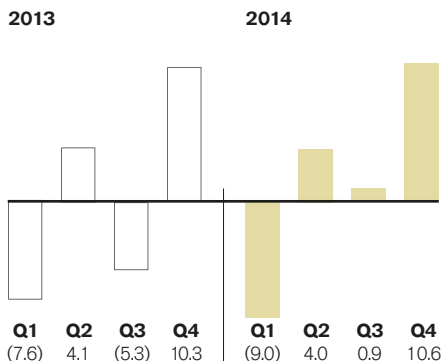
The Volvo Group's cash and cash equivalents decreased by SEK 0.7 billion during the year and amounted to SEK 26.2 billion at December 31, 2014.

» **Read more in Note 29** Cash flow regarding principles for preparing the cash flow statement and for more information on cash and cash equivalents.

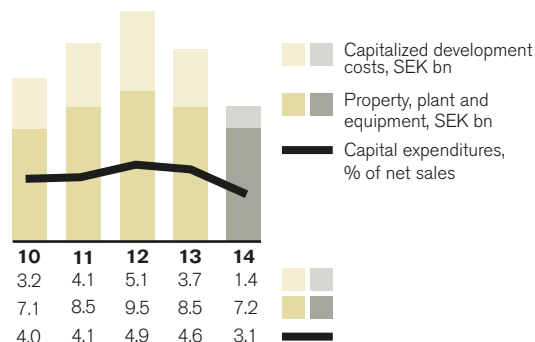
CONSOLIDATED CASH FLOW STATEMENT

SEK M	Industrial operations		Customer Finance		Eliminations		Volvo Group Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Operating activities								
Operating income	4,103	5,624	1,712	1,522	8	(8)	5,823	7,138
Depreciation tangible assets	Note 13	6,701	6,205	15	16	-	6,716	6,221
Amortization intangible assets	Note 12	3,503	5,021	31	34	-	3,534	5,055
Depreciation leasing vehicles	Note 13	2,470	3,247	3,211	2,899	(1)	5,680	6,146
Other non-cash items	Note 29	5,288	1,496	888	890	(35)	6,141	2,416
Total change in working capital whereof		(3,272)	(1,956)	(4,772)	(8,774)	(6,059)	(14,103)	(10,765)
Change in accounts receivable		1,346	(4,799)	(133)	(120)	-	1,213	(4,919)
Change in customer-financing receivables		(144)	(91)	(4,740)	(8,923)	(5,756)	(10,640)	(8,730)
Change in inventories		(1,594)	(3,209)	(28)	114	-	(1,622)	(3,263)
Change in trade payables		(995)	7,905	65	60	131	(799)	7,964
Other changes in working capital		(1,884)	(1,762)	64	95	(435)	(2,255)	(1,817)
Interest and similar items received		317	362	-	-	-	317	364
Interest and similar items paid		(1,879)	(2,404)	-	-	33	(1,846)	(2,437)
Other financial items		(221)	(225)	-	-	-	(221)	(225)
Income taxes paid		(2,680)	(2,641)	(624)	(181)	-	(3,304)	(2,823)
Cash flow from operating activities		14,331	14,729	461	(3,594)	(6,055)	8,737	11,090
Investing activities								
Investments in tangible assets		(7,079)	(8,307)	(14)	(26)	-	(7,093)	(8,281)
Investments in intangible assets		(1,523)	(3,903)	(18)	(18)	-	(1,541)	(3,922)
Investment in leasing vehicles		(470)	(1,529)	(9,645)	(6,784)	-	(10,115)	(8,262)
Disposals of fixed assets and leasing vehicles		1,090	556	3,949	2,848	(1)	5,038	3,403
Operating cash flow		6,349	1,546	(5,267)	(7,574)	(6,056)	(4,973)	(5,972)
Investments and divestments of shares, net	Note 5, 29						69	(14)
Acquired and divested operations, net	Note 3, 29						7,398	932
Interest-bearing receivables incl marketable securities							(4,808)	510
Cash flow after net investments							(2,314)	(4,544)
Financing activities								
Change in loans, net	Note 29						6,686	12,955
Dividend to AB Volvo's shareholders							(6,084)	(6,084)
Dividend to minority shareholders							-	(162)
Other							(57)	56
Change in cash and cash equivalents excl. translation differences							(1,769)	2,221
Translation difference on cash and cash equivalents							1,044	(460)
Change in cash and cash equivalents							(725)	1,761
Cash and cash equivalents, beginning of year	Note 18						26,968	25,207
Cash and cash equivalents, end of year	Note 18						26,242	26,968

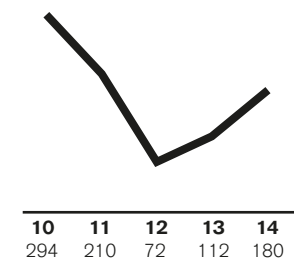
Operating cash flow, Industrial Operations, SEK bn



Capital expenditures, Industrial Operations



Self-financing ratio, Industrial Operations %



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

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

SEK M	Shareholders' equity attributable to equity holders of the Parent Company					Minority interests	Total equity
	Share capital	Other reserves ¹	Translation reserve	Retained earnings	Total		
Balance at December 31, 2012	2,554	558	(2,670)	75,343	75,785	1,266	77,051
Income for the period	-	-	-	3,583	3,583	219	3,802
<i>Other comprehensive income</i>							
Translation differences on foreign operations	-	-	(1,672)	-	(1,672)	38	(1,634)
Share of OCI related to Joint Ventures and associated companies	-	-	(135)	-	(135)	-	(135)
Accumulated translation differences reversed to income	-	-	37	-	37	-	37
Available-for-sale investments: Note 5, 19							
Gains/losses at valuation to fair value	-	470	-	-	470	-	470
Change in cash flow hedge reserve Note 19	-	9	-	-	9	-	9
Remeasurements of defined benefit plans Note 20	-	-	-	3,904	3,904	-	3,904
Other comprehensive income for the period	-	479	(1,770)	3,904	2,613	38	2,651
Total income for the period	-	479	(1,770)	7,487	6,196	257	6,453
<i>Transactions with shareholders</i>							
Dividends to shareholders	-	-	-	(6,084)	(6,084)	(162)	(6,246)
Transactions with minority interests	-	-	-	-	-	-	-
Share based payments Note 27	-	-	-	94	94	-	94
Changes in minority interests	-	-	-	-	-	(35)	(35)
Other changes	-	-	-	41	41	7	48
Transactions with shareholders	-	-	-	(5,949)	(5,949)	(190)	(6,139)
Balance at December 31, 2013	2,554	1,037	(4,440)	76,881	76,032	1,333	77,365
Income for the period	-	-	-	2,099	2,099	136	2,235
<i>Other comprehensive income</i>							
Translation differences on foreign operations	-	-	5,746	-	5,746	252	5,998
Share of OCI related to Joint Ventures and associated companies	-	-	198	-	198	-	198
Accumulated translation differences reversed to income	-	-	33	-	33	-	33
Available-for-sale investments: Note 5, 19							
Gains/losses at valuation to fair value	-	3,067	-	-	3,067	-	3,067
Change in cash flow hedge reserve Note 19	-	24	-	-	24	-	24
Remeasurements of defined benefit plans Note 20	-	-	-	(2,833)	(2,833)	-	(2,833)
Other comprehensive income for the period	-	3,091	5,977	(2,833)	6,235	252	6,487
Total income for the period	-	3,091	5,977	(734)	8,334	388	8,722
<i>Transactions with shareholders</i>							
Dividends to shareholders	-	-	-	(6,084)	(6,084)	-	(6,084)
Transactions with minority interests	-	-	-	-	-	-	-
Share based payments Note 27	-	-	-	60	60	-	60
Changes in minority interests	-	-	-	-	-	-	-
Other changes	-	-	-	(17)	(17)	2	(15)
Transactions with shareholders	-	-	-	(6,041)	(6,041)	2	(6,039)
Balance at December 31, 2014	2,554	4,128	1,537	70,106	78,325	1,723	80,048

1 For specification of other reserves, refer to Note 19.

Notes to Financial Statements

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2013.

NOTE 1 | ACCOUNTING POLICIES

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 Annual Accounts Act. In addition, RFR 1 Supplementary Rules for Groups, has been applied, which is issued by the Swedish Financial Reporting Board.



How should the Volvo Group's accounting policies be read?

The Volvo Group 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 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** show which amounts in the notes that can be found in the income statement or balance sheet. The total amount in tables and statements might not always summarize as there are rounding differences. The aim is to have each line item corresponding to the source and it might therefore be rounding differences in the total. 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, IFRS 13
Business combinations	3, Acquisitions and divestments of shares in subsidiaries	IFRS 3
Joint ventures	5, Investments in joint ventures, associated companies and other shares and participations	IFRS 11, IAS 28, IFRS 12
Associated companies	5, Investments in joint ventures, associated companies and other shares and participations	IAS 28
Operating segments	6, Segment reporting	IFRS 8
Revenue	7, Revenue	IAS 17, IAS 18
Shares and participations	5, Investments in joint ventures, associated companies and other shares and participations	IAS 28, IAS 32, IAS 36, IAS 39, IFRS 7, IFRS 13
Financial income and expenses	9, Other financial income and expenses	IAS 39
Income taxes	10, Income taxes	IAS 12
Minority interests	11, Minority interests	IFRS 10, IFRS 12
Research and development expenses	12, Intangible assets	IAS 36, IAS 38
Goodwill	12, Intangible assets	IAS 36, IAS 38
Tangible assets	13, Tangible assets	IAS 16, IAS 36, IAS 40, IFRS 13
Leasing	14, Leasing	IAS 17
Customer-financing receivables	15, Customer-financing receivables	IAS 17, IAS 18, IAS 32, IAS 39, IFRS 7, IFRS 13
Inventories	17, Inventories	IAS 2
Earnings per share	19, Equity and number of shares	IAS 33
Pensions and similar obligations	20, Provisions for post-employment benefits	IAS 19
Provisions for residual value risks	21, Other provisions	IAS 17, IAS 18, IAS 37
Warranty expenses	21, Other provisions	IAS 37
Restructuring costs	21, Other provisions	IAS 37, IAS 19
Liabilities	22, Liabilities	IAS 32, IAS 37, IAS 39, IFRS 7, IFRS 13
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, IFRS 13
	16, Receivables	
	18, Marketable securities and liquid funds	
	30, Financial instruments	



» Consolidated financial statements

Principles for consolidation

The consolidated financial statements are as from January 1, 2013 prepared in accordance with the principles set forth in IFRS 10 Consolidated Financial Statements. Accordingly, intra-group transactions and gains on transactions with joint ventures and associated companies are eliminated. The consolidated financial statements comprise the Parent Company, subsidiaries, joint ventures and associated companies.

- Subsidiaries are defined as entities that are controlled by the Volvo Group.
- Joint ventures refer to joint arrangements whereby the Volvo Group together with one or more parties that have joint control, have rights to the net assets of the arrangements. Joint ventures are as from January 1, 2013 recognized using the equity 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 are using foreign currencies

AB Volvo's functional currency is 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, items in the income statements of foreign subsidiaries (except for subsidiaries in hyperinflationary economies) are translated to SEK using monthly average exchange rates. Balance-sheet items are translated into SEK using exchange rates at year-end (closing rate). Exchange differences arising, are recognized in other comprehensive income and accumulated in equity.

The accumulated translation differences related to a certain subsidiary, joint venture or associated company are reversed to the income statement as a part of the gain/loss arising from disposal of such a company or repayment of capital contribution from such a company.

Receivables and liabilities in foreign currency

Receivables and liabilities in currencies other than the functional currency (foreign currencies) are translated to the functional currency using the closing rate. Translation differences on operating assets and liabilities are recognized in operating income, while translation differences arising in financial assets and liabilities are recognized in financial income and expenses. Interest-bearing 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 in the consolidated financial statements are shown in the table.

Exchange rates		Average rate		Closing rate as of Dec 31	
Country	Currency	2014	2013	2014	2013
Australia	AUD	6.1801	6.3046	6.3746	5.7592
Brazil	BRL	2.9202	3.0308	2.8903	2.7821
Euro Zone	EUR	9.1059	8.6586	9.5248	8.9523
Japan	JPY	0.0649	0.0669	0.0654	0.0619
Canada	CAD	6.2122	6.3294	6.7231	6.0755
China	CNY	1.1134	1.0573	1.2595	1.0732
Norway	NOK	1.0904	1.1105	1.0526	1.0590
Great Britain	GBP	11.2976	10.1926	12.1451	10.7392
South Africa	ZAR	0.6320	0.6773	0.6722	0.6213
South Korea	KRW	0.0065	0.0060	0.0071	0.0062
United States	USD	6.8582	6.5153	7.8130	6.5097

New accounting policies for 2014

There are no new accounting principles and interpretations that came into effect as of January 1, 2014 that significantly effects the Volvo Group's financial statements.

Volvo Group applied IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, amendments to IFRS 10, IFRS 11 and IFRS 12 already from January 1, 2013.

New accounting policies for 2015 and later

When preparing the consolidated financial statements as of December 31, 2014, a number of standards and interpretations has been published, but has not yet become effective.

IFRS 9 Financial instruments

IFRS 9 is divided in three parts: Classification and Measurement, Impairment and Hedge Accounting, and will replace the current IAS 39 Financial instruments: recognition and measurement. The Volvo Group is currently assessing the effect of IFRS 9 and are expecting the greatest impact from the transition to the new expected credit loss model, however the impact is not yet quantifiable. The mandatory effective date is January 1, 2018, with earlier application allowed.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 represent a new framework for recognising revenue with additional disclosure requirements. The framework establish principles about the nature, amount, timing and uncertainty of revenue and cash flow arising from an entity's contracts with customers. IFRS 15 will replace current IAS 11 Construction contracts and IAS 18 Revenue. The Volvo Group is assessing the impact of the IFRS 15 and monitors any statements from the IASB and FASB Joint transition resource group for revenue recognition. The mandatory effective date is January 1, 2017, with earlier application allowed.

IFRS 9 and IFRS 15 have not been adopted by the EU when this Annual Report was published.

Other new or revised accounting standards are not considered to have a material impact on the Volvo Group's financial statements.

NOTE 2 | KEY SOURCES OF ESTIMATION UNCERTAINTY

The Volvo Group's most significant accounting policies are primarily described together with the applicable note. Read more in Note 1, Accounting Policies for a specification. The preparation of AB Volvo's Consolidated Financial Statements requires the use of estimates and assumptions that may affect the recognized amounts of assets and liabilities at the date of the financial statements. In addition, the recognized amounts of net sales and expenses during the periods presented are affected. In preparing these financial statements, management has made its best judgments of certain amounts included in the financial statements, materiality taken into account. Actual results may differ from previously made estimates. In accordance with IAS 1, the company is required to disclose the assumptions and other major sources of estimation uncertainties that, 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 are considered to fulfill these criteria are presented in connection to the items considered to be affected. The table below discloses where to find these descriptions.

Source of estimation uncertainty	Note
Buy-back agreements and residual value guarantees	7, Revenue
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 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 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 minority 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 recognized as goodwill. Any deficit amount, known as negative goodwill, is recognized in the income statement.

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 minority interest shall be valued at fair value or at the minority 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 the 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 Corporate functions, Group functions and Other, until the sale is completed and the result is distributed to each segment.

AB Volvo's holding of shares in subsidiaries as of December 31, 2014 is disclosed in note 13 for the Parent Company. Significant acquisitions, formations and divestments within the Group are listed below.

Business combinations during the period

On 30 May 2014 the acquisition of the hauler manufacturing business from Terex Inc. was finalized. Volvo Group has acquired 100% of Terex Equipment Ltd. based in Motherwell, Scotland where the main production facility is located. The deal includes two product ranges that offer both rigid and articulated haulers. It includes also the distribution of haulers in the U.S. as well as a 25.2% holding in Inner Mongolia North Hauler Joint Stock Co (NHL), which manufactures and sells rigid haulers under the Terex brand in China. NHL is listed on the Shanghai Stock Exchange. Terex is included in the Construction Equipment segment.

The purchase price amounted to USD 160 M (approximately SEK 1 bn) on a cash and debt free basis. Additional contingent consideration could be paid pending financial performance of the acquired business in the next coming two financial years. The contingent consideration is capped at USD 5 M out of which USD 2.3 M has been recognized as of acquisition date based on best estimate of estimated outcome. The acquisition increased the Volvo Group Industrial Operation's net financial debt by SEK 1.1 bn. The acquisition resulted in goodwill of SEK 59 M. Acquired net assets amounted to SEK 1,025 M, whereof intangible assets other than goodwill of SEK 280 M and the holding in NHL valued at SEK 233 M. Acquired net assets has been reduced by SEK 68 M corresponding to the best estimate of closing account adjustment.

The market value of the NHL shares approximated SEK 600 M at the acquisition date, but the shares are recognized at the fair value SEK 233 M taking into consideration a restriction in the right of disposal.

» Read more in Note 5 regarding investment in associated companies.

In 2014, the acquisition had a positive effect on sales by SEK 503 M and negative effect on operating income by SEK 68 M from the acquisition date. The monthly expenses related to depreciation of identified assets is SEK 3 M.

In addition to that the Volvo Group has not made any other acquisitions during 2014 which solely or jointly have had a significant impact on the Volvo Group's financial statement.

For the comparative year 2013, the Volvo Group did not make any significant acquisitions.

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:

Acquisitions	2014	2013
Intangible assets	280	-
Property, plant and equipment	124	14
Assets under operating lease	-	8
Shares and participations	233	-
Inventories	385	96
Current receivables	436	2
Cash and cash equivalents	67	-
Other assets	7	-
Provisions	(84)	(1)
Loans	(55)	(1)
Current liabilities	(368)	(95)
Acquired net assets	1,025	23
Goodwill	75	48
Total	1,100	71
Cash and cash equivalents paid	(1,170)	(71)
Cash and cash equivalents according to acquisition analysis	67	-
Effect on Volvo Group cash and cash equivalents	(1,103)	(71)
Cash to be paid	68	-
Effect on Volvo Group net financial position	(1,158)	(138)

Divestments

Volvo Rents divestment

The divestiture of Volvo Rents was completed on January 31, 2014. The price amounted to USD 1.1 bn, corresponding to SEK 6.9 bn, and had a positive impact on the Group's cash flow and net financial debt within the Industrial Operation in 2014 with the same amount. In connection with the divestment, Volvo Rents repaid all outstanding loans to Volvo Financial Services.

During 2014 the divestment impacted operating income positively by SEK 212 M as an effect of the ongoing completion of accounts. The adjusted purchase price is expected to be finalized during the first half of 2015. In 2013, assets and liabilities pertaining to Volvo Rents were classified as assets held for sale and valued at fair value. A revaluation was therefore recognized within Other operating income and expenses amounting to negative SEK 1.5 bn and impacting the segment "Group functions, corporate functions and other". Net sales for Volvo Rents in 2013 amounted to SEK 4,212 M and operating income for the corresponding period amounted to negative SEK 133 M.

Divestment of commercial real estate

Companies in the Volvo Group signed an agreement in March 2014, to sell commercial real estate. The transaction was finalized in the second quarter 2014 and reduced net financial debt in the Volvo Group's Industrial Operation by approximately SEK 1.8 bn, out of which SEK 0.3 bn is a claim in a subordinated loan. The impact on operating cash-flow from the transaction is SEK 0.3 bn. The transaction had a positive impact on the Group's operating income of SEK 815 M in 2014, whereof SEK 751 M in the segment Group functions, Corporate functions and Other and SEK 64 M in the segment Trucks. The transaction covered to a large extent real estate in Göteborg, Sweden owned by the Volvo Group and leased to external tenants. The transaction also included properties in Denmark, Finland and other parts of Sweden, where the real estate to a large extent are continuously rented by companies in the Volvo Group. Those properties were part of assets held for sale at the end of the year 2013.

The Volvo Group has not made any other divestments during 2014, which solely or jointly have had a significant impact on the Volvo Group's financial statements.

For the comparative year 2013, the Volvo Group did not make any significant divestment.

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	2014	2013
Property, plant and equipment	(1,584)	(140)
Assets under operating lease	(5,475)	(162)
Inventories	(221)	(127)
Other receivables	(340)	(914)
Cash and cash equivalents	-	(87)
Other provisions	(65)	36
Other liabilities	206	472
Divested net assets	(7,479)	(922)
Goodwill	-	(27)
Total	(7,479)	(949)
Additional purchase price	-	-
Cash and cash equivalents received	8,501	1,090
Cash and cash equivalents, divested companies	-	(87)
Effect on Volvo Group cash and cash equivalents	8,501	1,003
Effect on Volvo Group net financial position	8,868	537

Assets and liabilities held for sale

As of December 31, 2014, the Volvo Group recognized assets amounting to SEK 288 M and liabilities amounting to SEK 130 M as assets and liabilities held for sale. Those mainly pertain to a planned dealer divestment and divestment activities within the efficiency program. Translation differences on foreign operations of SEK 10 M were recognized in other comprehensive income.

For the comparative year 2013, the Volvo Group recognized assets amounting to SEK 8,104 M and liabilities amounting to SEK 350 M as assets and liabilities held for sale. Translation differences on foreign operations of SEK 13 M were also included in other comprehensive income. This referred mainly to the divestment of Volvo Rents in North America which was completed on January 31, 2014. Commercial real estate amounting to SEK 1,014 M was also classified as assets held for sale at year end 2013.

Assets and liabilities held for sale	Dec 31, 2014	Dec 31, 2013
Tangible assets	173	7,185
Inventories	21	221
Other current receivables	94	684
Other assets	-	14
B/S Total assets	288	8,104
Trade payables	87	76
Provisions	5	127
Other current liabilities	23	137
Other liabilities	15	10
B/S Total liabilities	130	350

Acquisitions and divestments after the end of the period

In the beginning of January 2015 Volvo Group completed the acquisition of 45% of the shares in Dongfeng Commercial Vehicles Co., Ltd, DFCV, in China. The ownership in DFCV is classified as an associated company and consolidated with the equity method as of January 2015 and will be included in the Trucks segment. The result of DFCV will, from the beginning, be included in the Volvo consolidation with a time lag of one month. When Volvo and DFCV have aligned the book closing procedures a catch up will take place and the result will then be recognized without a time lag. Consequently, when the catch up occurs, the result of four separate months will be included within one quarter. During 2013 DFCV's sales amounted to SEK 37 billion and the pro-forma operating income amounted to SEK 1.0 billion. During the same period DFCV sold 120,600 heavy-duty and 51,000 medium-duty trucks.

The purchase consideration amounted to approximately SEK 7 billion and will in the first quarter be recognized as Investments in joint ventures and associated companies within Financial assets. The Cash flow after net investments will be negatively affected by the same amount and the purchase consideration will also have the same negative impact on net financial debt. The purchase consideration was hedged and positive effects of the hedge have been recognized within Other financial income and expenses. The total positive effect of the hedge is SEK 1.5 billion, SEK 300 M was recognized in 2013, SEK 1.1 billion in 2014 and the remaining part will be recognized in the first quarter 2015. This is an effect of Volvo Group not applying hedge accounting. The hedge is presented in the cash flow statement as Changes in loans, net. None of these two items will hence impact the Operating cash flow.

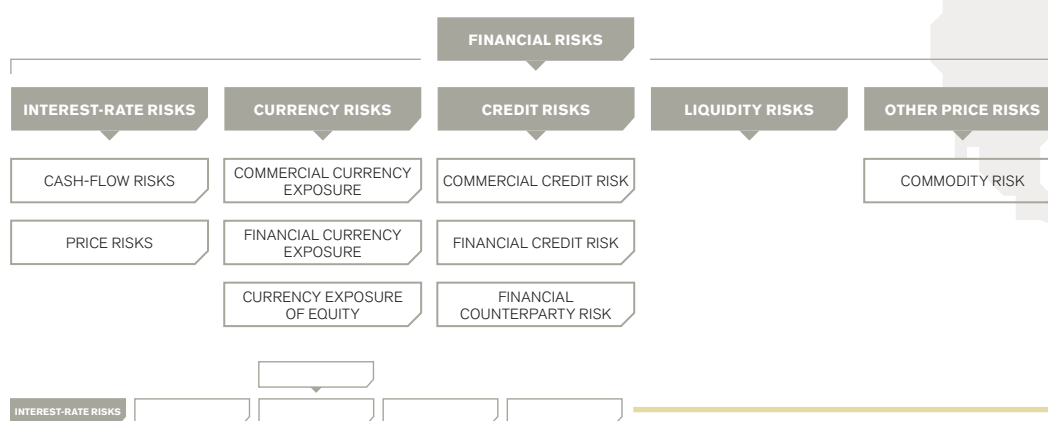
» Read more in Note 29 Cash flow regarding Changes in loans, net.

NOTE 4 | GOALS AND POLICIES IN FINANCIAL RISK MANAGEMENT

The Volvo Group's global operations expose the Group to financial risks in the form of interest rate risks, currency risks, credit risks, liquidity risks and other price risks. Work on financial risks comprises an integrated element of the Volvo Group's business. The Volvo Group strive 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.

» **Read more** about accounting principles for financial instruments in **Note 30**, Financial Instruments.

» **Read more** about management of capital on **page 25** and **page 86**.



INTEREST-RATE RISKS ▲

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



POLICY

Matching the interest-fixing terms of financial assets and liabilities reduces the exposure. Interest-rate swaps are used to change/influence the interest-fixing term for the 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 has also 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 Finance 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 9% in the Customer Finance Operations. At year-end

2014, the degree of such matching was 101% (99) for the segment Customer Finance, which was in line with the Volvo Group's policy. The centralized Treasury function has, for practical as well as business reasons, the mandate to mismatch the Customer Finance portfolio down to a matching ratio of 80%. At year-end 2014, the matching ratio was 110% (95). Any gains or losses from the mismatch impact the segment Group functions and other within Industrial Operations. At year-end 2014, in addition to the assets in its Customer Finance 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 for the Volvo Group's short-term interest-bearing securities is to achieve a return on these assets equivalent to a three-month fixed term security. On December 31, 2014, the average interest on Industrial Operations financial assets was 0.9% (1.1). After taking derivatives into account, outstanding loans had interest terms corresponding to a short term interest-rate fixing term, between one to three months. The average interest on Industrial Operations financial liabilities at year-end amounted to 3.8% (3.3), including the Volvo Group's credit costs.

Price risks ▲

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).

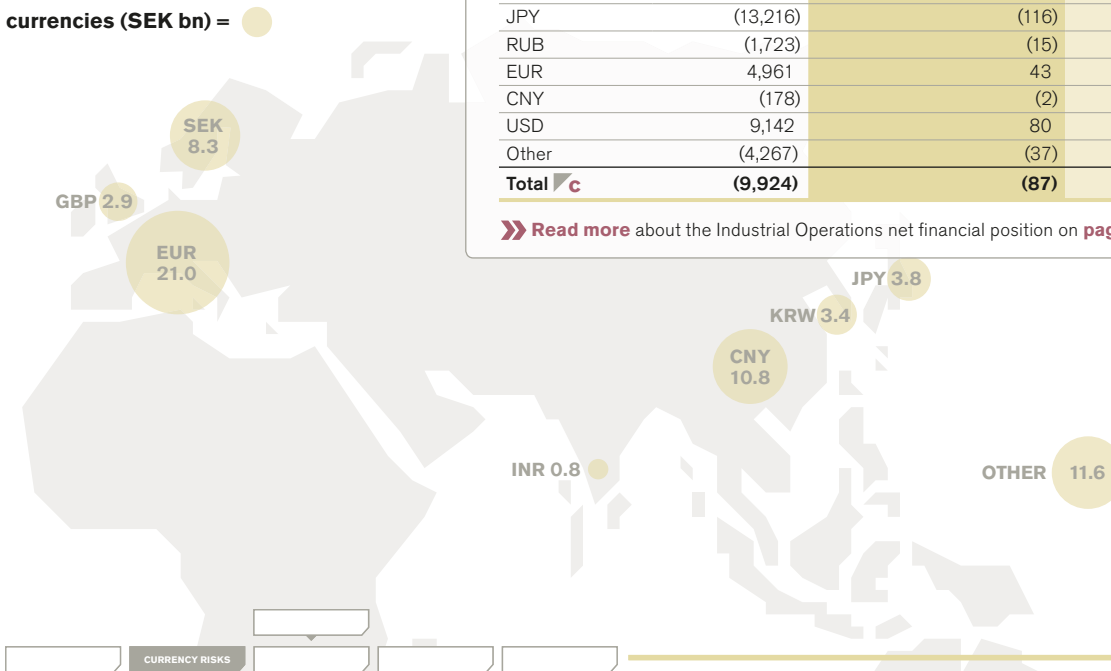
The following table **4:1** shows the effect on earnings before taxes in Industrial Operations net financial position, excluding pensions and similar obligations, if interest rates were to increase by 1 percentage point, (100 basis points) assuming an average interest-rate fixed term of three months.* The impact on equity is earnings after tax.

* The sensitivity analysis on interest rate risks is based on simplified assumptions. It is not improbable for market interest rates to change by one 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 in table **4:1**.

» **Read more** about the Industrial Operations net financial position on **pages 114–115**.

» **Read more in Note 20** Provisions for post-employment benefits regarding sensitivity analysis on the defined benefit obligations when changes in the applied assumptions for discount rate and inflations are made.

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



Risk net financial position Dec 31, 2014	Net financial position excl. pensions	Impact on earnings before tax if interest rate rises 1% A (Interest-rate risks)	Impact on Net financial position if SEK appreciates against other currencies 10% B (Currency risks)
SEK M			
SEK	(4,643)	(41)	–
JPY	(13,216)	(116)	1,322
RUB	(1,723)	(15)	172
EUR	4,961	43	(496)
CNY	(178)	(2)	18
USD	9,142	80	(914)
Other	(4,267)	(37)	427
Total C	(9,924)	(87)	528

» Read more about the Industrial Operations net financial position on page 114–115.

4:1



CURRENCY RISKS B

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 the 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.

Volvo Group's outstanding derivatives hedging commercial currency risks Dec 31, 2014

Millions	Currencies							Market value
	CNY/ SEK ¹	USD/ SEK	USD/ KRW	USD/ CNY	SGD/ SEK	AUD/ SEK	GBP/ SEK	
Due date 2015	(5,510)	302	236	39	13	16	31	
Due date 2016	–	–	–	9	–	17	31	
Due date 2017	–	–	–	–	–	9	10	
Total local currency	(5,510)	302	236	48	13	42	71	
Average contract rate	1.24	7.35	1.068	6.38	5.77	5.91	11.85	
Market value of outstanding forward contracts, SEK M	119	(139)	(54)	4	(2)	(11)	(15)	(98)

1 The outstanding forward contracts in CNY/SEK is the hedging of future cash flow of the acquisition of Dongfeng Commercial Vehicles.

4:2



» **Goals and policies in financial risk management (cont.)****Sensitivity analysis***

Risk currency exposure 2014	Transaction exposure from operating net flows	Impact on operating income if currency rate appreciates against all other currencies by 10%
SEK bn		■ B (Currency risks)
SEK	(33.1)	(3.3)
EUR	(4.0)	(0.4)
KRW	(8.7)	(0.9)
USD	16.1	1.6

4:3

Commercial currency exposure*Transaction exposure from commercial flows*

The Volvo Group conducts manufacturing in 19 countries around the globe and more than 90% of net sales are generated in countries other than Sweden. Transaction exposure from commercial flows in foreign currency is generated from internal purchases and sales between manufacturing units and market companies and external sales and purchases in foreign currency around the globe. As the predominant parts of the operations in the Volvo Group are situated outside Sweden, the fluctuations in currency rates affecting the transaction flows in foreign currency are in many cases not against SEK. Industrial Operations transaction exposure in key currencies is presented in table 4:5. The graph represents the transaction exposure from commercial operating net cash flows in foreign currency, expressed as net surpluses or deficits in key currencies. The deficit in SEK and KRW is mainly an effect of expenses for manufacturing plants in Sweden and Korea, but limited external revenues in those currencies. The EUR deficit on the other hand, is the net of significant gross volumes of sales and purchases made by many entities around the globe in EUR. The surplus in USD is mainly generated from external sales to entities within the US and emerging markets.

The hedging of the Volvo Group's commercial currency exposure is decided centrally. The Volvo Group's consolidated currency portfolio exposure is the value of forecasted future payment flows in foreign currency. The Volvo Group only hedge the part of the forecasted portfolio that is considered highly probable to occur, i.e. firm flows, where the main parts will be realized within six months. The Volvo Group uses forward contracts and currency options to hedge the portion of the value of forecasted future payment flows in foreign currency. The hedged amount of firm flows for all periods fall within the framework of the Volvo Group's currency policy. The table 4:2 shows outstanding forward and option contracts for the hedging of commercial currency risks.

Translation exposure from 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. The table 4:7 shows the translation effect when consolidating operating income for 2014 in foreign subsidiaries in key currencies.

» **Read more** in section currency exposure of equity below regarding currency hedging of equity.

*Sensitivity analysis- transactional exposure**

The table 4:3 illustrates the impact on operating income if key currencies for Industrial Operations appreciate by 10% against all other currencies. The impact on equity is impact on operating income after tax.

The deficit in transaction exposure in SEK is mainly generated from flows in USD, GBP, CAD and EUR against SEK.

Industrial Operations currency review

The tables 4:4 4:5 4:6 4:7 and 4:8 on the next page illustrate the currency impact on sales and operating income in key currencies. The effect arises from translation during the consolidation of foreign currencies and from commercial net flows in foreign currency.

» **Read more** about Industrial Operations transactional exposure in section Commercial currency exposure above.

Financial currency exposure

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

Table 4:1 discloses the impact on earnings before tax on Industrial Operations net financial position, excluding pensions and similar net obligations, if SEK were to strengthen by 10%.

Currency exposure of equity

The carrying amount of assets and liabilities in foreign subsidiaries are affected by current exchange rates in conjunction with the translation of assets and liabilities to SEK. 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, associated companies and joint ventures amounted at year-end 2014 to SEK 70 billion (66). The need to undertake currency hedging relating to investments in associated companies, joint ventures and other companies is assessed on a case-by-case basis.

On the map on page 124–125 the Volvo Group's net assets in different currencies (SEK bn) are displayed.

* The sensitivity analysis on currency rate risks is based on simplified assumptions. It is not improbable for the value in a currency rate to appreciate by 10% in relation to other currencies. In reality however, 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 tables 4:1 4:3

The Volvo Group's currency review

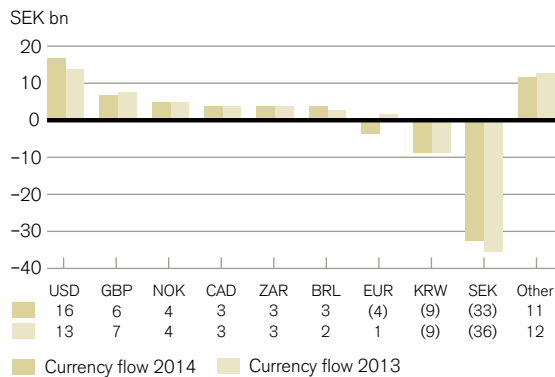
When the Volvo Group communicates the currency impact on operating income for Industrial Operations, the following factors are included:

Currency impact on operating income, Industrial Operations, SEK billion	2014	2013	Change
Net flows in foreign currency			(0.4)
Realized gains and losses on hedging contracts	0.0	0.0	(0.0)
Unrealized gains and losses on hedging contracts	(0.1)	0.0	(0.1)
Unrealized gains and losses on receivables and liabilities in foreign currency	(0.2)	(0.3)	0.1
Translation effect on operating income in foreign subsidiaries			(0.1)
Total currency impact on operating income			(0.4)

Currency impact on Net flows in foreign currency is detailed in table 4:6 and Translation effect on operating income in foreign subsidiaries is detailed in table 4:7 in key currencies.

4:4

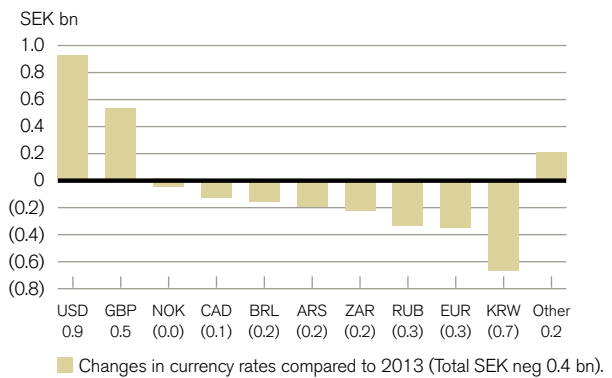
Transaction exposure from operating net flows in 2014 and 2013



The graph above represents the transaction exposure from commercial operating net cash flows in foreign currency, expressed as net surpluses or deficits in key currencies. For further information read more in the section Commercial currency exposure.

4:5

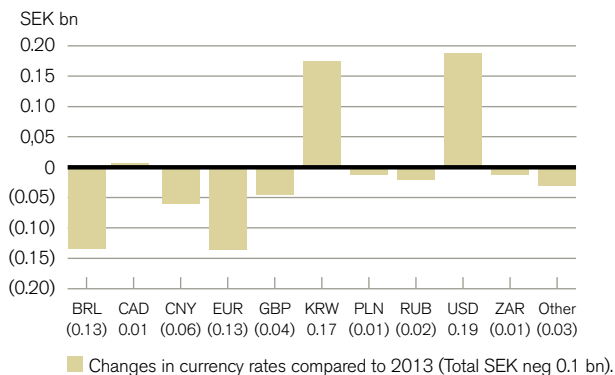
Currency effect on operating income from Net flows in foreign currency 2014 versus 2013



Currency effect on operating income from Net flows in foreign currency in Industrial Operations is presented in the graph above.

4:6

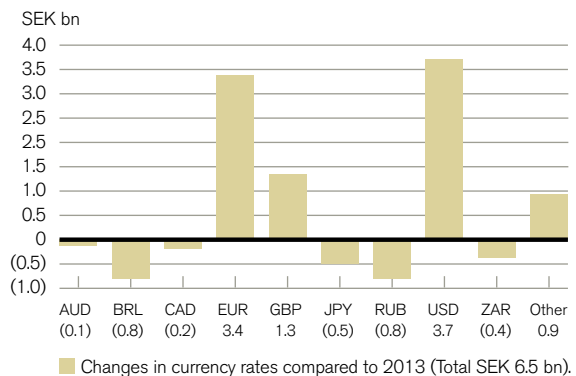
Translation effect on operating income in foreign subsidiaries in 2014 versus 2013



Translation effect when consolidating operating income in foreign subsidiaries for Industrial Operations is presented in the graph above.

4:7

Currency effect on Net sales in 2014 versus 2013



Currency effect on Net sales from inflows in foreign currency and translation effect when consolidating Net sales in foreign subsidiaries for Industrial Operations is presented in the graph above.

4:8

» **Goals and policies in financial risk management (cont.)****CREDIT RISKS**

Credit risks are defined as the risk that the Volvo Group does not receive payment for recognized accounts receivable and customer-financing receivables (commercial credit risk), that the 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, counterparty risks and Customer Dealer Financing activities.

Commercial credit risk

The 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 analysis are presented of customer-financing receivables overdue and accounts receivables overdue in relation to the reserves made.

The customer-financing receivables in the Volvo Group's Customer Finance Operations amounted at December 31, 2014 to approximately net SEK 99 billion (84). 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 **Note 15** Customer-financing receivables.

The Volvo Group's accounts receivables amounted as of December 31, 2014 to approximately net SEK 31 billion (29).

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 the Volvo Group's credit policy, counterparties for investments and derivative transactions should have a rating better or equivalent to A from one of the well-established credit rating institutions.

Liquid funds and marketable securities amounted as of December 31, 2014 to approximately SEK 34 billion (30).

» **Read more in Note 18** about Marketable securities and liquid funds within the Volvo Group.

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, the Volvo Group enters into master netting agreements (primarily so called ISDA agreements) with all counterparts eligible for derivative transactions. The netting agreements provide the possibility for assets and liabilities to be set off under certain circumstances, such as in the case of the counterparty's insolvency. These netting agreements have no effect on profit, loss or the position of the Volvo Group, since derivative transactions are accounted for on a gross basis, with the exception of derivatives with positive value amounting to SEK 1 billion, netted against a fair value of a loan negative 1 billion, related to hedge accounting. Read more in Note 30, Financial Instrument in footnote 2, under the table on page 163. Counterparty risk exposure for derivatives is also limited through weekly cash transfers corresponding to the value change of open contracts. The Volvo Group's gross exposure from positive derivatives, amounting to SEK 3,909 M (3,713) is reduced by 60% (41%) to SEK 1,582 M (2,203) by netting agreements and cash deposits, so called CSA agreements. The Volvo Group is actively working with limits per counterpart in order to reduce risk for high net amounts towards individual counterparts.

» **Read more** about the Volvo Group's gross exposure from positive derivatives per type of instrument in **Note 30**.

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 having liquid funds and committed facilities to cover the Volvo Group's expected liquidity needs for a period of 12–18 months in a scenario with no access to capital markets.

The Volvo Group's liquid funds, i.e. cash and cash equivalents and marketable securities combined, amounted to SEK 33,6 billion on December 31, 2014. In addition to this, granted but unused credit facilities amounted to SEK 39,2 billion. The liquidity preparedness is therefore sufficient to cover the expected liquidity needs for the Volvo Group for more than 18 months in a scenario with no access to capital markets.

The adjacent graph 4:9 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 adjacent graph 4:9 there are also derivatives related to financial liabilities recognized as assets, which are expected to give a future capital flow of SEK 1.5 billion and a future interest flow of SEK 1.8 billion.

The predominant part of expected future cash-flows that expires within 2015 and 2016 is an effect of the Volvo Group's normal business cycle, with shorter duration in the Customer Finance portfolio compared to Industrial Operations.

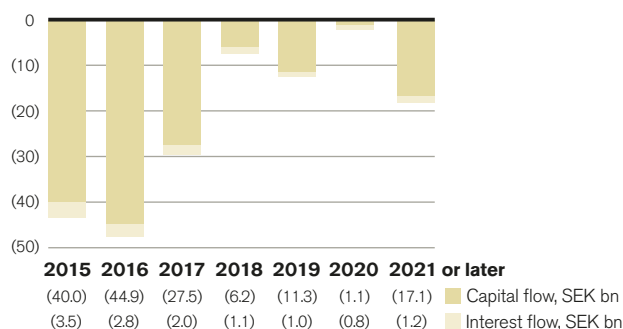
A hybrid bond was issued in 2014 amounting to EUR 1.5 billion in order to further strengthen the Volvo Group's balance sheet and prolong the maturity structure of the debt portfolio. The hybrid bond is classified as a loan with duration of 61.6 years, subordinated to all other financial liabilities currently outstanding.

Volvo Group signed EUR 3.5 billion revolving credit facilities in order to further strengthen the liquidity preparedness.

» **Read more in Note 22** Liabilities regarding the maturity structure concerning bond loans and other loans, the hybrid bond as well as granted but unused credit facilities.

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

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



4:9

OTHER PRICE RISKS



OTHER PRICE RISKS

Commodity risks

Commodity risks refer to the risk that changed commodity prices will affect the consolidated earnings within the Volvo Group. Procurement of commodities such as steel, precious metals and electricity are made on a regular basis where prices are set in the global markets.



POLICY

Changes in commodity prices are included in the product cost calculation. Increased commodity prices are therefore reflected in the sales price of the Volvo Group's final products. Purchasing agreements with commodity suppliers may also be long-term in nature or structured in a way that short term volatility in commodity prices have less direct effect on Volvo Group's cost base. Financial hedging is performed in order to reduce short-term volatility of electricity cost in Sweden.

NOTE 5 INVESTMENTS IN JOINT VENTURES, ASSOCIATED COMPANIES AND OTHER SHARES AND PARTICIPATIONS



ACCOUNTING POLICIES

Subsidiaries

The Volvo Group has production facilities in 19 countries and sales of products in more than 190 markets which means that the Volvo Group has subsidiaries in many parts of the world. A subsidiary is defined as an entity that is controlled by the Volvo Group. A subsidiary is controlled by a parent company when it has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's return. Most of the Volvo Group's subsidiaries are owned to 100% by the Volvo Group and are therefore considered to be controlled by the Volvo Group. For some subsidiaries there are restrictions on the Volvo Group's ability to access or use cash from these subsidiaries.

» **Read more** about cash that is not available or with other limitations in **Note 18**, about minority interests in **Note 11**, about composition of the Volvo Group for the parent company in **Note 13**.

Joint ventures

Joint ventures are companies over which the Volvo Group has controlling influence together with one or more external parties. Joint ventures are recognized by applying equity method accounting, in accordance with IFRS 11 Joint arrangements. The investment in VE Commercial Vehicles Ltd., (VECV) is of a business related nature and aims at strengthening the Volvo Group's position in India. The other two joint ventures owned by the Volvo Group are also of business related nature.

Associated companies

Associated companies are companies in which the Volvo Group has a significant influence. A strong indication of such influence is 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. Deutz AG is a German manufacturer and is a strategic supplier to the Volvo Group of medium duty engines. The investment in Deutz AG is of a business related nature and aims at expanding our commercial co-operation in medium-duty engines.

Equity method

The Volvo Group's share of income in companies recognized according to the equity method is included in the consolidated income statement under Income (loss) from investments in joint ventures and associated companies, less, where appropriate, depreciation of surplus values and the effect of applying different accounting policies. Income from companies recognized in accordance with the equity method is included in operating income since the Volvo Group's investments are of business related 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 joint ventures and associated companies are not included in the consolidated income. In the consolidated balance sheet, investments in joint ventures and associated companies are affected by the Volvo Group's share of the company's net income, less depreciation of surplus values and dividends received.

When applying the equity method, including recognizing the associate's or joint venture's losses, additional impairment losses might be recognized given any indication of impairment. A significant or prolonged decline in the fair value of the shares is an indication of impairment. Investments accounted for in accordance with the equity method cannot be of a negative carrying value and therefore losses are not provided for if the holding is of a negative amount.

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 acquisition cost less any impairment.

Any change in value is recognized directly in other comprehensive income, unless the decline is significant or prolonged. Then the impairment is recognized in profit and loss. The cumulative gain or loss recognized in other comprehensive income is recycled in the income statement on the sale of the asset.

Earned or paid interest attributable to these assets is recognized in the income statement as part of net financial items in accordance with the effective interest method. Dividends received attributable to these assets are recognized in the income statement as Income from other investments.

Joint ventures

The Volvo Group's investments in joint ventures are listed below.

Shares in joint ventures	Dec 31, 2014	Dec 31, 2013
	Holding percentage	Holding percentage
Shanghai Sunwin Bus Corp., China	50.0	50.0
DONGVO Truck Co., Ltd. (former Dong Feng Nissan Diesel Motor Co., Ltd.,) China	50.0	50.0
VE Commercial Vehicles, Ltd., India ¹	45.6	45.6

¹ VE Commercial Vehicles Ltd., is considered to be a joint venture as Volvo Group and Eicher Motors Ltd have signed an agreement which states that common agreement is needed in relation to important questions related to the governance of VECV.

The following tables present summarized financial information for the Volvo Group's joint ventures:

Summarized income statements	2014			2013		
	VE Commercial Vehicles, Ltd.	Other joint ventures	Total	VE Commercial Vehicles, Ltd.	Other joint ventures	Total
Net sales	6,208	2,622	8,830	5,516	1,291	6,807
Operating income ¹	82	(134)	(52)	230	(52)	178
Interest income and similar credits	26	2	28	60	1	61
Interest expense and similar charges	(13)	(71)	(84)	(10)	(39)	(49)
Other financial income and expenses	(1)	(3)	(4)	(2)	(1)	(3)
Income taxes	4	23	27	(48)	(5)	(53)
Income for the period	98	(183)	(85)	230	(96)	134
Other comprehensive income	415	50	465	(298)	12	(286)
Total comprehensive income	513	(133)	380	(68)	(84)	(152)

¹ Depreciation and amortization of SEK 303 M (138) are included within operating income whereof VECV SEK 273 M (115).

Summarized balance sheets	Dec 31, 2014			Dec 31, 2013		
	VE Commercial Vehicles, Ltd.	Other joint ventures	Total	VE Commercial Vehicles, Ltd.	Other joint ventures	Total
Non-current assets	5,083	553	5,636	4,336	448	4,784
Marketable securities, cash and cash equivalents	519	189	708	669	87	756
Other current assets	2,245	2,264	4,509	1,699	1,884	3,583
Total assets	7,847	3,006	10,853	6,704	2,419	9,123
Equity	4,754	266	5,020	4,318	400	4,718
Non-current financial liabilities	7	0	7	6	–	6
Other non-current liabilities	721	30	751	574	8	582
Current financial liabilities	1,115	1,445	2,560	835	901	1,736
Other current liabilities	1,250	1,265	2,515	971	1,110	2,081
Total equity and liabilities	7,847	3,006	10,853	6,704	2,419	9,123

Investments in joint ventures	Percentage holding	Dec 31, 2014 Carrying value	Dec 31, 2013 Carrying value
VE Commercial Vehicles., Ltd., India	45.6	2,377	2,189
Other holdings in joint ventures	–	100	102
B/S Investments in joint ventures		2,477	2,291

Net financial position for the joint ventures (excluding post-employment benefits) amounted to negative SEK 744 M (negative 149) as of December 31, 2014.

As of December 31, 2014, Volvo Group's share of contingent liabilities in its joint ventures amounted to SEK 106 M (62). Dividend received from VE Commercial Vehicles., Ltd, amounted to SEK 36 M (41).

>> **Associated companies**

The following tables present summarized financial information for the Volvo Group's associated companies:

Summarized income statements	2014			2013		
	Deutz AG ¹	Other associated companies	Total	Deutz AG ¹	Other associated companies	Total
Net sales	10,411	4,038	14,450	11,828	3,610	15,438
Operating income	220	207	427	360	80	440
Income for the period	110	156	266	251	(69)	182
Other comprehensive income	(34)	-	(34)	13	-	13
Total comprehensive income	76	156	232	264	(69)	195

Summarized balance sheets	Dec 31, 2014			Dec 31, 2013		
	Deutz AG ¹	Other associated companies	Total	Deutz AG ¹	Other associated companies	Total
Non-current assets	6,847	1,707	8,554	6,594	1,979	8,573
Current assets	5,305	2,027	7,332	4,230	1,498	5,728
Total assets	12,152	3,734	15,886	10,824	3,477	14,301
Equity	5,446	1,035	6,481	4,956	970	5,926
Non-current liabilities	3,325	1,146	4,471	3,720	1,210	4,930
Current liabilities	3,381	1,553	4,934	2,148	1,297	3,445
Total equity and liabilities	12,152	3,734	15,886	10,824	3,477	14,301

1 Deutz AG's equity share is recognized in the Volvo Group with a time lag of one quarter. No dividends have been received from Deutz AG.

Investments in associated companies	Percentage holding	Dec 31, 2014 Carrying value	Dec 31, 2013 Carrying value
Deutz AG, Germany ¹	25.0	1,393	1,407
Other holdings in associated companies ²	-	951	679
B/S Investments in associated companies		2,344	2,086

1 The market value of investments in Deutz AG amounted to SEK 1,236 M (1,756) as of December 31, 2014. The market value has fluctuated throughout the year, even above carrying value, why there has been no indication of impairment according to the accounting principle applied.

2 Other holdings include the investment of Inner Mongolia North Hauler Joint Stock Co., Ltd., China, acquired through the hauler manufacturing business from Terex Inc and the fair value of the investment amounted to SEK 1,114 M as of December 31, 2014. The fair value at the acquisition date has been estimated based on consideration on the restriction in the right of disposal. The carrying value as of December 31, 2014 amounted to SEK 250 M. The associated company is not material for the Volvo Group.

>> **Read more** about business combinations in **Note 3**.

Income (loss) from investments in joint ventures and associated companies	2014	2013
Income/loss joint ventures		
VE Commercial Vehicles., Ltd.	45	104
Other joint ventures	(64)	(48)
Subtotal	(19)	56
Income/loss associated companies		
Deutz AG	32	54
Other companies	50	17
Subtotal	82	71
Revaluation and write-down of shares associated companies		
Other companies	(17)	(31)
Subtotal	(17)	(31)
I/S Income (loss) from investments in joint ventures and associated companies¹	46	96

1 Income (loss) from investments in joint ventures include depreciation of purchase price adjustments of SEK 29 M (35) and associated companies include depreciation of purchase price adjustments of SEK 9 M (9).

Other shares and participations

The carrying amount of the Volvo Group's holding of shares and participations in other companies as of December 31, 2014, is disclosed in the table below.

>> **Read more in Note 30** Financial Instruments regarding financial assets available for sale.

Holding of shares in listed companies	Percentage holding	Dec 31, 2014 Carrying value	Dec 31, 2013 Carrying value
Eicher Motors Ltd., India	8	4,228	1,191
Holdings in Japanese companies	-	290	267
Holdings in other listed companies	-	25	32
Holding of shares in listed companies		4,543	1,490
Holding of shares in non-listed companies		474	460
B/S Other shares and participations		5,017	1,950

NOTE 6 | SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Executive Team that makes strategic decisions. The internal reporting is provided based on the Group's different business areas which are Trucks, Construction Equipment, Buses, Volvo Penta, Governmental Sales and Customer Finance. Volvo Rents, which was a separate business area, was divested on January 31, 2014. The Volvo Group is per 31 December 2014 thereby organized in six business areas.

Each business area, except for Governmental Sales, is seen as a separate segment. Governmental Sales is part of the Corporate functions, Group functions and Other incl. eliminations segment.

The Trucks operations is 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 and JV's APAC (Asia Pacific), Group Trucks Operations and Group Trucks Technology.

As from January 1, 2015 the Truck business is managed through three different functional organizations compared to the previous five functional organizations. Group Trucks Sales & Marketing EMEA, Americas and JV's APAC are merged into one global organization, Group Trucks Sales.

The Volvo Group has shared operations in both Trucks and Corporate functions, Group functions and Other incl. eliminations. Purchasing, powertrain, logistics and parts operations are part of the Trucks segment. Volvo IT and Volvo Real Estate are treated as business support functions and included in Corporate functions, Group functions and Other incl. eliminations. The cost of these operations is shared between the different business areas based on utilization according to the principles of the financial framework set by the Volvo Group.

2014	Trucks	Construction Equipment	Buses	Volvo Penta	Corporate functions, Group functions & Other incl. elim.	Industrial Operations	Customer Finance	Eliminations	Volvo Group
Net sales, external customers	188,079	52,641	18,159	7,541	6,906	273,327	9,623	-	282,948
Net sales, internal	2,825	215	486	249	(1,101)	2,674	488	(3,162)	-
I/S Net sales	190,904	52,855	18,645	7,790	5,805	275,999	10,111	(3,162)	282,948
Expenses	(186,777)	(52,211)	(18,544)	(7,067)	(7,333)	(271,934)	(8,399)	3,162	(277,170)
I/S Income from investments in joint ventures and associated companies	31	7	(8)	2	14	46	-	-	46
I/S Operating income	4,157	652	92	724	(1,514)	4,111	1,712	-	5,824
I/S Interest income and similar credits						328	-	-	328
I/S Interest expense and similar charges						(1,994)	-	-	(1,994)
I/S Other financial income and expense						931	-	-	931
I/S Income after financial items						3,377	1,712	-	5,089
Other segment information									
Depreciation and amortization	(10,499)	(2,017)	(343)	(267)	453	(12,673)	(3,257)	-	(15,930)
Restructuring costs	(1,465)	(582)	(9)	(5)	(504)	(2,564)	(7)	-	(2,571)
Gains/losses from divestments	23	8	15	-	956	1,002	21	-	1,023
Capital expenditure	6,500	1,335	290	308	1,084	9,518	9,677	-	19,195
B/S Investments in joint ventures and associated companies (the equity method)	2,583	250	220	30	1,739	4,821	-	-	4,821
B/S Assets held for sale						288	-	-	288
B/S Liabilities held for sale						(130)	-	-	(130)





2013	Trucks	Construction Equipment	Buses	Volvo Penta	Corporate functions, Group functions & Other incl. elim.	Industrial Operations	Customer Finance	Eliminations	Volvo Group
Net sales, external customers	176,503	52,770	16,267	7,343	10,889	263,772	8,850	–	272,622
Net sales, internal	1,971	667	440	207	(1,637)	1,648	689	(2,337)	–
I/S Net sales	178,474	53,437	16,707	7,550	9,252	265,420	9,539	(2,337)	272,622
Expenses	(172,397)	(50,846)	(16,910)	(6,924)	(12,824)	(259,901)	(8,017)	2,337	(265,580)
I/S Income from investments in joint ventures and associated companies	68	–	14	–	14	96	–	–	96
I/S Operating income	6,145	2,592	(190)	626	(3,557)	5,616	1,522	–	7,138
I/S Interest income and similar credits						381	–	–	381
I/S Interest expense and similar charges						(2,810)	–	–	(2,810)
I/S Other financial income and expense						11	–	–	11
I/S Income after financial items						3,199	1,522	–	4,721
Other segment information									
Depreciation and amortization	(9,461)	(2,049)	(376)	(307)	(2,279)	(14,472)	(2,949)	–	(17,422)
Restructuring costs	(667)	(5)	22	–	(53)	(702)	(5)	–	(707)
Gains/losses from divestments	115	100	–	–	(1,572)	(1,357)	(3)	–	(1,360)
Capital expenditure	8,753	2,475	386	254	2,025	13,892	6,832	(52)	20,672
B/S Investments in joint ventures and associated companies (the equity method)	2,406	–	165	29	1,776	4,377	–	–	4,377
B/S Assets held for sale (total assets)						8,104	–	–	8,104
B/S Assets held for sale (total liabilities)						(350)	–	–	(350)

Internal sales between segments are generally made at standard cost of sales, including calculated interest and product improvement expenses.

Reporting by market	Net sales		Non-current assets ¹	
	2014	2013	2014	2013
Europe	106,176	105,296	76,016	72,627
<i>of which Sweden</i>	<i>8,042</i>	<i>9,020</i>	<i>25,452</i>	<i>25,929</i>
<i>of which France</i>	<i>20,733</i>	<i>21,886</i>	<i>19,885</i>	<i>19,089</i>
North America	76,258	63,074	21,317	17,900
<i>of which USA</i>	<i>60,810</i>	<i>49,727</i>	<i>18,034</i>	<i>14,649</i>
South America	26,958	29,751	2,896	2,271
<i>of which Brazil</i>	<i>19,260</i>	<i>20,939</i>	<i>2,434</i>	<i>1,861</i>
Asia	52,076	53,500	22,198	20,774
<i>of which China</i>	<i>12,374</i>	<i>15,949</i>	<i>2,678</i>	<i>2,404</i>
<i>of which Japan</i>	<i>14,382</i>	<i>14,219</i>	<i>13,876</i>	<i>13,814</i>
Other markets	21,481	21,001	1,087	923
I/S B/S Total	282,948	272,622	123,515	114,494

1 Non-current assets include intangible and tangible assets.

The reporting of net sales by market is based on where the delivery of the goods took place.

NOTE 7 | REVENUE



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.

» Read more in Note 21 Other provisions, for a description of residual value risks.

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 having sold the product to an independent party or in combination with an undertaking from the customer to purchase a new product in the event of a buy-back. In such cases, there may be a question of judgement regarding whether or not significant risks and rewards of ownership have been transferred to the customer. If it is determined that such an assessment is incorrect, the Volvo Group's recognized revenue and income for the period will decline and instead be distributed over several reporting periods.

» Refer also to Note 21, Other provisions, for a description of residual value risks.

Vehicle and Service & Aftermarket

The Volvo Group's product range is divided into Vehicle and Service & Aftermarket. The sale of new vehicles, machinery and engines comprise Vehicle as well as the sale of used vehicles and machines, trailers, superstructures and special vehicles. Service & Aftermarket are defined as the sale of maintenance service and other aftermarket products.

During 2014, the Services & Aftermarket business represented approximately 26% (27) of the Volvo Group's net sales.

» Read more on page 50 about the Volvo Group's services.

» Read more in Note 6 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.

Other operating income and expense	2014	2013
Gains/losses on divestment of Group companies ¹	1,023	144
Revaluation of assets held for sale ²	–	(1,458)
Change in allowances and write-offs for doubtful customer-financing receivables	(858)	(923)
Change in allowances and write-offs for other doubtful receivables	(355)	(299)
Damages and litigations ³	(4,420)	(117)
Restructuring costs ⁴	(2,571)	(707)
Other income and expenses ⁵	(516)	(194)
I/S Total	(7,697)	(3,554)

1 Including SEK 775 M out of the total result from divestment of commercial real estate of SEK 815 M. Remaining SEK 40 M was reported as a gain on sale of property, plant and equipment and included in the line Other income and expenses. SEK 212 M related to the Volvo Rents ongoing closure of accounts.

2 Including revaluation of Volvo Rents in 2013.

3 Including provision related to the EU antitrust investigation of SEK 3,790 M and the provision related to the engine emission case in the U.S of SEK 422 M.

4 Restructuring costs related mainly to the Volvo Group wide efficiency program which impacted the Group with an amount of SEK 2,569 M (715).

5 Including SEK 523 M out of the total provision for expected credit losses for Volvo CE of SEK 660 M. SEK 83 M was reported as change in allowance for doubtful receivables, and SEK 54 M was reported within gross income.

» Read more about gains/losses on divestment of Group companies in Note 3 Acquisitions and divestments of shares in subsidiaries.

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

» Read more about damages and litigations in Note 21 Other provisions and Note 24 Contingent liabilities.

» Read more about the efficiency program on pages 24, 72 and 76.

NOTE 9 | OTHER FINANCIAL INCOME AND EXPENSES



ACCOUNTING POLICY

Unrealized gains and losses on derivatives used to hedge interest rate exposure and unrealized and realized gains and losses used to hedge future cash flow exposure in foreign currency are recognized in other financial income and expenses. Hedge accounting is not applied on those derivatives.

» Read more in Note 30 Financial Instruments regarding the accounting policy for financial assets at fair value through the income statement.

Other financial income and expense	2014	2013
Gains and losses on derivatives used to hedge interest rate exposure	447	(66)
Gains and losses on derivatives used to hedge foreign cash flow exposure	640	274
Financial instruments at fair value through profit or loss	1,087	208
Exchange rate gains and losses on financial assets and liabilities	89	101
Financial income and expenses related to taxes	63	(22)
Costs for Treasury function, credit facilities, etc	(308)	(276)
I/S Total¹	931	11

The unrealized gains from derivatives used to hedge interest rate exposure are mainly related to the Customer Finance portfolio and Industrial Operations debt portfolio. The unrealized and realized gains from derivatives used to hedge future cash flow exposure in foreign currency were primarily an effect of SEK 1,078 M (283) from derivatives used to hedge future cash flow of the acquisition of Dongfeng Commercial Vehicles, offset by the unrealized and realized losses of SEK negative 429 M (positive 73) from derivatives used to hedge future firm cash flows.

1 Other financial income and expenses attributable to financial instruments amounted to SEK 1,176 M (309).

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 carrying value of assets and liabilities as well as on tax-loss carryforwards. Furthermore deferred taxes are recognized to the extent it is probable that they will be utilized against taxable income.

Deferred tax assets and deferred tax liabilities 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. However, in the consolidated financial statements untaxed reserves are reclassified to deferred tax liability and equity. In the consolidated income statements a provision to, or reversal of, untaxed reserves is split 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, this could have significant impact on the financial position and the income for the period.

The Volvo Group has substantial tax-loss carryforwards that are assessed as being probable to be utilized due to sufficient income generated in the coming years. The base for this assessment is possibilities to offset tax assets and tax liabilities and that a significant part of tax-loss carryforwards is related to countries with long or indefinite periods of utilization. Securing the probability of utilization is based upon business plans when relevant.

Income taxes were distributed as follows:

Distribution of Income taxes	2014	2013
Current taxes relating to the period	(3,383)	(3,453)
Adjustment of current taxes for prior periods	198	327
Deferred taxes originated or reversed during the period	362	2,048
Remeasurements of deferred tax assets	(31)	158
I/S Total income taxes	(2,854)	(919)

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.

>> Read more about contingent liabilities in Note 24.

As of December 31 2014, the Volvo Group's unused tax-loss carryforwards amounted to SEK 21,310 M (23,382). These loss carryforwards expire according to the table below:

Due date, unused tax-loss carryforwards	Dec 31, 2014	Dec 31, 2013
after 1 year	45	91
after 2 years	173	104
after 3 years	479	183
after 4 years	1,013	533
after 5 years	305	752
after 6 years or more ¹	19,295	21,719
Total	21,310	23,382

¹ Tax-loss carryforwards with long or indefinite periods of utilization were mainly related to Sweden, France and Japan. Tax-loss carryforwards with indefinite periods of utilization amounted to SEK 16,364 M (17,395) which corresponds to 77% (74) of the total tax-losses carryforward.

The Swedish corporate income tax rate amounted to 22% in 2014. The table below discloses the principal reasons for the difference between this rate and the Volvo Group's income tax rate, based on income after financial items.

Specification of income tax rate	2014, %	2013, %
Swedish corporate income tax rate	22	22
Difference in tax rate in various countries	8	6
Other non-taxable income	(12)	(7)
Other non-deductible expenses	27	5
Current taxes attributable to prior years	(4)	(7)
Remeasurement of deferred tax assets	10	(3)
Other differences	5	4
Income tax rate for the Volvo Group¹	56	20

¹ The high income tax rate for the Volvo Group, as of December 31 2014, was mainly a result of the provision for the EU Commission antitrust investigation not being deductible. The non-deductible tax expense for the provision amounted to SEK 1,020 M.

>> Read more about the provision for the EU Commission antitrust investigation in Note 21.

Changes in deferred tax assets/liabilities, net	2014	2013
Opening balance	10,760	11,026
Deferred taxes recognised in the year's income	331	2,206
Recognised in Other comprehensive income, changes attributable to:		
Remeasurements of defined-benefit plans	853	(1,777)
Cash flow hedge reserve	6	2
Available-for-sale reserve	4	22
Translation differences	1,081	(719)
Deferred tax assets/liabilities, net, as of December 31	13,035	10,760

Specification of deferred tax assets and tax liabilities

	Dec 31, 2014	Dec 31, 2013
Deferred tax assets:		
Unused tax-loss carryforwards	5,911	6,581
Other unused tax credits	152	114
Intercompany profit in inventories	1,299	1,263
Allowance for inventory obsolescence	615	486
Valuation allowance for doubtful receivables	802	656
Provisions for warranties	3,726	2,825
Provisions for residual value risks	249	244
Provisions for post-employment benefits	4,974	3,747
Provisions for restructuring measures	223	140
Adjustment to fair value at corporate acquisitions/divestitures	–	441
Market value of derivative instruments	27	28
Land	1,226	1,574
Other deductible temporary differences	4,936	4,352
Deferred tax assets before deduction for valuation allowance	24,140	22,451
Valuation allowance	(336)	(125)
Deferred tax assets after deduction for valuation allowance	23,804	22,326
Netting of deferred tax assets/liabilities	(7,973)	(9,160)
B/S Deferred tax assets, net	15,831	13,166
Deferred tax liabilities:		
Accelerated depreciation on property, plant and equipment	2,156	3,023
Accelerated depreciation on leasing assets	2,836	2,227
LIFO valuation of inventories	558	362
Capitalized product and software development	2,472	2,435
Adjustment to fair value at corporate acquisitions/divestitures	34	–
Untaxed reserves	84	85
Provisions for post-employment benefits	39	37
Other taxable temporary differences	2,590	3,396
Deferred tax liabilities	10,769	11,565
Netting of deferred tax assets/liabilities	(7,973)	(9,160)
B/S Deferred tax liabilities, net	2,796	2,406
Deferred tax assets/liabilities, net¹	13,035	10,760

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 enacted at the balance-sheet date.

As of December 31, 2014 the total deferred tax assets, after deduction for valuation allowance, attributable to unused tax-loss carryforwards amounted to SEK 5,638 M (6,456) of which SEK 2,081 M (2,409) pertains to Sweden, SEK 1,568 M (1,533) to France and SEK 1,115 M (1,272) to Japan.

The valuation allowance amounted to SEK 336 M (125) of the value of deferred tax assets. Most of the reserve, SEK 273 M (125), consists of unused tax-loss carryforwards. Net of the total valuation allowance, deferred tax assets of SEK 23,804 M (22,326) were recognized in the Volvo Group's balance sheet.

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 52 billion (59) at year end. The main part of the undistributed earnings is pertaining to countries where the dividends are not taxable.

>> **Read more in 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 Company. At business combinations minority interests are 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.

The Volvo Group has a few non-wholly owned subsidiaries of which one of the subsidiaries are considered to have a significant minority interest. Shandong Lingong Construction Machinery Co., (Lingong), in China has a minority interest holding amounting to 30% share and voting rights in the company. During the year, the profit allocated to the minority interest of Lingong amounted to 139 (218) and the accumulated minority interest at the end of December 31, 2014, amounted to 1,683 (1,296).

The following table presents summarized financial information for Shandong Lingong Construction Machinery Co., Lingong:

Summarized income statement	2014	2013
Net sales	7,324	8,990
Operating income	559	927
Income for the period	464	728
Other comprehensive income	829	120
Total comprehensive income	1,293	848
Dividends paid to minority interest	–	162

Summarized balance sheet	Dec 31, 2014	Dec 31, 2013
Non-current assets	1,633	1,415
Marketable securities, cash and cash equivalents	2,584	2,435
Current assets	7,117	5,757
Total assets	11,334	9,607
Non-current liabilities	187	1,253
Current liabilities	5,536	4,035
Total liabilities	5,723	5,288
Equity attributable to the Volvo Group's shareholders	3,928	3,023
Minority interests	1,683	1,296

NOTE 12 | INTANGIBLE ASSETS



ACCOUNTING POLICIES

Volvo Group applies the cost method for recognition of intangible assets. Borrowing costs are included in the cost of assets that are expected to take more than twelve months to complete for their intended use or sale.

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 serial production and the product is launched. During 2014 the GDP process has been updated and is going forward named DVP Project Handbook and still consists of six different phases. The updated process will not have an impact on the accounting principles for research and development expenses and will be applied from 1 January 2015 in the Volvo Group.

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 is written down to its recovery value.

The Volvo Group's valuation model is based on a discounted cash-flow model, with a forecast period of four years. Valuation is performed on cash-generating units, identified as the Volvo Group's business areas. Each business area is fully integrated ensuring maximum synergy, hence no independent cash-flows exists on a lower level.

Goodwill is allocated to these cash-generating units based on expected future benefit from the combination. The valuation is based on a business plan which is an integral part of the Volvo Group's financial planning process and represents management's best estimate of the development of the Group's operations. Assumption of 2% (2) long-term market growth beyond the forecast period and the Group's expected performance in this environment is a basis for the valuation. In the model, the Volvo Group is expected to maintain stable capital efficiency over time. Other parameters considered in the calculation are operating income, mix of products and

services, expenses and level of capital expenditures. Measurements are based on nominal values and applies a general rate of inflation applicable for the main markets where the Volvo Group operates. The Volvo Group uses a discounting factor measured at 12% (12) before tax for 2014.

In 2014, the value of Volvo Group's operations exceeded the carrying amount of goodwill for all business areas, thus no impairment was recognized. The Volvo Group has also tested whether a negative adjustment of one percentage point to the aforementioned parameters would result in impairment for any goodwill value however none of the business areas would be impaired as a result of this test. The operating parameters applied in the valuation are based on management's strategy and indicates higher value than historical performance for Buses, although as described on page 22 the cost efficiency programs are expected to increase the operating parameters to a level above the ones applied in the valuation. Furthermore the Volvo Group is operating in a cyclical industry where performance could vary over time.

The surplus values differ between the business areas and 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 surplus value 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, meaning that amortization of product development is part of the research and development expenses in the income statement. 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. The Volvo Group has performed similar impairment reviews since 2002. No need for impairment losses was required for the period 2002 until 2014.

Intangible assets, acquisition costs	Goodwill	Capitalized product and software development	Other intangible assets ¹	Total intangible assets
Opening balance 2013	22,093	31,745	5,930	59,768
Capital expenditures ²	-	3,750	205	3,955
Sales/scrapping	-	(5)	(18)	(23)
Acquired and divested operations ⁵	21	(3)	(3)	15
Translation differences	(734)	(790)	(402)	(1,926)
Reclassifications and others	32	(162)	(84)	(214)
Acquisition cost as of Dec 31, 2013	21,412	34,535	5,628	61,575
Capital expenditures ²	-	1,390	151	1,541
Sales/scrapping	-	(81)	(28)	(109)
Acquired and divested operations ⁵	(1,382)	79	200	(1,103)
Translation differences	1,488	1,790	411	3,689
Reclassifications and other	(24)	(5)	6	(23)
Acquisition cost as of Dec 31, 2014	21,494	37,708	6,368	65,570

Accumulated amortization and impairment	Goodwill	Capitalized product and software development	Other intangible assets ¹	Total intangible assets
Opening balance 2013	-	18,375	2,695	21,070
Amortization and impairment ⁴	-	3,282	316	3,597
Revaluation	1,458	-	-	1,458
Sales/scrapping	-	(5)	(11)	(16)
Acquired and divested operations ⁵	-	(3)	(3)	(6)
Translation differences	-	(685)	(114)	(799)
Reclassifications and other	-	(210)	(107)	(317)
Accumulated amortization and impairment as of Dec 31, 2013	1,458	20,754	2,775	24,987
Amortization and impairment ⁴	-	3,198	335	3,533
Revaluation	-	-	-	-
Sales/scrapping	-	(53)	(20)	(73)
Acquired and divested operations ⁵	(1,458)	-	(2)	(1,460)
Translation differences	-	1,299	186	1,485
Reclassifications and other	-	(17)	-	(17)
Accumulated amortization and impairment as of Dec 31, 2014	-	25,181	3,274	28,455
B/S Net value in balance sheet as of December 31, 2013³	19,954	13,781	2,853	36,588
B/S Net value in balance sheet as of December 31, 2014³	21,494	12,527	3,094	37,115

1 Other intangible assets mainly consist of entrance fees, trademarks and distribution networks.

2 Including capitalized borrowing costs of SEK 0 M (35).

3 Costs less accumulated amortization and impairments.

4 Of which impairments SEK 60 M (4). Impairment of SEK 36 M in product development relates to restructuring activities as communicated on pages 24, 72 and 76.

5 Read more in Note 3, Acquisitions and divestments of shares in subsidiaries, for a description of acquired and divested operations. Including the sale of Volvo Rents for 2014.

Goodwill per Business Area	Dec 31, 2014	Dec 31, 2013
Trucks	11,515	10,915
Construction Equipment	8,392	7,536
Buses	1,053	996
Other business areas	534	507
Total goodwill value	21,494	19,954

NOTE 13

TANGIBLE ASSETS



ACCOUNTING POLICIES

The Volvo Group applies the cost method for measurement of tangible assets. Borrowing costs are included in the acquisition value of assets that are expected to take more than 12 months to complete for their intended use or sale.

Investment properties are properties owned for the purpose of obtaining rental income and/or appreciation in value. Investment properties are recognized at cost. For disclosure purposes, information regarding the estimated fair value of investment properties is based on an internal discounted cash flow projection. The required return is based on current property market conditions for comparable properties in comparable locations. The applied valuation method is classified as level 3 as per the fair value hierarchy in IFRS 13 and there have not been any changes in valuation method during the year.

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	3 to 8 years
Assets under operating leases	3 to 5 years
Machinery	5 to 20 years
Buildings and investment properties	20 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 improve- ments	Machinery and equip- ment ⁹	Construction in progress, including advance payments	Total investment property, property, plant and equipment	Assets under operating leases	Total tangible assets
Opening balance 2013	31,995	12,553	69,474	7,487	121,509	38,368	159,877
Capital expenditures ¹	649	86	1,753	5,967	8,455	8,262	16,717
Sales/scrapping	(372)	(40)	(3,291)	(21)	(3,724)	(5,847)	(9,571)
Acquired and divested operations ⁶	(65)	(98)	(74)	8	(229)	(227)	(456)
Translation differences	(1,252)	(1,176)	(2,435)	(137)	(5,000)	495	(4,505)
Reclassified to/from assets held for sale	(1,309)	(289)	(857)	(45)	(2,500)	(6,855)	(9,355)
Reclassifications and other	1,229	128	6,529	(8,483)	(597)	1,527	930
Acquisition costs as of Dec 31, 2013	30,875	11,164	71,099	4,776	117,914	35,723	153,637
Capital expenditures ¹	796	186	1,592	4,966	7,540	10,115	17,655
Sales/scrapping	(954)	(232)	(4,767)	(61)	(6,014)	(6,814)	(12,828)
Acquired and divested operations ⁶	(1,179)	(380)	(537)	(41)	(2,137)	(6,781)	(8,918)
Translation differences	1,723	786	3,735	108	6,352	3,870	10,222
Reclassified to/from assets held for sale	1,088	200	801	46	2,135	6,763	8,898
Reclassifications and other	1,604	(42)	4,108	(5,604)	66	506	572
Acquisition costs as of Dec 31, 2014	33,953	11,682	76,031	4,190	125,856	43,382	169,238

Tangible assets, Accumulated depreciation	Buildings	Land and land improve- ments	Machinery and equipment ³	Construction in progress, includ- ing advance payments	Total investment property, property, plant and equipment	Assets under operating leases	Total tangible assets
Opening balance 2013	16,114	1,113	50,093	–	67,320	9,346	76,666
Depreciation ⁴	1,157	113	4,951	–	6,221	6,146	12,367
Sales/scrapping	(252)	(8)	(3,075)	–	(3,335)	(2,790)	(6,125)
Acquired and divested operations ⁶	(36)	(3)	(64)	–	(103)	(73)	(176)
Translation differences	(891)	(61)	(2,166)	–	(3,118)	219	(2,899)
Reclassified to/from assets held for sale	(595)	(35)	(268)	–	(898)	(1,238)	(2,136)
Reclassifications and other	(69)	5	(342)	–	(406)	(1,559)	(1,965)
Accumulated depreciation as of Dec 31, 2013	15,428	1,124	49,129	–	65,681	10,051	75,732
Depreciation ⁴	1,308	395	5,001	11	6,716	5,680	12,396
Sales/scrapping	(689)	(49)	(4,430)	–	(5,168)	(2,710)	(7,878)
Acquired and divested operations ⁶	(622)	(36)	(20)	–	(678)	(1,306)	(1,984)
Translation differences	928	66	2,795	–	3,789	1,143	4,932
Reclassified to/from assets held for sale	459	14	219	–	693	1,214	1,906
Reclassifications and other	10	(367)	0	–	(358)	(1,908)	(2,266)
Accumulated depreciation as of Dec 31, 2014	16,822	1,147	52,694	11	70,675	12,164	82,839
B/S Net value in balance sheet as of Dec 31, 2013^{2, 5}	15,447	10,040	21,970	4,776	52,233	25,672⁷	77,905
B/S Net value in balance sheet as of Dec 31, 2014^{2, 5}	17,131	10,535	23,337	4,179	55,181	31,218⁷	86,399

1 Including capitalized borrowing costs of SEK 160 M (73).

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 SEK 541 M (650). These are mainly pertaining to restructuring activities as communicated on pages

24, 72 and 76, whereof buildings SEK 140 M, land and land improvements SEK 319 M.

5 Of which investment property SEK 266 M (327) and property, plant and equipment SEK 54,915 M (51,906).

6 Read more in note 3, Acquisitions and divestments of shares in subsidiaries, for a description of acquired and divested operations. Including sale of Volvo Rents 2014.

7 Of which Sales with residual value commitment SEK 10,837 M (10,041), Rental fleet SEK 1,153 M (734).

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 lease, when the legal sales transaction occurs. If the product is returned after the lease period, there will be a reclassification from assets under operating leases back 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 value of investment properties at year-end amounted to SEK 600 M (689). Capital expenditures during 2014 amounted to SEK 3 M (9). Accumulated depreciation amounted to SEK 335 M (362) at year-end, of which SEK 23 M (26) refers to 2014. The estimated fair value of investment properties amounted to SEK 0.7 billion (0.6) at year-end. 97% (98) of the area available for lease were leased out during the year. Net income for the year was affected by SEK 78 M (259) in rental income from investment properties and of SEK 13 M (63) 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 depreciation 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 an operational lease, lease payments are charged to profit or loss over the lease contract period.

Volvo Group as the lessor

As of December 31, 2014, future rental income from non-cancellable financial and operational leases (minimum leasing fees excluding sales with residual values) amounted to SEK 58,392 M (53,061).

Future rental income	Finance leases	Operating leases
2015	16,605	7,021
2016–2019	22,939	10,867
2020 or later	736	224
Total	40,280	18,112
Allowance for uncollectible future rental income	(485)	
Unearned rental income	(3,359)	
Present value of future rental income related to non-cancellable leases	36,437	

» Read more about financial leasing, in **note 15**.

Volvo Group as a lessee

As of December 31, 2014, future rental payments (minimum leasing fees) related to non-cancellable leases amounted to SEK 5,524 M (4,570).

Future rental payments	Finance leases	Operating leases
2015	168	1,589
2016–2019	230	2,181
2020 or later	342	1,014
Total	740	4,784

Rental expenses	2014	2013
Finance leases:		
Contingent rents	(6)	(8)
Operating leases:		
Contingent rents	(31)	(32)
Rental payments	(1,563)	(1,125)
Sublease payments	8	7
Total	(1,592)	(1,158)

Carrying amount of assets subject to financial leases	Dec 31, 2014	Dec 31, 2013
Costs:		
Buildings	419	216
Land and land improvements	80	32
Machinery and equipment	667	591
Assets under operating lease ¹	835	931
Total	2,001	1,770

Accumulated depreciation:		
Buildings	(77)	(65)
Land and land improvements	(1)	–
Machinery and equipment	(292)	(236)
Assets under operating lease ¹	(329)	(308)
Total	(700)	(609)

Carrying amount in the balance sheet:		
Buildings	342	151
Land and land improvements	79	32
Machinery and equipment	375	355
Assets under operating lease ¹	506	623
Total	1,301	1,161

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



ACCOUNTING POLICIES

Interest income on the customer-financing receivables is recognized within sales. Changes to the credit loss reserves are recognized in Other operating income and expense.



SOURCES OF ESTIMATION UNCERTAINTY

Credit loss reserves

The assessment 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. The impairment requirement is primarily 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. This is in order to cover credit losses incurred but not yet individually identified in a larger population. 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 the income statement as long as the carrying amount does not exceed the amortized cost at the time of the reversal.

As of December 31, 2014, the total credit loss reserves in the Customer Finance segment amounted to 1.33% (1.31) of the total credit portfolio in the segment. This reserve ratio, which is used as an important measure for the Customer Finance segment, includes operating leases and inventory, whereas this note specifies the balance sheet item Customer Finance receivables for the Volvo Group and thereby excludes operating leases and inventory as they are recognized elsewhere in the balance sheet.

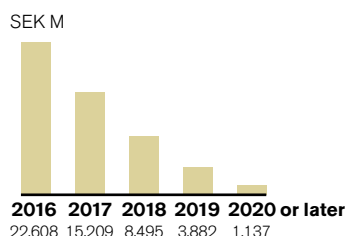
» Read more in Note 4 for a description of the credit risk, interest and currency risks and in Note 30 for further information regarding customer-financing receivables.

Non-current customer-financing receivables

Non-current customer-financing receivables	Dec 31, 2014	Dec 31, 2013
Installment credits	28,055	21,850
Financial leasing	21,820	21,040
Other receivables	1,455	902
B/S Non-current customer financing receivables	51,331	43,792

The effective interest rate for non-current customer-financing receivables amounted to 4.96% (5.61) as of December 31, 2014.

Non-current customer-financing receivables maturities



Current customer-financing receivables

Current customer-financing receivables	Dec 31, 2014	Dec 31, 2013
Installment credits	14,611	11,597
Financial leasing	14,617	13,808
Dealer financing	17,562	13,676
Other receivables	1,046	988
B/S Current customer financing receivables	47,836	40,069

The effective interest rate for current customer-financing receivables amounted to 5.31% (5.63) as of December 31, 2014.

Credit risk in customer-financing receivables

Customer-financing receivables, net of allowance	Dec 31, 2014	Dec 31, 2013
Customer-financing receivables gross	100,616	85,040
Valuation allowance for doubtful customer-financing receivables	(1,450)	(1,179)
Whereof specific reserve	(364)	(316)
Whereof other reserve	(1,086)	(863)
Customer-financing receivables, net	99,166	83,861

Change of valuation allowance for doubtful customer-financing receivables

	2014	2013
Opening balance	1,179	1,091
New valuation allowance charged to income	1,081	1,292
Reversal of valuation allowance charged to income	(161)	(437)
Utilization of valuation allowance related to actual losses	(752)	(731)
Translation differences	103	(36)
Valuation allowance for doubtful customer-financing receivables as of December 31	1,450	1,179



Customer-financing receivables (days/SEK M) payments due	Dec 31, 2014					Dec 31, 2013				
	Not due	1-30	31-90	>90	Total	Not due	1-30	31-90	>90	Total
Overdue amount	-	468	323	232	1,023	-	863	279	626	1,768
Valuation allowance for doubtful customer-financing receivables, specific reserve	(116)	(105)	(57)	(86)	(364)	(84)	(70)	(37)	(125)	(316)
Customer-financing receivables, net book value	(116)	363	266	146	659	(84)	793	242	501	1,452

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. Valuation allowance presented within the interval not due, is mainly an effect of recognition of impairment on portions of contracts that have not yet been invoiced.

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 were additional reserves of 1,086 (863). The remaining exposure was 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 criteria for recognition in the Balance sheet amounted to SEK 137 M (132) as of December 31, 2014.

Customer financing receivables total exposure	Dec 31, 2014					Dec 31, 2013				
	Not due	1-30	31-90	>90	Total	Not due	1-30	31-90	>90	Total
Customer financing receivables	89,931	8,012	2,410	263	100,616	74,517	7,956	2,095	471	85,040

Concentration of credit risk

Customer concentration

The ten largest customers in Customer Finance account for 7.0% (6.8) of the total asset portfolio. The rest of the portfolio is pertinent to a large number of customers. Hence the credit risk is spread across many markets and customers.

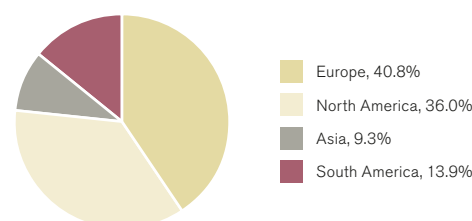
Concentration by geographical market

The adjacent table discloses the concentration of the customer-financing portfolio divided into geographical markets.

>> Read more in Note 4 about goals and policies in financial risk management and description of credit risks.

>> Read more about Volvo Financial Services' development during the year on page 81.

Geographic market, percentage of customer-financing portfolio (%).



NOTE 16 RECEIVABLES



ACCOUNTING POLICIES

Receivables are recognized at amortized cost. Changes to the credit loss reserves as well as any interest and gain or loss upon divestment of receivables are recognized in Other operating income and expense.

>> Refer to Note 30 under heading Derecognition of financial assets, for receivables subject to cash enhancement activities.



SOURCES OF ESTIMATION UNCERTAINTY

Credit loss reserves

An allowance for account receivables is recognized as soon as it is probable that a credit loss has incurred, that is when there has been an event that has triggered the customer's inability to pay. As of December 31, 2014, the total credit loss reserves for account receivables amounted to 2.63% (2.02) of total account receivables.

>> Refer to Note 4 regarding credit risk.

Non-current receivables	Dec 31, 2014	Dec 31, 2013
Other interest-bearing loans to external parties ¹	602	62
Other receivables	2,826	2,631
Outstanding interest and currency risk derivatives ²	1,526	723
Outstanding raw materials derivatives	0	1
Non-current receivables³	4,954	3,417

1 Non-current part of Other interest bearing receivables in Note 30.

2 Non-current part of Outstanding interest and currency risk derivatives in Note 30.

3 Of non-current receivables SEK 2,128 (786) M pertains to financial instruments.

Current receivables	Dec 31, 2014	Dec 31, 2013
Other interest-bearing receivables ¹	374	447
Other interest-bearing financial receivables	61	52
Accounts receivable	30,895	29,415
Prepaid expenses and accrued income	2,854	2,356
VAT receivables	3,676	3,033
Outstanding interest and currency risk derivatives ²	1,351	1,818
Other receivables	7,463	5,854
Outstanding raw materials derivatives	3	4
Current receivables, after deduction of valuation allowances for doubtful accounts receivable³	46,677	42,978

1 Current part of Other interest bearing receivables in Note 30.

2 Current part of Outstanding interest and currency risk derivatives in Note 30.

3 Of current receivables SEK 32,554 M (31,497) pertains to financial instruments.

Credit risks in accounts receivable

Change of valuation allowance for doubtful accounts receivable	2014	2013
Opening balance	606	665
New valuation allowance charged to income	415	291
Reversal of valuation allowance charged to income	(123)	(159)
Utilization of valuation allowance related to actual losses	(65)	(114)
Acquired and divested operations	(23)	(16)
Translation differences	60	(19)
Reclassifications, etc	(36)	(42)
Valuation allowance for doubtful accounts receivables as of December 31	834	606

>> Refer to Note 15 for 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, 2014					Dec 31, 2013				
	Not Due	1–30	31–90	>90	Total	Not Due	1–30	31–90	>90	Total
Accounts receivable gross	28,572	1,311	578	1,268	31,728	27,056	1,293	593	1,079	30,020
Provision for doubtful accounts receivable	(123)	(35)	(25)	(650)	(834)	(90)	(18)	(25)	(473)	(606)
Accounts receivable net	28,449	1,275	553	617	30,895	26,966	1,275	568	606	29,415

NOTE 17 | INVENTORIES



ACCOUNTING POLICY

Inventories are recognized at the lower of cost and net realizable value. The cost is established using the first-in, first-out principle (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 SEK 45,533 M (41,153) as of December 31, 2014.

Inventory	Dec 31, 2014	Dec 31, 2013
Finished products	28,368	26,339
Production materials, etc.	17,165	14,814
B/S Inventory	45,533	41,153

Inventories recognized as cost of sold products during the period amounted to SEK 199,872 M (191,509).

Increase (decrease) in allowance for inventory obsolescence	2014	2013
Opening balance	2,641	2,593
Increase in allowance for inventory obsolescence charged to income	734	510
Scrapping	(395)	(452)
Translation differences	259	(39)
Reclassifications etc.	154	29
Allowance for inventory obsolescence as of December 31	3,394	2,641

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	Dec 31, 2014	Dec 31, 2013
Government securities	789	387
Banks and financial institutions	5,037	917
Real estate financial institutions	1,485	1,287
B/S Marketable securities	7,312	2,591

Cash and cash equivalents	Dec 31, 2014	Dec 31, 2013
Cash in banks	25,627	23,765
Bank certificates ¹	340	456
Time deposits in banks	276	2,747
B/S Cash and cash equivalents	26,242	26,968

1 Bank certificates which matures within three months of the date of acquisition.

Cash and cash equivalents as of December 31, 2014, include SEK 0.2 billion (0.2) that is not available for use by the Volvo Group and SEK 6.1 billion (7.7) where other limitations exist, mainly liquid funds in countries where exchange controls or other legal restrictions apply. Therefore 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 2014, decided by the Annual General Meeting 2013, was SEK 3.00 (3.00) per share or totally SEK 6,084.4 M (6,083.7).

During 2014 AB Volvo transferred, free of consideration, 1,238,755 treasury B-shares, with a total quota value of 1,486,506 SEK, to participants in the long-term share-based incentive program for Group and senior executives in the Volvo Group, as accelerated allotment. The transferred treasury shares represent an insignificant portion of the share capital of AB Volvo.

During 2014 AB Volvo converted a total of 6,183,853 Series A shares to Series B shares.

Unrestricted equity in the Parent Company as of December 31, 2014 amounted to SEK 28,395 M (24,693).

Information regarding number of shares	Dec 31, 2014	Dec 31, 2013
Own Series A shares	20,728,135	20,728,135
Own Series B shares	78,353,598	79,592,353
Total own shares	99,081,733	100,320,488
Own shares in % of total registered shares	4.66	4.71
Outstanding Series A shares	492,386,965	498,570,818
Outstanding Series B shares	1,536,951,522	1,529,528,914
Total outstanding shares	2,029,338,487	2,028,099,732
Total registered Series A shares	513,115,100	519,298,953
Total registered Series B shares	1,615,305,120	1,609,121,267
Total registered shares	2,128,420,220	2,128,420,220
Average number of outstanding shares	2,028,414,477	2,027,915,094

» Read more in Note 27 about the Volvo Group share-based incentive program.

Information regarding shares	2014	2013
Number of shares, December 31, in millions	2,029	2,028
Average number of shares before dilution in millions	2,028	2,028
Average number of shares after dilution in millions	2,031	2,030
Average share price, SEK	89.54	93.06
Net income attributable to Parent Company shareholders	2,099	3,583
Basic earnings per share, SEK	1.03	1.77
Diluted earnings per share, SEK	1.03	1.76

Change in other reserves	Hedge reserve	Available-for-sale reserve	Total
Opening balance 2014	(40)	1,077	1,037
Other changes	24	-	24
Fair value adjustments regarding holdings in Japanese companies	-	11	11
Fair value adjustments regarding Eicher Motors Ltd.	-	3,037	3,037
Fair value adjustments regarding other companies	-	19	19
Balance as of December 31, 2014	(16)	4,144	4,128

The Volvo Group's accumulated amount of exchange difference recognized in equity relating to assets held for sale amounted to SEK 10 M (13).

NOTE 20 | PROVISIONS FOR POST-EMPLOYMENT BENEFITS

The Volvo Group's post-employment benefits, such as pensions, health-care 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 white-collar employees in Sweden (mainly through the Swedish ITP pension plan) and employees in France and Great Britain.



ACCOUNTING POLICY

Actuarial calculations shall be made for all defined-benefit plans in order to determine the present value of obligation for benefits vested by its current and former employees. The actuarial calculations are prepared annually and are based upon actuarial assumptions that are determined at the balance-sheet date each year. Changes in the present value of obligations due to revised actuarial assumptions and experience adjustments constitute remeasurements.

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. Discount rate is used when calculating the net interest income or expense on the net defined benefit liability (asset). All changes in the net defined liability (asset) are recognized when they occur. Service cost and net interest income or expense are recognized in the income statement, while remeasurements such as actuarial gains and losses are recognized in other comprehensive income. Special payroll tax is included in the pension liability. Special payroll tax is applicable for pension plans in Sweden and Belgium.

For defined contribution plans, premiums are recognized in the income statement as incurred according to function.



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 when 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 post-employment benefits. The assumptions include discount rates, health care cost trends rates, inflation, salary growth, 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 reviewed annually by the Volvo Group and modified when deemed appropriate.

The following tables disclose information about defined-benefit plans. The Volvo Group recognizes the difference between the obligations and the plan assets in the balance sheet. The disclosures refer to assumptions applied for actuarial calculations, recognized costs during the financial year 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.

Summary of provision for post-employment benefits	Dec 31, 2014	Dec 31, 2013
Obligations	(50,948)	(39,954)
Fair value of plan assets	34,391	27,653
Funded status	(16,557)	(12,301)
Net provision for post-employment benefits	(16,557)	(12,301)

» **Sweden**

The main defined benefit plan in Sweden is the ITP2 plan and it is based on final salary. The plan is semi-closed, meaning that only new employees born before 1979 have the possibility to choose the ITP2 solution. The Volvo Group's pension foundation in Sweden was formed in 1996 to secure obligations relating to retirement pensions for white-collar workers in Sweden in accordance with the ITP plan. Plan assets amounting to SEK 2,456 M 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 SEK 2,951 M, whereof SEK 318 M during 2014, 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, 2014, the fair value of the foundation's plan assets amounted to SEK 9,490 M (8,206), of which 49% (49) was invested in equity instruments. At the same date, retirement pension obligations attributable to the ITP plan amounted to SEK 15,369 M (10,951).

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 2014, the Volvo Group did not have access to information from Alecta that would have enabled this plan to be recognized as a defined-benefit plan. Accordingly, the plan has been recognized as a defined-contribution plan. The Volvo Group estimates it will pay premiums of about SEK 306 M to Alecta in 2015. The collective consolidation level measures the apportionable assets in relation to the insurance commitment. According to Alecta's consolidation policy for defined-benefit pension insurance, the collective consolidation level is normally allowed to vary between 125% and 155%. Alecta's consolidation ratio amounts to 143% (148). If the consolidation level falls short or exceeds the normal interval one measure may be to increase the contract price for new subscription and expanding existing benefits or introduce premium reductions.

The Volvo Group's share of the total saving premiums for ITP2 in Alecta as at December 31, 2014 amounted to 0.47% (0.35) and the share of the total number of active policy holders amounted to 1.85% (1.92).

USA

In the US, the Volvo Group has tax-qualified pension plans, post-retirement medical plans and non-qualified pension plans. The tax-qualified pension plans are funded while the other plans are generally unfunded. 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 2014, the total value of pension obligations secured by pension plans of this type amounted to SEK 16,238 M (13,262). At the same point in time, the total value of the plan assets in these plans amounted to SEK 15,215 M (11,916), of which 54% (58) was invested in equity instruments. 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 2014, the Volvo Group contributed SEK 736 M (819) to the American pension plans.

France

In France, the Volvo Group has two types of defined benefit plans, Indemnité de Fin de Carrière (IFC) and jubilee award plan. The plans are unfunded. The retirement indemnities plan is compulsory in France. The benefits are based on the Collective Bargaining Agreement applicable in the Company, on the employee's seniority at retirement date and on the final pay. The benefit payment is due only if employees are working for the Company when they retire. The jubilee awards plan is an internal agreement. The benefit is based on the employee's seniority career at 20, 30, 35 and 40 years. As of December 31 2014 the total value of pension obligations amounted to SEK 2,849 M (2,356).

Great Britain

The Volvo Group has six defined benefit pension plans in Great Britain. The plans are funded. The defined benefit pension plans provides benefits which are linked to each member's final pay at the earlier of their date of leaving or retirement. All plans are closed to new entrants and two of the plans are closed to future accrual. Members of the Plan also have the option to commute an amount of their pension benefit as cash at retirement as permitted by UK legislation.

The pension funds are set up as separate legal entities, which are governed by trustees who are responsible for the governance of the plan. The trustee boards are composed of representatives from the employer, the employees and independent trustees. The strategic allocation of plan assets must comply with the investment guidelines agreed by the trustees of the respective schemes. At the end of 2014, the total value of pension obligations secured by pension plans amounted to SEK 6,671 M (5,315). The total value of the plan assets in these plans amounted to SEK 6,772 M (5,274).

During 2014, the Volvo Group has made extra contributions to the pension plans in Great Britain in the amount of SEK 98 M (88).

Assumptions applied for actuarial calculations, %	Dec 31, 2014	Dec 31, 2013
Sweden		
Discount rate ¹	2.75	4.00
Expected salary increase	3.00	3.00
Inflation	1.50	1.50
United States		
Discount rate ^{1 2}	2.50–4.30	2.50–4.75
Expected salary increase	2.70–3.50	3.50
Inflation	2.50	2.50
France		
Discount rate ¹	1.50–2.00	3.25
Expected salary increase	2.50–3.00	3.00
Inflation	1.50	1.50
Great Britain		
Discount rate ¹	3.50–3.75	4.25–4.40
Expected salary increases	3.60–3.70	3.70–3.75
Inflation	3.00	3.25

- 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 For all plans except two the discount rate used is within the range 3.60–4.30% (3.75–4.75).

Pension costs	2014	2013
Current year service costs	1,298	1,297
Interest costs	1,479	1,319
Interest income	(1,180)	(842)
Past service costs	58	144
(Gain) loss on settlements	(54)	0
Pension costs for the period, defined-benefit plans	1,601	1,918
Pension costs for defined-contribution plans	2,530	2,226
Total pension costs for the period	4,131	4,144

Costs for the period, post-employment benefits other than pensions	2014	2013
Current year service costs	56	82
Interest costs	141	116
Interest income	(2)	(2)
Past service costs	(37)	82
(Gain) loss on settlements	–	1
Remeasurements	(55)	7
Total costs for the period, post-employment benefits other than pensions	103	286

	Sweden Pensions	US Pensions	France Pensions	Great Britain Pensions	US Other benefits
Average duration of the obligation, years	21.9	10.9	15.5	17.7	10.7

The analysis below presents the sensitivity on the defined benefit obligations when changes in the applied assumptions for discount rate and inflation are made. The sensitivity analysis is based on a change in

an assumption while holding all other assumptions constant. In practice, this is not probable, and changes in some of the assumptions may be correlated.

Sensitivity analysis

	–	Effect on obligation, SEK M	+
	If discount rate increases 0.5%		If discount rate decreases 0.5%
Sweden Pensions	(1,667)		1,807
US Pensions	(854)		941
France Pensions	(204)	220	
Great Britain Pensions	(539)		618
US Other benefits	(176)	193	
	If inflation decreases 0.5%		If inflation increases 0.5%
Sweden Pensions	(1,667)		1,807
US Pensions	0	0	
France Pensions	(5)	5	
Great Britain Pensions	(422)		473
US Other benefits	(17)	19	

» **Obligations in defined-benefit plans**

	Sweden Pensions	US Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Obligations opening balance 2013	13,442	15,129	2,002	4,740	3,737	4,403	43,453
Acquisitions, divestments and other changes	(5)	16	-	-	-	(160)	(149)
Current year service costs	523	368	70	45	68	305	1,379
Interest costs	448	482	74	207	111	113	1,435
Past service costs	38	117	-	-	(65)	18	108
Settlements	-	-	-	-	-	(30)	(30)
Employee contributions	-	-	-	10	-	3	13
Remeasurements:							
- Effect of changes in assumptions	(642)	103	143	(23)	16	55	(348)
- Effect of experience adjustments	(1,946)	(1,450)	74	406	(425)	(100)	(3,441)
- Effect of experience adjustments	(176)	(328)	43	8	(42)	(25)	(520)
Exchange rate translation	-	5	75	117	-	(174)	23
Benefits paid	(349)	(756)	(125)	(195)	(219)	(326)	(1,970)
Obligations as of December 31, 2013	11,333	13,686	2,356	5,315	3,181	4,082	39,953
of which							
Funded defined-benefit plans	10,980	13,262	8	5,315	23	2,693	32,281
Acquisitions, divestments and other changes	1	1	-	-	44	151	197
Current year service costs	500	344	89	52	47	322	1,354
Interest costs	446	589	81	239	134	130	1,619
Past service costs ¹	85	3	-	-	(32)	(35)	21
Settlements	-	-	(54)	-	-	(37)	(91)
Employee contributions	-	-	-	12	-	4	16
Remeasurements:							
- Effect of changes in demographic assumptions	-	(257)	-	(23)	(176)	(59)	(515)
- Effect of changes in financial assumptions	3,781	597	372	586	35	462	5,833
- Effect of experience adjustments	62	114	19	(3)	(125)	111	178
Exchange rate translation	-	2,846	156	724	633	307	4,666
Benefits paid	(377)	(1,082)	(170)	(231)	(225)	(198)	(2,283)
Obligations as of December 31, 2014	15,831	16,841	2,849	6,671	3,516	5,241	50,948
of which							
Funded defined-benefit plans	15,396	16,238	10	6,671	26	3,683	42,024

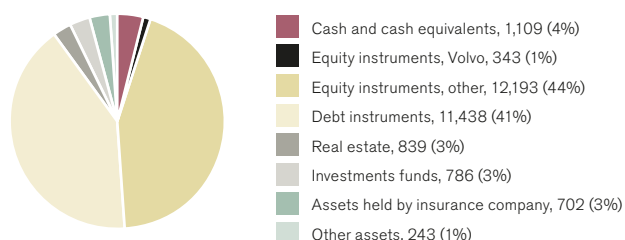
¹ The criteria for curtailment was met 2014 and a total gain of SEK 35 M was recognized. In Sweden SEK 27 M and in Other SEK 8 M, was included in the past service cost.

Fair value of plan assets in funded plans

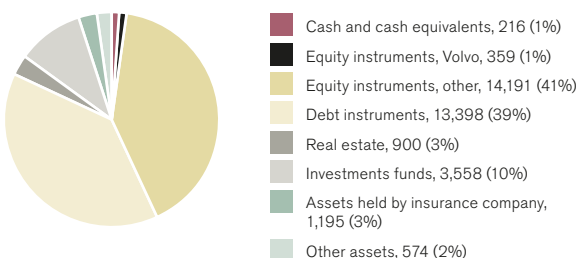
	Sweden Pensions	US Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Plan assets opening balance 2013	7,239	10,592	6	4,837	23	1,921	24,618
Acquisitions, divestments and other changes	-	-	-	-	-	70	70
Interest income	235	337	-	210	1	61	844
Remeasurements	376	861	-	188	(1)	80	1,504
Employer contributions	380	819	2	88	-	215	1,504
Employee contributions	-	-	-	10	-	4	14
Exchange rate translation	-	(12)	-	125	-	14	127
Benefits paid	(1)	(681)	(1)	(184)	-	(161)	(1,028)
Plan assets as of December 31, 2013	8,229	11,916	7	5,274	23	2,204	27,653
Acquisitions, divestments and other changes	-	-	-	-	(2)	164	162
Interest income	329	527	-	240	1	85	1,182
Remeasurements	636	512	-	656	(3)	67	1,868
Employer contributions	318	736	2	98	-	258	1,412
Employee contributions	-	-	-	12	-	3	15
Exchange rate translation	-	2,549	-	723	7	167	3,446
Benefits paid	(1)	(1,025)	(1)	(231)	-	(89)	(1,347)
Plan assets as of December 31, 2014	9,511	15,215	8	6,772	26	2,859	34,391

Net provisions for post-employment benefits							
	Sweden Pensions	US Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Net provision for post-employment benefits as of December 31, 2013	(3,104)	(1,770)	(2,349)	(41)	(3,158)	(1,878)	(12,300)
of which reported as:							
B/S Prepaid pensions	–	11	–	–	–	11	22
B/S Provisions for post-employment benefits	(3,104)	(1,781)	(2,349)	(41)	(3,158)	(1,889)	(12,322)
Net provisions for post-employment benefits as of December 31, 2014	(6,320)	(1,626)	(2,841)	101	(3,490)	(2,381)	(16,557)
of which reported as:							
B/S Prepaid pensions	–	–	–	101	17	8	126
B/S Provisions for post-employment benefits	(6,320)	(1,626)	(2,841)	–	(3,507)	(2,389)	(16,683)

Plan assets by category as of December 31, 2013



Plan assets by category as of December 31, 2014



Actual return on plan assets amounted to SEK 3,050 M (2,348).

Fair value of plan assets with a quoted market price	Dec 31, 2014	Dec 31, 2013
Cash and cash equivalents	194	232
Equity instruments	14,550	11,247
Debt instruments	13,398	11,423
Real estate	590	149
Derivatives	(59)	7
Investments funds	2,880	784
Assets held by insurance company	–	573
Other assets	623	17
Total	32,176	24,432

Investment strategy and risk management

The Volvo Group manages the allocation and investment of pension plan assets with the purpose of meeting the long term objectives. The main objectives are to meet present and future benefit obligations, provide sufficient liquidity to meet such payment requirements and to provide a total return that maximizes the ratio of the plan assets in relation to the plan liabilities by maximizing return on the assets at an appropriate level of risk. The final investment decision often resides with the local trustee, but the investment policy for all plans ensures that the risks in the investment portfolios are well diversified. The risks related to pension obligations, e.g., longevity and inflation, as well as buy out premiums and matching strategies are monitored on an ongoing basis in order to limit the Volvo Group's exposure.

In the last couple of years, some of the defined benefit plans have been closed to new entrants and replaced by defined contribution plans in order to reduce risk for the Volvo Group.

In Sweden the minimum funding target is decided by PRI Pensionsgaranti, this is mandatory in order to stay in the system and get insurance for the pension liability. The minimum contribution is decided by the company and should equal at least the pension benefits expected to be earned during the coming year.

In the United States the minimum funding target is decided by the company in order to avoid penalties, keep flexibility and avoid extensive filing with the IRS and participants. The minimum contribution should equal at least the benefits expected to be earned during the coming year plus one-seventh of the underfunding.

In Great Britain there are no minimum funding requirements. For each plan there is a contribution plan, which is well defined, in place to bring the schemes to full funding within a reasonable time frame. The contribution plans are to be approved by regulators.

In 2015, the Volvo Group estimates to transfer an amount of SEK 1–2 billion to pension plans.

NOTE 21 | OTHER PROVISIONS



ACCOUNTING POLICY

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 recognized 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 recognized as assets in the Volvo Group's balance sheet, these risks are reflected under provisions.

» Read more in Note 7 Revenue.

Provision for product warranty

Estimated provision for product warranties are recognized when the products are sold. The provision includes both expected contractual warranties and so called technical goodwill warranties and is determined based on historical statistics considering known quality improvements, costs for remedy of defaults etc. Provision for campaigns in connection with specific quality problems are recognized when the campaign is decided.

Provision for restructuring costs

A provision for decided restructuring measures is recognized when a detailed plan for the implementation of the measures is complete and when this plan is communicated to those who are affected. A provision and costs for termination benefits as a result of a voluntary termination program is recognized when the employee accepts the offer. Restructuring costs can be reported as a separate line item in the income statement if they relate to a major change of the Group structure. Normally restructuring costs are included in other operating income and expenses.



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 amounted to SEK 21,146 M (17,781) as of December 31, 2014. Residual value risks are reflected in different ways in the Volvo Group's 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 of these products are recognized on a straight-line basis over the term of the commit-

ment 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 commitment 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 considerations 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 indirect costs associated with the sale of used products. Additional depreciations and estimated impairment losses are immediately recognized in the income statement.

The total risk exposure for assets under operating lease is recognized as current and non-current residual value liabilities.

» Read more in Note 22 Liabilities about residual value liabilities.

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 the Volvo Group would have to dispose the used products at a loss is reported as a residual value provision.

To the extent the residual value exposure does not meet the definition of a provision, the gross exposure is reported as a contingent liability.

» Read more in Note 24 Contingent liabilities.

Provision for product warranty

Warranty provisions are estimated with consideration of historical claims statistics, the warranty period, the average time-lag between faults occurring and claims to the company and anticipated changes in quality indexes. Estimated costs for product warranties are 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 final claims cost generally affect the recognized expense and provisions in future periods. Refunds from suppliers, that decrease the Volvo Group's warranty costs, are recognized to the extent these are considered to be certain.

Provisions for extended coverage

An extended coverage is a product insurance sold to a customer to cover a product according to specific conditions for an agreed period and/or content in addition to the factory contractual warranty. Provisions for extended coverage is from 2014 presented separately in the table on the next page. In 2013, the provision was included in the line Warranties. The provision is intended to cover the risk that the expected cost of providing services under the contract exceed the expected revenue.

Legal proceedings

Provisions for legal disputes are included within Other provisions in the table on the next page, except the provision related to the EU antitrust investigation and the provision related to the engine emission case in the U.S, that are separately specified.

The Volvo Group recognizes obligations as provisions or other liabilities only in cases where Volvo has a present obligation from a past event, where a financial responsibility is probable and the Volvo Group can make a reliable estimate 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 regarding civil law and tax disputes, in order to assess the need for provisions and contingent liabilities in the financial statements. Among the factors that the 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 the 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 operating income, financial position and liquidity.

In the dispute between Volvo Powertrain Corporation and the U.S. Environmental Protection Agency (EPA) regarding a Consent Decree on emission compliance of diesel engines, the U.S. Court of Appeals for the District of Columbia Circuit rendered a ruling on July 18, 2014, affirming the District Court's ruling of 2012, ordering Volvo Powertrain to pay penalties and interest of approximately USD 72 M. Volvo Powertrain has appealed the ruling and is expecting a response from the Supreme Court of the United States on whether review will be granted. At the end of 2013, the Volvo Group reported a provision of approximately SEK 65 M and a contingent liability of approximately SEK 401 M. In the third quarter 2014 the Volvo Group recognized the previously reported contingent liability as a provision due to the Court of appeals' ruling on July 18, 2014, having a negative impact on the Group's operating income of approximately SEK 422 M. As per 31 December 2014 the provision including currency effect amounted to SEK 560 M.

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. On November 20, 2014 the European Commission issued a Statement of Objections stating its preliminary view that the Volvo Group and several other European Truck companies may have violated the European Competition rules. After an evaluation of the Statement of Objections, the Volvo Group decided to recognize a provision of EUR 400 M (SEK 3.8 billion as per December 31, 2014) which impacted the Volvo Group's operating income in the fourth quarter of 2014 negatively with the same amount. The proceedings are still at an early stage and there are a number of uncertainties associated with the final outcome of the European Commission's investigation as well as the amount of a potential fine. The Volvo Group will re-assess the size of the provision regularly following the development of the proceedings.

» Read more in Note 24 Contingent liabilities.

Provision for expected credit losses in Volvo CE

Following an extended period of declining demand, low machine utilization and lower raw materials prices, profitability for customers and dealers primarily in the Chinese mining industry has declined and their financial position has weakened. The risk for future credit losses has therefore increased and as a consequence Volvo Construction Equipment made a provision of SEK 660 M in the fourth quarter 2014. Out of the total provision, SEK 500 M has been reported as provisions for externally issued credit guarantees. SEK 83 M was reported as change in allowance for doubtful trade receivables, SEK 54 M was reported as valuation allowance, inventories and SEK 23 M was reported as change in allowance for other receivables.

	Carrying value as of Dec 31, 2013	Provisions	Reversals	Utilizations	Acquired and divested companies	Translation differences	Other reclassifications	Carrying value as of Dec 31, 2014	Of which due within 12 months	Of which due after 12 months
Warranties	9,881	6,848	(795)	(5,202)	30	958	(1,137)	10,583	5,330	5,253
Provisions for extended coverage	–	183	(83)	(499)	–	37	1,150	788	286	502
Provisions in insurance operations	647	151	(66)	(99)	–	80	–	713	24	689
Restructuring measures ¹	781	1,597	(166)	(1,099)	–	32	–	1,145	968	177
Provisions for residual value risks	646	292	(48)	(151)	–	75	(4)	810	265	545
Provisions for service contracts	343	275	(47)	(146)	–	27	30	482	298	184
Provisions for finished products ²	2,470	3,745	(309)	(3,190)	–	351	(715)	2,352	2,282	70
Provision related to EU antitrust investigation	–	3,703	–	–	–	107	–	3,810	–	3,810
Provision related to engine emission case in the U.S	65	422	–	–	–	73	–	560	560	–
Provision for expected credit losses for Volvo CE	–	500	–	–	–	21	–	521	521	–
Other provisions	2,661	3,743	(403)	(2,724)	–	189	(18)	3,449	1,940	1,509
B/S Total	17,494	21,459	(1,917)	(13,110)	30	1,951	(694)	25,213	12,473	12,740

Long-term provisions as above are expected to be settled within 2 to 3 years.

1 The provision for the efficiency program included in restructuring measures amounted to SEK 0.9 (0.5) billion.

» Read more about restructuring costs in Note 8 Other operating income and expenses and pages 24, 72 and 76.

2 SEK 713 M was reclassified from provisions for finished products to other liabilities, accrued revenue from service contracts.

NOTE 22 | LIABILITIES



ACCOUNTING POLICY

The hybrid bond issued in the fourth quarter 2014 is classified as debt in the Volvo Group's accounts as it constitutes a contractual obligation to make interest payments to the holder of the instrument.

The terms and details of the hybrid bond are described later in this note.

Non-current liabilities

The tables below disclose the Volvo Group's non-current liabilities in which the largest loans are listed by currency. Loans are mainly in local currencies through Volvo Treasury. Volvo Treasury uses various derivatives to facilitate lending and borrowing in different currencies without increasing Volvo Group's risk.

» Read more in Note 4 about Goals and policies in financial risk management and in Note 30 about Financial Instruments.

Bond loans	Actual interest rate Dec 31, 2014, %	Effective interest rate Dec 31, 2014, %	Dec 31, 2014	Dec 31, 2013
EUR 2007–2014/2016–2078	0.44–5.04	0.44–5.04	44,062	19,883
SEK 2007–2014/2016–2019	0.68–5.04	0.68–5.04	23,562	19,437
JPY 2013–2014/2016–2017	0.60	0.60	784	124
USD 2013/2016	0.41	0.41	469	5,246
CNY 2012/2015	–	–	–	1,895
B/S Total Bond loans¹			68,877	46,585
Other loans				
USD 2008–2014/2016–2024	0.46–3.00	0.46–3.00	9,852	8,105
EUR 2007–2014/2016–2027	1.44–6.50	1.45–6.50	1,869	1,734
GBP 2002–2007/2016–2027	6.00–11.11	6.00–11.68	59	1
SEK 2007–2014/2016–2017	0.42–1.61	0.42–1.62	2,055	4,180
CAD 2014/2016	2.63–2.65	2.66–2.68	874	911
MXN 2012–2014/2016–2017	4.20–4.37	4.20–4.37	1,233	847
JPY 2007–2014/2016–2023	0.45–1.38	0.45–1.39	12,701	10,772
BRL 2009–2013/2019–2024	2.86–5.90	2.93–6.00	7,517	5,932
AUD 2013–2014/2016	3.89–4.82	3.94–4.90	319	516
Other loans			2,139	3,726
Revaluation of outstanding derivatives to SEK ²			536	140
B/S Total Other loans¹			39,154	36,864
Total Bond loans and Other loans³			108,031	83,449
Other liabilities				
Deferred leasing income			2,364	2,462
Residual value liabilities			4,586	4,840
Accrued expenses service contracts			5,498	2,928
Outstanding interest and currency risk derivatives ²			275	256
Other non-current liabilities			1,004	981
Outstanding raw material derivatives			5	10
B/S Total Other liabilities			13,732	11,477
Total non-current liabilities			121,763	94,926

1 Of which loans raised to finance the credit portfolio of the Customer Finance Operations amounted to SEK 44,620 M (25,619) in Bond loans and SEK 28,348 M (20,590) in Other loans. Of non-current liabilities, SEK 108,295 M (83,715) pertains to financial instruments.

2 » Read more in Note 30 Financial Instruments regarding Non-current part of Outstanding interest and currency risk derivatives.

3 Of the above non-current loans, SEK 4,478 M (3,181) were secured by assets pledged.

» Read more in Note 23 regarding changes in assets pledged.

	Year of maturity on Non-current loans	Not utilized non-current credit facilities ¹
2016	44,856	5,315
2017	27,544	11,430
2018	6,171	–
2019	11,255	21,907
2020	1,073	–
2021 or later	17,132	–
Total¹	108,031	38,652

1 Current not utilized credit facilities amounted to SEK 500 M.

» **Read more in Note 15** Customer-financing receivables about maturities of non-current receivables in Customer Finance Operations.

AB Volvo issued a hybrid bond via its wholly-owned subsidiary Volvo Treasury AB in 2014, amounting to EUR 1.5 bn in order to further strengthen the Volvo Group's balance sheet and prolong the maturity structure of the debt portfolio. The bond is accounted for as a loan and subordinated to all other financial liabilities currently outstanding. The hybrid bond will be eligible for 50% equity treatment from both Moody's and S&P when calculating the Volvo Group's credit ratios. The hybrid bond consists of two tranches, EUR 0.9 bn with a first call after 5.5 years and a maturity in 60.5 years, EUR 0.6 bn, with a first call after 8.25 years and a maturity in 63.25 years.

The predominant part of non-current loans that mature in 2016 and 2017 is an effect of the Volvo Group's normal business cycle, with shorter duration in the Customer Finance portfolio compared to Industrial Operations.

Granted but not utilized credit facilities consists of stand-by facilities for loans. A fee is charged for granted credit facilities, this is recognized in profit or loss within other financial income and expenses.

On July 1, the Volvo Group signed new credit facilities of EUR 3.5 bn. The new facilities replace the company's existing revolving credit facilities amounting to EUR 3.2 bn signed in 2011 and 2012. The new facilities consist of one facility amounting to EUR 2,300 M with a tenor of five years and a second one amounting to EUR 1,200 M with a tenor of three years. Both have one plus one year extension options.

Current liabilities

Current liabilities	Dec 31, 2014	Dec 31, 2013
Bank loans	13,705	10,992
Other loans	26,249	40,560
B/S Current liabilities¹	39,953	51,552

1 Of which loans raised to finance the credit portfolio of the Customer Finance Operations amounted to SEK 29,672 M (44,188) and outstanding derivatives, at fair value, amounted to SEK 455 M (1,753).

Bank loans include current maturities of non-current loans SEK 6,695 M (3,254). Other loans include current maturities of non-current loans, SEK 22,458 M (21,848), and commercial papers, SEK 0 M (13,528).

Non-interest-bearing current liabilities amounted to SEK 96,440 M (88,746), or 71% (63) of the Volvo Group's total current liabilities.

Other current liabilities	Dec 31, 2014	Dec 31, 2013
Advances from customers	4,784	3,280
Wages, salaries and withholding taxes	9,088	8,261
VAT liabilities	1,875	1,971
Accrued expenses and prepaid income	11,029	11,161
Deferred leasing income	2,022	1,882
Residual value liability	2,950	2,186
Other financial liabilities	192	160
Other liabilities	4,682	4,271
Outstanding interest and currency risk derivatives ¹	331	177
Outstanding raw material derivatives	18	44
B/S Other current liabilities	36,970	33,393

1 » **Read more in Note 30** Financial Instruments regarding current part of Outstanding interest and currency risk derivatives.

Current liabilities also include trade payables of SEK 56,647 M (53,901), current tax liabilities of SEK 2,693 M (1,120) and non-interest-bearing and interest-bearing liabilities held for sale, as disclosed in Note 3. Secured current liabilities amounted to SEK 2,862 M (1,747). Of current liabilities including trade payables, SEK 96,736 M (105,693) pertains to financial instruments.

» **Read more in Note 30** about Financial instruments.

» **Read more in Note 23** regarding assets pledged.

NOTE 23 | ASSETS PLEDGED

Assets pledged	Dec 31, 2014	Dec 31, 2013
Property, plant and equipment – mortgages	88	84
Assets under operating leases	209	57
Receivables	7,343	4,897
Cash, loans and marketable securities	40	40
Total	7,680	5,078

Total liabilities for which assets are pledged amounted to SEK 7,340 M (4,928).

Under the terms of asset-backed securitizations, SEK 7,088 M of securities have been issued tied to US-based loans, secured by customer financing-receivables, SEK 7,343 M, recognized on the balance-sheet with trucks and construction equipment assets as collaterals, whereof SEK 4,410 M were signed in 2014.

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, 2014	Dec 31, 2013
Credit guarantees issued for customers and others	6,580	8,823
Tax claims	1,819	1,250
Residual value guarantees	2,850	3,389
Other contingent liabilities	4,691	3,828
Total contingent liabilities	15,940	17,290

Total contingent liabilities at December 31, 2014, amounted to net SEK 15,940 M (17,290) and included contingent assets of SEK 285 M (285).

Credit guarantees amounted to SEK 6,580 M (8,823) and a major part was issued as a result of sales in emerging markets, in particular sales of construction equipments in China. In 2014 the contingent liabilities related to credit guarantees were reduced by SEK 521 M corresponding to the cost for expected future credit losses in China.

» **Read more in Note 21** regarding the provision for expected credit losses in China.

The recognized amount for credit guarantees corresponds to the gross exposure and has not been reduced by the value of counter guarantees received or other collaterals such as the right to repossess the products in cases where a legal offsetting right does not exist. The value of counter guarantees and other collaterals reducing the exposure is dependent on the development of used products prices and on the possibility to repossess the products.

Tax claims amounted to SEK 1,819 M (1,250) and pertained to charges against the Volvo Group for which the criteria for recognizing a provision were not met.

Residual value guarantees amounted to SEK 2,850 M (3,389) and were attributable to sales transactions combined with buy back agreements or residual value guarantees for which assets are not recognized in the balance sheet. The recognized amount corresponds to the gross exposure and has not been reduced by the estimated net selling price of used products taken as collaterals. To the extent the used products pertaining to those transactions are expected to be disposed at a loss, a provision for residual value is recognized.

» **Read more** about provision for residual value guarantees in **note 21**.

Other contingent liabilities amounted to SEK 4,691 M (3,828) and included for example bid and performance clauses and legal proceedings.

Legal proceedings

Volvo Group is subject to the below investigations by competition authorities. Volvo Group is cooperating fully with the respective authority.

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. The Korean Fair Trade Commission has issued a decision, received by Volvo on December 19, 2013, imposing a fine in the amount of approximately SEK 117 M as of December 31, 2014. Volvo has appealed the decision and a contingent liability in a corresponding amount has been disclosed.

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. After the European Commission had issued its Statement of Objections on November 20, 2014 the Volvo Group recognized a provision.

» **Read more in Note 21** Other Provisions regarding the estimation of the provision and the associated uncertainties.

In 2013 the disclosed contingent liabilities included an amount of SEK 401 M related to the dispute between Volvo Powertrain Corporation and the U.S. Environmental Protection Agency (EPA) regarding a Consent Decree on emission compliance of diesel engines. In the third quarter of 2014 the contingent liability has been recognized as provision.

» **Read more in Note 21** Other Provisions regarding the estimation of the provision.

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.

The Volvo Group is also involved in a number of legal proceedings other than those described above. The Volvo Group's assessment is that such other legal proceedings in aggregate are not likely to entail any risk of having a material effect on the Volvo Group's financial position.

NOTE 25 | TRANSACTIONS WITH RELATED PARTIES

Transactions between AB Volvo and its subsidiaries, which are related parties to AB Volvo, have been eliminated in the Group and are not disclosed in this note.

Transactions with associated companies	2014	2013
Sales to associated companies	2,129	2,138
Purchase from associated companies	2,320	2,609
Receivables from associated companies, Dec 31	598	301
Liabilities to associated companies, Dec 31	510	707

The Volvo Group engages in transactions with some of its associated companies. The transactions consist mainly of sales of vehicles and parts to dealers and importers and purchases of engines from Deutz AG.

Commercial terms and market prices apply for the supply of goods and services to/from associated companies.

Transactions with joint ventures	2014	2013
Sales to joint ventures	1,031	763
Purchase from joint ventures	394	192
Receivables from joint ventures, Dec 31	178	143
Liabilities to joint ventures, Dec 31	78	58

The Volvo Group engages in transactions with its joint ventures. The transactions consist mainly of sales of vehicles and parts and purchase of engine long blocks and services. Commercial terms and market prices apply for the supply of goods and services to/from joint ventures.

» Read more in Note 5 regarding the Volvo Group's share in associated companies.

NOTE 26 | GOVERNMENT GRANTS



ACCOUNTING POLICY

Government grants are financial grants from governmental or supranational bodies received by the Volvo Group in exchange for fulfillment of certain conditions.

Governmental grants related to assets are presented in the balance sheet by deducting the grants in arriving at the carrying amount of the asset. Governmental grants related to income are reported as a deferred income and recognized in the income statement over the periods necessary to match the related costs. If the costs incur before the grants have been received, but there is an agreement that grants will be received, grants are recognized in the income statement to compensate the relevant costs.

In 2014, government grants of SEK 445 M (400) were received, and SEK 503 M (467) was recognized in the income statement. The amount includes tax credits of SEK 255 M (245) related to product development, which were primarily received in France and in the United States. Other grants were mainly received from Swedish, Chinese and US governmental organizations and from the European Commission.

NOTE 27 | PERSONNEL



ACCOUNTING POLICY

Share-based payments

The Volvo Group applies IFRS 2, 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 offset 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 recognized 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 2014

The Annual General Meeting of 2014 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 Executive Team, 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 percent of the fixed salary and for the other members of the Group Executive Team, a maximum of 60 percent 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.

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 Executive Team members and other senior executives in the Volvo Group consisting of three annual programs covering each of the financial years 2011, 2012 and 2013. During 2014, a part of the shares granted under the program during 2011 have been allotted to the participants. At the Annual General Meeting 2014, as proposed by the Board of AB Volvo, it was decided to implement a new long-term share-based incentive program for Group Executive Team members and other senior executives in the Volvo Group consisting of three annual programs covering each of the financial years 2014, 2015 and 2016.

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 Executive Team members 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 Executive Team members resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden can be offered notice periods for termination and severance payments that are competitive in the country where the Group Executive Team members 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 Directors was authorized to deviate from the Policy on Remuneration for the members of the Volvo Group Executive Team adopted by the Annual General Meeting of AB Volvo held in 2014. The Board has resolved on such a deviation by, under separation arrangements with two Executives, approving payment to those Executives of pension premiums corresponding to the period from the termination of the employment, however from the age of 60 at the earliest, until the age of 65, in addition to 12 months' severance pay. The premium payments correspond to about one annual salary for each Executive. The reason for the deviation is a reorganization within the Group entailing among other things that the number of Group Executive Team members has decreased from 16 to 10 and that the two Executives' respective positions do not remain.

Fee paid to the Board of Directors

According to a resolution adopted at the Annual General Meeting 2014, the fee to the Board of Directors appointed at the Annual General Meeting for the period until the close of the Annual General Meeting 2015 shall be paid as follows: The Chairman of the Board should be awarded SEK 3,250,000 and each of the other members SEK 950,000 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

Fixed and variable salaries

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 percent of the fixed annual salary. For the financial year 2014, Olof Persson received a fixed salary of SEK 12,245,400 and a variable salary of SEK 3,979,755. The variable salary corresponded to 32.5 percent of the fixed salary. Other benefits, mainly pertaining to car and housing, amounted to SEK 1,059,612 in 2014. Olof Persson is also participating in the long-term share-based incentive programs decided by the Annual General Meetings 2011 and 2014. Return on equity for 2014 amounted to 2.8 percent, i.e. no performance shares will be allotted for 2014 and Olof Persson will receive 18,312 matching shares during 2017/2018 related to 2014 if all other 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. During 2014, 53,575 shares granted under the 2011 program corresponding to a taxable value SEK 4,519,859 have been allotted to Olof Persson.

Pensions

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. 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 percent of the pensionable salary over 30 income base amounts and the premium for VEP is 10 percent of pensionable salary. There are no commitments other than the payment of the premiums. The disability pension for Olof Persson is a defined benefit plan and amounts to 50 percent of fixed 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 2014 the premium amounted to SEK 558 a month. Total pension premiums 2014 for Olof Persson amounted to SEK 4,514,643.

Severance payments

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, Olof Persson is entitled to a severance payment equivalent to twelve months' salary.

Remuneration to the Group Executive Team

Fixed and variable salaries

Members of Group Executive Team receive variable salaries in addition to fixed salaries. Variable salaries are 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. During 2014, a variable salary, for Group Executive Team members excluding CEO, could amount to a maximum of 60 percent of the fixed annual salary.

For the financial year 2014, fixed salaries amounted to SEK 55,074,333 and variable salaries amounted to SEK 14,784,830 for Group Executive Team members excluding the CEO. Group Executive Team comprised, excluding the CEO, of 15 members at the beginning and at the end of the year. Other benefits, mainly pertaining to car and housing, amounted to SEK 5,728,723 in 2014. Group Executive Team members, excluding the CEO, also participate to the long-term share-based incentive programs decided by the Annual General Meetings 2011 and 2014. Return on equity for 2014 amounted to 2.8 percent, i.e. no performance shares will be allotted for 2014, they will during 2017/2018 receive 89,950 matching shares related to 2014 if all other program conditions are met (see further information under Long-term incentive program below). During 2014 193,355 shares granted under the 2011 program corresponding to a taxable value of SEK 15,333,259 have been allotted to Group Executive team members.

Severance payments

The employment contracts for Group Executive Team members 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 the event the employee gains employment during the severance period, severance pay is reduced with an amount equal to 100 percent of the income from the new employment.

During 2014 the Volvo Group made severance agreements, including pension, with two members of the Group Executive Team in connection to the re-organization of the Volvo Group as announced in the fourth quarter.

Pensions

Group Executive Team members are covered by a defined-contribution plan, Volvo Executive Pension plan with pension premium payments at the longest to the age of 65 years. The premium constitutes 10 percent of the

pensionable salary. As complement to the collective bargain agreement regarding occupational pension employees born before 1979 are covered by a defined contribution pension plan, Volvo Management Pension. The premium constitutes of SEK 30,000 plus 20 percent of the pensionable salary over 30 income base amounts. The pensionable salary consists of twelve times the current monthly salary and the average of the variable salary for the previous five years. Pension premiums for the Group Executive Team excluding CEO amounted to SEK 32,205,461 in 2014.

Volvo Group's total costs for remuneration and benefits to the Group Executive Team

Costs for total remuneration and benefits to the Group Executive Team in 2014 pertaining to the following: fixed salary SEK 88 M (85); variable salary SEK 23 M (7); other benefits SEK 14 M (13); pensions SEK 41 M (44) and severance compensations SEK 25 M including pension contribution for SEK 14 M. The cost related to the long-term share-based incentive program is reflected over the vesting period and amounted to SEK 21 M (11) for 2014. Total costs for the Group Executive Team 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 programs

Long-term share-based incentive program 2011–2013

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. During 2014, a part of the shares granted under the program during 2011 have been allotted to the participants (see further information in the table Long term program on the next page).

Long-term share-based incentive program 2014–2016

The Annual General Meeting held in 2014 approved a new long-term share-based incentive program for up to 300 Group and senior executives and comprising the years 2014 to 2016. The new 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 return on equity for the particular financial year amounts to at least 10 percent in 2014, 11 percent in 2015 and 12 percent in 2016, a number of performance shares. Maximum allotment of performance shares corresponds to seven shares for the CEO, six shares for other members of Group Executive Team and five shares for other participants in the program for each invested share, subject to return on equity reaching 25 percent in 2014, 26 percent in 2015 and 27 percent in 2016. Return on equity for 2014 amounted to 2.8 percent, i.e. no performance shares are allotted for 2014. Allotment of shares are made through Volvo owned, earlier re-purchased, Volvo shares. Participants in certain countries are offered a cash-settled 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





Long-term incentive program (equity-settled plan version)	Shares granted conditional under the plan but not yet allotted (in thousand shares)						Cost 2014 (SEK M) ¹
	Vesting year	Beginning of the year	Granted 2014	Cancelled/ forfeited 2014	Allotments during 2014	End of the year	
Year 2011 incentive program	2014/2015	1,847	–	(69)	(1,196)	582	33.6
Year 2012 incentive program	2015/2016	1,157	–	(28)	(31)	1,098	29.5
Year 2013 incentive program	2016/2017	418	28	(9)	(12)	425	2.5
Year 2014 incentive program	2017/2018	–	468	(27)	–	441	10.1
Total		3,422	496	(133)	(1,239)	2,546	75.7

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-settled version of the incentive program amounted to SEK 8 M (5) including social security cost during 2014, and the total liability amounted to SEK 14 M (19) as of December 31, 2014.

The allotment during the year 2014 mainly pertained to the shares granted under the program during the year 2011. In addition to that a number of program participants leaving the company are determined to be "good leavers" and are therefore entitled to accumulated allotment of shares. During 2014, for the equity-settled plan, a total of 1,238,755

shares (420,856) have been allotted to participants, and an additional 53,036 shares (10,986) are allotted to participants when the employees leave the company. For the cash-settled plan, a total of SEK 15 M (4) has been allotted during 2014.

The total cost for the 2014 incentive program over the vesting period 2014 to 2017/2018 is estimated to SEK 46 M including social security cost. Actual cost will be impacted by changes in the share price.

Average number of employees	2014		2013	
	Number of employees	of which women, %	Number of employees	of which women, %
AB Volvo				
Sweden	303	48	262	45
Subsidiaries				
Sweden	21,113	21	21,834	20
Western Europe (excl. Sweden)	23,390	16	23,919	16
Eastern Europe	6,292	20	6,327	22
North America	14,767	19	16,175	18
South America	6,718	14	6,852	14
Asia	19,306	13	18,912	12
Other countries	2,735	15	2,661	15
Group total	94,625	17	96,951	17

The average number of employees calculation has been harmonized across the Volvo Group in 2014. Comparative figures have been restated accordingly.

Board members' and other senior executives	2014		2013	
	Number at year-end	of which women, %	Number at year-end	of which women, %
AB Volvo				
Board members ¹	9	22	12	17
CEO and other senior executives	16	19	16	19
Volvo Group				
Board members ¹	499	20	580	17
Presidents and other senior executives	676	21	695	19

¹ Excluding deputy Board members.

Wages, salaries and other remunerations	2014			2013		
	Board and Presidents ¹	of which variable salaries	Other employees	Board and Presidents ¹	of which variable salaries	Other employees
SEK M						
AB Volvo	30.4	7.4	323.6	25.9	5.6	265.2
Subsidiaries	557.0	57.2	36,621.9	563.1	52.7	35,357.3
Group total	587.4	64.6	36,945.5	589.1	58.3	35,622.4

Wages, salaries and other remunerations and social costs	2014			2013		
	Wages, salaries remun	Social costs	Pension costs	Wages, salaries remun	Social costs	Pension costs
SEK M						
AB Volvo ²	354.1	108.6	105.6	291.1	87.3	91.6
Subsidiaries	37,178.9	8,009.3	4,027.2	35,920.4	8,174.9	4,052.1
Group total³	37,532.9	8,117.9	4,132.8	36,211.5	8,262.2	4,143.7

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, SEK 78 M (97.7) 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 SEK 448 M (418.1).

The cost for non-monetary benefits in the Volvo Group amounted to SEK 2,405 M (1,960.3) of which SEK 46 M (50.5) to Board members and Presidents.

The cost for non-monetary benefits in the Parent Company amounted to SEK 17.3 M (15.2) of which SEK 2 M (1.8) to Board members and Presidents.

NOTE 28 | FEES TO THE AUDITORS

Fees to the auditors	2014	2013
PricewaterhouseCoopers AB		
– Audit fees	100	120
– Audit-related fees	4	5
– Tax advisory services	14	12
– Other fees	22	19
Total	140	156
Audit fees to others	2	3
Volvo Group Total	142	159

The audit assignment involves review of the Annual report and 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 reviewing the half-year report. 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 the 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. 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 flow	2014	2013
Risk provisions and losses related to doubtful accounts receivable/customer-financing receivables	1,223	1,230
Capital gains/losses on the sale of subsidiaries and other business units	(1,020)	(141)
Unrealized exchange rate gains/losses on accounts receivable and payable	(367)	229
Unrealized exchange rate gains/losses on other operating assets and liabilities	518	61
Provision related to engine emission case in the U.S.	422	–
Provision related to EU antitrust investigation	3,790	–
Provision related to credit losses in Volvo CE ¹	708	125
Provision for warranty reserve	–	745
Credit losses in China	577	–
Other changes	290	167
Total Other items not affecting cash flow	6,141	2,416

¹ SEK 83 M is included in risk provisions related to doubtful accounts receivables.

Acquired and divested shares and participations, net	2014	2013
New issue of shares	(6)	(1)
Capital contribution	–	(36)
Acquisitions	(21)	(112)
Divestments	96	135
Other	–	–
Total cash flow from acquired and divested shares and participations, net	69	(14)

Acquired and divested subsidiaries and other business units:	2014	2013
Acquired subsidiaries and other business units	(1,103)	(71)
Divested subsidiaries and other business units	8,501	1,003
Total cash flow from acquired and divested subsidiaries and other business units	7,398	932

During 2014 Volvo Group acquired the hauler manufacturing business from Terex inc. and the divestiture of Volvo Rents and commercial non-strategic real estate was completed.

» **Read more in Note 3** Acquisitions and divestments of shares in subsidiaries regarding the effect on the Volvo Group's net financial position from the acquisitions and divestments.

Changes in loans, net	2014	2013
New borrowings	180,066	150,320
Amortizations	(169,436)	(134,834)
Syndications	(4,661)	(3,604)
Changes in group composition	(280)	138
Other	997	935
Changes in loans, net	6,686	12,955

During 2014 external loans in the Volvo Group balance sheet increased by SEK 13.0 billion (3.5), whereof SEK 9.7 billion (positive 5.4) was related to currency effects. Syndications was performed in the Customer Finance Operations to an amount of SEK 8.3 billion (6.6), whereof SEK 3.7 billion (3.0) had no impact on the cash flow. Both the negative currency effect and the syndications with no impact on the cash flow have been adjusted on changes in loans, net in the cash flow.

Realized gains and losses on derivatives used to hedge future cash flows from the acquisition of Dongfeng Commercial Vehicles amounted to SEK 1.2 billion and is reported in changes in loans, net in the cash flow and included on line Other in the table Changes in loans, net above.

Important increase/decrease in bond loans and other loans

In 2014, the Volvo Group increased its borrowings as a consequence of higher demands of funding in the Customer Finance Operations. Industrial Operations reduced its borrowings mainly as a consequence of an improved operating cash flow and the divesture of Volvo Rents and commercial real estate.

A hybrid bond was issued in 2014, amounting to EUR 1.5 billion in order to further strengthen the Group's balance sheet and prolong the maturity structure of the debt portfolio. The hybrid is accounted for as a loan with a maturity of 61.6 years and subordinated to all other financial liabilities currently outstanding.

>> **Read more in Note 22** Liabilities regarding the hybrid bond.

NOTE 30 | FINANCIAL INSTRUMENTS



ACCOUNTING POLICY

Purchases and sales of financial assets and liabilities are recognized on the transaction date. Transaction expenses are included in the asset's fair value, except in cases in which the change in value is recognized in the income statement. 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.

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.

Financial instruments are classified based on the degree that market values have been utilized when measuring fair value. All financial instruments measured at fair value held by Volvo Group 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 not listed instruments. The valuation of level 2 instruments is based on market conditions using quoted market data existing at each balance sheet date. The basis for the interest is the zero-coupon-curve in each currency which is used to calculate the present value of all the estimated future cash flows. The fair value of forward exchange contracts is discounted to balance sheet date based on the forward rates for each currency as per balance sheet date.

>> **Read more in Note 5** about valuation policy for other shares and participations.

Financial assets at fair value through the income statement

All of the Volvo Group's financial assets that are recognized at fair value through the income statement are classified as held for trading. As presented in the table on next page, these instruments are derivatives, used for hedging interest, currency and raw material prices, and marketable securities (further presented in note 18).

Derivatives used for hedging interest rate exposure in the Customer Finance portfolio as well as for the financing of activities in Industrial Operations are included in this category. Unrealized gains and losses

from fluctuations in the fair values of the financial instruments are recognized in Other financial income and expense. 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.

Financial instruments used for hedging currency risks arising from future firm commercial cash flows are also recognized under this category. Unrealized and realized gains and losses are recognized in Other financial income and expenses to be able to net all internal flows before entering into external derivatives, except for gains and losses from derivatives hedging currency risks of future cash flows for specific orders which are recognized in operating income.

>> **Read more in Note 9** about the effect in the income statement from revaluation of the derivatives.

The Volvo Group only applies hedge accounting on a few specific hedging relationships. Refer to section on Hedge accounting in this note for the Volvo Group's policy choice on hedge accounting.

Loan receivables and other receivables

Included in this category are accounts receivable, customer-finance receivables and other interest bearing receivables.

>> **Read more in Note 15** for accounting policy on customer-finance receivables.

>> **Read more in Note 16** for accounting policy on accounts receivable and other interest-bearing receivables.

Assets available for sale

This category includes assets available for sale and assets that have not been classified in any of the other category. For the Volvo Group this category contains holding of shares in listed and non-listed companies.

>> **Read more in Note 5** about other shares and participations.

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.

Carrying amounts and fair values		Dec 31, 2014		Dec 31, 2013	
		Carrying value	Fair value	Carrying value	Fair value
SEK M					
Assets					
Financial assets at fair value through the income statement					
The Volvo Group's outstanding interest and currency risk derivatives ⁴	Note 16	2,877	2,877	2,542	2,542
The Volvo Group's outstanding raw material derivatives	Note 16	3	3	5	5
B/S Marketable securities	Note 18	7,312	7,312	2,591	2,591
		10,191	10,191	5,138	5,138
Loans receivable and other receivables					
B/S Accounts receivable	Note 16	30,895	-	29,415	-
Customer financing receivables ¹	Note 15	99,166	-	83,861	-
Other interest-bearing receivables	Note 16	976	-	509	-
		131,037	-	113,785	-
Financial assets available for sale					
Holding of shares in listed companies	Note 5	4,543	4,543	1,490	1,490
Holding of shares in non-listed companies	Note 5	474	-	460	-
		5,017	4,543	1,950	1,490
B/S Cash and cash equivalents	Note 18	26,242	26,242	26,968	26,968
Liabilities					
	Note 22				
Financial liabilities at fair value through the income statement					
The Volvo Group's outstanding interest and currency risks derivatives ²		1,597	1,597	2,324	2,324
The Volvo Group's outstanding raw material derivatives		23	23	55	55
		1,620	1,620	2,379	2,379
Financial liabilities valued at amortized cost³					
Long term bond loans and other loans		107,495	112,564	83,309	86,888
Short term bank loans and other loans		39,498	39,488	49,811	49,937
		146,993	152,052	133,120	136,825
B/S Trade Payables		56,647	-	53,901	-

1 Volvo does not estimate the risk premium for the customer financing receivables and chooses therefore not to disclose fair value for this category.

2 Includes a fair value of a loan related to hedge accounting amounting to negative SEK 1,022 M (negative 1,157), netted against derivatives used to hedge the risk amounting to positive SEK 1,032 M (1,171). For further information see section hedge accounting below. Refer to footnote 4.

3 In the Volvo Group consolidated financial position, financial liabilities include loan-related derivatives amounting to negative SEK 991 M (negative 1,893). The credit risk is included in the fair value of loans on December 31, 2014.

4 The Volvo Group's gross exposure from positive derivatives amounts to SEK 3,909 M (3,713). The exposure is the sum of positive derivatives reported as assets to an amount of SEK 2,877 M (2,542) and positive derivatives of SEK 1,032 M (1,171) reported as a liability, netted against a negative fair value of a loan. Refer to footnote 2. The gross exposure is reduced by 60% (41%) by netting agreements and cash deposits to SEK 1,582 M (2,203).

» Read more in Note 4 about Goals and policies in financial risk management.

» Derecognition of financial assets

The 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 that 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 amounted to SEK 0.1 bn (0.4).

Transferred financial assets for which substantially all risks and rewards have been transferred are derecognized continuously. Involvement in these assets are reflected in the Volvo Group's balance sheet as part of the external credit guarantees, which are recognized at fair value as provisions in the balance sheet and amounted to SEK 650 M (79).

The Volvo Group's maximum exposure to loss is considered being the total recourse relating to transferred assets are that are part of the reported credit guarantees, i.e. the total amount Volvo Group would have to pay in case of default of the customers. The likelihood for all customers being in default at the same time is considered to be unlikely. The gross exposure for the Volvo Group amounted to SEK 6.6 billion related to credit guarantees issued for customers and others. This amount has not been reduced by the value of counter guarantees received or other collaterals such as the right to repossess the product.

» Read more in Note 24 regarding Contingent Liabilities.

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	2014			2013		
	Gains/ losses	Interest income	Interest expenses	Gains/ losses	Interest income	Interest expenses
SEK M						
Financial assets and liabilities at fair value through the income statement²						
Currency risk derivatives ³	(42)	–	–	39	–	–
Loans receivable and other receivables						
Accounts receivables / trade payables ¹	(1,190)	–	–	629	–	–
Customer financing receivables VFS ¹	89	4,829	–	128	4,705	–
Financial assets available for sale						
Shares and participations for which a market value can be calculated	55	–	–	43	–	–
Shares and participations for which a market value cannot be calculated	16	–	–	19	–	–
Financial liabilities valued at amortized cost⁴	–	–	(1,847)	–	–	(1,704)
Effect on operating income	(1,072)	4,829	(1,847)	858	4,705	(1,704)
Reported in net financial items⁵						
Financial assets and liabilities at fair value through the income statement²						
Marketable securities	–	46	–	–	94	–
Interest and currency rate risk derivatives ^{3, 6}	1,567	9	99	1,987	(5)	(56)
Loans receivable and other receivables						
Cash and Cash equivalents	–	273	–	–	292	–
Financial liabilities valued at amortized cost⁶	(391)	–	(1,661)	(1,678)	–	(2,171)
Effect on net financial items	1,176	328	(1,562)	309	381	(2,227)

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 operating income and expenses.

2 Accrued and realized interest is included in gains and losses related to Financial assets and liabilities at fair value through the income statement.

3 The Volvo Group uses forward contracts and currency options to hedge the value of future cash flows in foreign currency. Both unrealized and realized result on currency risk contracts is included in the table. Read more in 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.

5 In gains, losses, income and expenses related to financial instruments recognized in Net financial items, SEK 1,176 M (309) was recognized under other financial income and expenses.

» Read more in Note 9. Other financial income and expenses for further information. Interest expenses attributable to pensions, SEK 432 M (583) are not included in this table.

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 and commercial assets and liabilities				
SEK M	Dec 31, 2014		Dec 31, 2013	
	Nominal amount	Carrying value	Nominal amount	Carrying value
Interest-rate swaps				
– receivable position	86,136	2,137	71,495	1,833
– payable position	70,109	(72)	64,790	(1,045)
Foreign exchange derivative				
– receivable position	16,272	675	47,077	704
– payable position	24,332	(432)	34,714	(118)
Options purchased				
– receivable position	1,788	65	1,157	5
– payable position	36	–	179	–
Options written				
– payable position	2,636	(71)	716	(4)
Subtotal		2,302		1,375
Raw material derivatives				
– receivable position	208	3	182	5
– payable position	267	(23)	190	(55)
Total		2,282		1,325

Hedge accounting

Volvo Group is only applying hedge accounting on the following specific hedging relationships:

- Hedging fair value of a loan. Fair value of the hedge instruments outstanding amounted to SEK 1,290 M (1,405). Changes in fair value of the loan related to hedge accounting amounted to negative SEK 1,022 M (1,157). The changes in the fair value of the hedge instruments and on the loan have been recognized in finance net in the income statement.
- Hedging of certain net investments in foreign operations done in previous years. The result of such hedges was recognized as a separate item in other comprehensive income. In the event of a divestment, the accumulated result from the hedge is recognized in the income statement.
- Hedging of forecasted electricity consumption. Changes in the fair value are recognized in the cash flow hedge reserve in OCI for effective hedge accounting.

» **Refer to accounting policies** in this note for all other hedging relationships where hedge accounting is not applied.

» **Read more** in **Note 4** for goals and policies in financial risk management including Volvo Group's policies on hedging.

Parent Company AB Volvo

Corporate registration number 556012-5790.

Amounts in SEK M unless otherwise specified. Amounts within parentheses refer to the preceding year, 2013.

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 include dividends amounting to 6,826 (1,689) and transfer price adjustments and royalties amounting to an expense of 1,120 (1,128). Dividend received from Volvo Holding Sverige AB amounted to 4,500 and dividend received from Volvo Korea Holding AB amounted to 1,300.

Shareholders' contribution has been given to Volvo Powertrain AB by 400.

The carrying value of shares and participations in Group companies amounted to 61,283 (60,763), of which 60,241 (59,870) 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 101,274 (101,937).

Investments in joint ventures and associated companies included 3,317 (3,337) in joint ventures and associated companies that are recognized in

accordance with the equity method in the consolidated accounts. The portion of shareholders' equity in joint ventures and associated companies pertaining to AB Volvo amounted to 2,781 (2,519).

The carrying value of the listed company Eicher Motors Ltd, included in other shares and participations, has been revalued to fair value and increased the holding by 3,037 (415).

Financial net debt amounted to 35,967 (33,685).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 38,290 (34,589) corresponding to 46% (45%) of total assets.

Events after Balance Sheet date

In the beginning of January 2015 Volvo Group completed the acquisition of 45% of the shares in Dongfeng Commercial Vehicles Co., Ltd, DFCV, in China. The ownership in DFCV will be classified as an associated company and will be recognized at cost including transaction costs in the parent company. The purchase consideration amounted to approximately SEK 7 billion.

INCOME STATEMENT

SEK M		2014	2013
Net sales	Note 2	696	659
Cost of sales	Note 2	(696)	(659)
Gross income		0	0
Administrative expenses	Note 2, 3	(1,011)	(974)
Other operating income and expenses	Note 4	(65)	(83)
Income (loss) from investments in Group companies	Note 5	5,572	(541)
Income from investments in joint ventures and associated companies	Note 6	26	0
Income from other investments	Note 7	7	1
Operating income		4,529	(1,597)
Interest income and similar credits		1	8
Interest expenses and similar charges	Note 8	(947)	(1,139)
Other financial income and expenses	Note 9	(19)	(57)
Income after financial items		3,564	(2,785)
Allocations	Note 10	3,505	831
Income taxes	Note 11	(379)	333
Income for the period		6,690	(1,621)

OTHER COMPREHENSIVE INCOME

Income for the period	6,690	(1,621)
<i>Items that may be reclassified subsequently to income statement:</i>		
Available-for-sale investments	3,037	415
Other comprehensive income, net of income taxes	3,037	415
Total comprehensive income for the period	9,727	(1,206)

BALANCE SHEET

SEK M		Dec 31, 2014	Dec 31, 2013
Assets			
Non-current assets			
Intangible assets	Note 12	23	38
Tangible assets	Note 12	54	72
<i>Financial assets</i>			
Shares and participations in Group companies	Note 13	61,283	60,763
Receivables from Group companies		59	59
Investments in joint ventures and associated companies	Note 13	3,322	3,343
Other shares and participations	Note 13	4,241	1,203
Deferred tax assets	Note 11	2,191	2,550
Other non-current receivables		27	27
Total non-current assets		71,200	68,055
Current assets			
<i>Current receivables</i>			
Receivables Group companies		11,682	8,951
Other receivables	Note 14	300	311
Cash and bank accounts		0	0
Total current assets		11,982	9,262
Total assets		83,182	77,317
Shareholders' equity and liabilities			
Shareholders' equity			
<i>Restricted equity</i>			
Share capital (2,128,420,220 shares, quota value SEK 1.20)		2,554	2,554
Statutory reserve		7,337	7,337
<i>Unrestricted equity</i>			
Non-restricted reserves		4,252	1,172
Retained earnings		17,453	25,142
Income for the period		6,690	(1,621)
Total shareholders' equity		38,286	34,584
Untaxed reserves	Note 15	4	5
<i>Provisions</i>			
Provisions for post-employment benefits	Note 16	122	133
Other provisions	Note 17	20	31
Total provisions		142	164
<i>Non-current liabilities</i>			
Liabilities to Group companies	Note 18	7	7
Other liabilities		0	0
Total non-current liabilities		7	7
<i>Current liabilities</i>			
Trade payables		166	183
Other liabilities to Group companies		44,269	42,032
Other liabilities	Note 19	308	342
Total current liabilities		44,743	42,557
Total shareholders' equity and liabilities		83,182	77,317
Assets pledged		-	-
Contingent liabilities	Note 20	279,807	232,308

CASH FLOW STATEMENT

SEK M		2014	2013
Operating activities			
Operating income		4,530	(1,597)
Depreciation and amortization		17	16
Other non-cash items	Note 21	113	1,764
Total change in working capital whereof		(159)	739
<i>Change in accounts receivable</i>		16	29
<i>Change in trade payables</i>		(43)	(65)
<i>Other changes in working capital</i>		(132)	775
Interest and similar items received		1	8
Interest and similar items paid		(944)	(1,136)
Other financial items		(16)	(61)
Group contributions received		832	5,628
Income taxes paid		(20)	(254)
Cash-flow from operating activities		4,354	5,107
Investing activities			
Investments in fixed assets		(29)	(37)
Disposals of fixed assets		51	37
Investments and divestments of shares in group companies, net	Note 21	(654)	(5,033)
Investments and divestments of shares in non-group companies, net	Note 21	(1)	(1)
Interest-bearing receivables		–	(26)
Cash-flow after net investments		3,721	47
Financing activities			
Change in loans, net	Note 21	2,291	6,021
Dividends to AB Volvo shareholders		(6,084)	(6,084)
Other		72	16
Change in liquid funds		0	0
Liquid funds, beginning of year		0	0
Liquid funds, end of year		0	0

CHANGES IN SHAREHOLDERS' EQUITY

SEK M	Restricted equity		Unrestricted equity			Total	Total shareholders' equity
	Share capital	Statutory reserve	Share premium reserve	Fair value reserve	Retained earnings		
Balance at December 31, 2012	2,554	7,337	204	543	31,142	31,889	41,780
Income for the period	-	-	-	-	(1,621)	(1,621)	(1,621)
<i>Other comprehensive income</i>							
Available-for-sale investments:							
Gains/losses at valuation to fair value	-	-	-	415	-	415	415
Other comprehensive income for the period	-	-	-	415	(1,621)	(1,206)	(1,206)
Total income for the period	-	-	-	415	(1,621)	(1,206)	(1,206)
<i>Transactions with shareholders</i>							
Dividends to AB Volvo shareholders	-	-	-	-	(6,084)	(6,084)	(6,084)
Share based payments	-	-	10	-	84	94	94
Transactions with shareholders	-	-	10	-	(6,000)	(5,990)	(5,990)
Balance at December 31, 2013	2,554	7,337	214	958	23,521	24,693	34,584
Income for the period	-	-	-	-	6,690	6,690	6,690
<i>Other comprehensive income</i>							
Available-for-sale investments:							
Gains/losses at valuation to fair value	-	-	-	3,037	-	3,037	3,037
Other comprehensive income for the period	-	-	-	3,037	6,690	9,727	9,727
Total income for the period	-	-	-	3,037	6,690	9,727	9,727
<i>Transactions with shareholders</i>							
Dividends to AB Volvo shareholders	-	-	-	-	(6,084)	(6,084)	(6,084)
Share based payments	-	-	43	-	16	59	59
Transactions with shareholders	-	-	43	-	(6,068)	(6,025)	(6,025)
Balance at December 31, 2014	2,554	7,337	257	3,995	24,143	28,395	38,286

» Read more about the share capital of the Parent Company in **Note 19** Equity and number of shares in the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2013.

NOTE 1 | ACCOUNTING POLICIES

The Parent Company has prepared its financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR 2, Accounting for Legal entities. According to RFR 2, 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 changes in RFR 2 applicable to the fiscal year beginning January 1, 2014, have had no material impact on the financial statements of the Parent Company.

The accounting policies applied by the Volvo Group are described in the respective Notes in the consolidated financial statements. The main deviations between the accounting policies applied by the Volvo Group and the Parent Company are described below.

Shares and participations in Group companies and investments in joint ventures and associated companies are recognized at cost in the Parent Company and test for impairment is performed annually. Dividends are recognized in the income statement. All shares and participations are related to business operations and profit or loss from these are reported within Operating income.

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.

According to RFR 2, application of the regulations in IAS 19 regarding defined-benefit plans is not mandatory for legal entities. However, IAS 19 shall be adopted regarding supplementary disclosures when applicable. RFR 2 refers to the Swedish law on safeguarding of pension commitments ("tryggandelagen") regarding recording of "Provisions for post-employment benefits" in the balance sheet and of plan assets in pension foundations.

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.

NOTE 2 | INTRA-GROUP TRANSACTIONS

The Parent Company's net sales amounted to 696 (659), of which 554 (514) pertained to Group companies. Purchases from Group companies amounted to 494 (351).

NOTE 3 | ADMINISTRATIVE EXPENSES

Depreciation

Administrative expenses include depreciation of 18 (16) of which 2 (1) pertains to machinery and equipment, 1 (1) to buildings and 15 (14) to other intangible assets.

Fees to the auditors	2014	2013
PricewaterhouseCoopers AB		
- Audit fees	19	18
- Audit-related fees	1	2
- Tax advisory services	0	1
- Other fees	11	5
Total	31	26

» Read more in Note 28 Fees to the Auditors in the consolidated financial statements for a description of the different categories of fees.

Personnel

Wages, salaries and other remunerations amounted to 354 (289), social costs to 109 (87) and pension costs to 84 (100). Pension cost of 6 (6) pertained to Board Members and the President. The Parent Company has outstanding pension obligations of 1 (1) to these individuals.

The number of employees at year-end was 317 (279).

» Read more in Note 27 Personnel in the consolidated financial statements about the average number of employees, wages, salaries and other remunerations including incentive program as well as Board members and senior executives by gender.

NOTE 4 | OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses include restructuring costs, donations and grants.

NOTE 5 | INCOME (LOSS) FROM INVESTMENTS IN GROUP COMPANIES

Income from investments in Group Companies	2014	2013
Dividends received		
Volvo China Investment Co. Ltd.	367	312
VFS AB	450	1,080
Volvo Danmark AS	61	-
Volvo East Asia (Pte) Ltd., Singapore	108	105
Volvo Holding Sverige AB	4,500	-
Volvo Korea Holding AB	1,300	-
Volvo Event Management UK Ltd.	1	-
Volvo Norge AS	39	-
Volvo Malaysia Sdn Bhd.	-	59
VCE N.V.	-	37
Volvo UK Holding Ltd.	-	11
Volvo Group UK Ltd.	-	85
Subtotal	6,826	1,689
Write-down of shares		
Volvo Group UK Ltd.	(134)	-
Volvo Italia Spa	-	(63)
Volvo Business Services AB	-	(40)
Volvo Parts AB	-	(50)
Volvo Group Japan Corporation	-	(843)
Subtotal	(134)	(996)
Income from divestment of shares		
Non-compete clause Volvo Rents	0	-
Adjustment divestment Volvo Aero AB 2012	-	(106)
Subtotal	0	(106)
Income from investments in Group Companies	6,692	587

Transfer price adjustments and royalties amount to an expense of 1,120 (1,128).

NOTE 6 | INCOME FROM INVESTMENTS IN JOINT VENTURES AND ASSOCIATED COMPANIES

Dividend of 28 (31) was received from VE Commercial Vehicles Ltd. and of 19 (-) from Deutz AG. Income include write-down of participation in Blue Chip Jet HB with - (5) and in Blue Chip Jet II HB with 21 (26).

NOTE 7 | INCOME FROM OTHER INVESTMENTS

Income from other investments includes a dividend of 7 (5) from Eicher Motors Ltd. 2013 the shares in Johanneberg Science Park AB and Lindholmen Science Park AB were written down by 4.

NOTE 8 | INTEREST EXPENSES

Interest expenses and similar charges totalling 947 (1,139) included interest of 944 (1,136) to subsidiaries.

NOTE 9 | OTHER FINANCIAL INCOME AND EXPENSES

Other financial income and expenses include exchange rate gains and losses, costs for credit rating and costs for stock exchange listing.

NOTE 10 | ALLOCATIONS

Group contributions amounted to a net of 3,504 (832).

NOTE 11 | INCOME TAXES

Income taxes were distributed as follow:

	2014	2013
Current taxes relating to the period	(20)	(1)
Current taxes relating to prior periods	-	(253)
Deferred taxes	(359)	587
I/S Total income taxes	(379)	333

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. The tax-loss carry forwards have indefinite period of utilization.

Deferred taxes related to change in tax-loss carryforwards amount to an expense of 357 (income of 590) and to changes in other temporary differences to an expense of 2 (3).

The table below discloses the principal reasons for the difference between the corporate income tax of 22% and the tax for the period.

	2014	2013
Income before taxes	7,069	(1,954)
Income tax according to applicable tax rate	(1,555)	430
Capital gains/losses	-	(23)
Non-taxable dividends	1,513	380
Non-taxable revaluations of shareholdings	(34)	(227)
Other non-deductible expenses	(23)	(15)
Other non-taxable income	10	42
Adjustment of current taxes for prior periods	-	(253)
Withholding tax	(20)	(1)
Remeasurement of deferred tax assets	(269)	-
Recognition and derecognition of deferred tax assets due to change in tax rate	(1)	-
Income taxes for the period	(379)	333

Specification of deferred tax assets	Dec 31, 2014	Dec 31, 2013
Unused tax-loss carryforwards	2,037	2,394
Provisions for post-employment benefits	150	149
Provisions for restructuring measures	4	7
B/S Deferred tax assets	2,191	2,550

NOTE 12

INTANGIBLE AND TANGIBLE ASSETS

Intangible assets, acquisition costs	Rights	Other intangible assets	Total intangible assets
Opening balance 2013	52	116	168
Acquisition cost as of Dec 31, 2013	52	116	168
Acquisition cost as of Dec 31, 2014	52	116	168

Intangible assets, accumulated amortization	Rights	Other intangible assets	Total intangible assets
Opening balance 2013 ¹	52	64	116
Amortization ²	-	14	14
Accumulated amortization as of Dec 31, 2013 ¹	52	78	130
Amortization ²	-	15	15
Accumulated amortization as of Dec 31, 2014 ¹	52	93	145
B/S Net value in balance sheet as of Dec 31, 2013³	-	38	38
B/S Net value in balance sheet as of Dec 31, 2014³	-	23	23

Tangible assets, acquisition costs	Buildings	Land and improvements	Machinery and equipment	Construction in progress, including advance payments	Total tangible assets
Opening balance 2013 ¹	27	14	42	26	109
Capital Expenditures	-	-	-	37	37
Sales/scrapping	-	-	0	(37)	(37)
Reclassifications	-	-	5	(5)	0
Acquisition cost as of Dec 31, 2013	27	14	47	21	109
Capital Expenditures	-	-	-	28	28
Sales/scrapping	(6)	(3)	0	(38)	(47)
Reclassifications	-	-	0	0	0
Acquisition cost as of Dec 31, 2014	21	11	47	11	90

Tangible assets, accumulated depreciation	Buildings	Land and improvements	Machinery and equipment	Construction in progress, including advance payments	Total tangible assets
Opening balance 2013 ¹	4	0	31	-	35
Depreciation ²	1	0	1	-	2
Sales/scrapping	-	-	0	-	0
Accumulated depreciation as Dec 31, 2013 ¹	5	0	32	-	37
Depreciation ²	1	0	2	-	3
Sales/scrapping	(3)	-	(1)	-	(4)
Accumulated depreciation as of Dec 31, 2014 ¹	3	0	33	-	36
B/S Net value in balance sheet as of Dec 31, 2013³	22	14	15	21	72
B/S Net value in balance sheet as of Dec 31, 2014³	18	11	14	11	54

1 Including accumulated write-downs.

2 Including write-downs.

3 Acquisition value, less accumulated depreciation, amortization and write-downs.

NOTE 13

INVESTMENTS IN SHARES AND PARTICIPATIONS

AB Volvo owns, directly or indirectly, 294 (310) legal entities. The legal structure is designed to effectively manage legal requirements, administration and taxes, as well as the operations conducted by the Group in each country it operates. Legal entities may have different characters and include different types of operations, such as production, development and sales. The character of a legal entity may change over time. Furthermore legal entities could include different type of the Group's operations and this could also change over time. In some countries there are legal

restrictions which limit the Group's ability to transfer assets between the Group's legal entities. Read more in the Note 18 Marketable securities and liquid funds in the consolidated financial statements for a description of restrictions related to cash and cash equivalents.

Volvo Group's operational structure gives a better overview of how the Volvo Group has chosen to organize its business. Read more about Volvo Group's operational structure in Note 6 Segment Reporting in the consolidated financial statements.

Changes in AB Volvo's holding of shares and participations are disclosed below:

	Group companies		Joint ventures and associated companies		Non-Group companies	
	2014	2013	2014	2013	2014	2013
Opening balance as of January 1	60,763	56,832	3,343	3,374	1,203	791
Acquisitions/New issue of shares	2	4,203	-	-	-	-
Divestments	(31)	(787)	-	-	-	-
Shareholder's contribution	683	1,511	-	-	1	1
Write-downs/participations in partnerships	(134)	(996)	(21)	(31)	-	(4)
Revaluation of shares in listed companies	-	-	-	-	3,037	415
B/S Balance sheet, December 31	61,283	60,763	3,322	3,343	4,241	1,203

Holding of shares in Group companies	Registration number	Dec 31, 2014	Dec 31, 2014	Dec 31, 2013
		Percentage holding ¹	Carrying value ²	Carrying value ²
Volvo Lastvagnar Sverige AB, Sweden	556013-9700	100	8,711	8,711
Volvo Holding Sverige AB, Sweden	556539-9853	100	7,634	7,634
Volvo Group Japan Co., Japan	-	100	8,928	8,928
Volvo Bussar AB, Sweden	556197-3826	100	1,917	1,917
Volvo Construction Equipment NV, The Netherlands	-	100	2,582	2,582
AB Volvo Penta, Sweden	556034-1330	100	438	438
VNA Holding Inc., USA	-	100	3,278	3,278
Volvo Financial Services AB, Sweden	556000-5406	100	1,945	1,945
Volvo Treasury AB, Sweden	556135-4449	100	13,044	13,044
Sotrof AB, Sweden	556519-4494	100	1,388	1,388
Volvo Korea Holding AB, Sweden	556531-8572	100	2,655	2,655
Volvo China Investment Co Ltd., China	-	100	1,096	1,096
Volvo Automotive Finance (China) Ltd., China	-	100	491	491
Volvo Group UK Ltd., Great Britain ³	-	39	561	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	898	498
Volvo Information Technology AB, Sweden	556103-2698	100	1,263	1,263
Volvo Parts AB, Sweden	556365-9746	100	150	150
Volvo Group Insurance Försäkrings AB, Sweden	516401-8037	100	182	182
Volvo Business Services AB, Sweden	556029-5197	100	67	67
Volvo Danmark A/S, Denmark	-	100	128	128
VFS Servizi Finanziari Spa, Italy ⁴	-	25	79	79
Kommersiella Fordon Europa AB, Sweden	556049-3388	100	1,890	1,890
Volvo Norge A/S, Norway	-	100	56	56
Volvo Malaysia Sdn, Malaysia	-	100	48	48
ZAO Volvo Vostok, Russia ⁵	-	75	34	34
Volvo Italia Spa, Italy	-	100	447	447
CPAC Systems AB, Sweden ⁶	556566-2870	49	367	367
Volvo Logistics AB, Sweden	556197-9732	100	85	85
Rossareds Fastighets AB, Sweden	556009-1190	-	-	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
VFS Int Romania Leasing Operational, Romania	-	100	2	-
Other holdings	-	100	1	5
Total carrying value Group companies⁷			61,283	60,763

Holding of shares in Joint Ventures, associated companies and non-Group companies	Registration number	Dec 31, 2014	Dec 31, 2014	Dec 31, 2013
		Percentage holding ¹	Carrying value ²	Carrying value ²
VE Commercial Vehicles Ltd., India ⁸	-	45.6	1,616	1,616
Eicher Motors Ltd., India	-	8.4	4,228	1,191
Deutz AG, Germany	-	25.0	1,359	1,359
Blue Chip Jet HB, Sweden	969639-1011	50.0	3	3
Blue Chip Jet II HB, Sweden	969717-2105	50.0	339	359
Other investments	-	-	18	18
Total carrying value, joint ventures, associated companies and non-Group companies			7,563	4,546

Shares and participations in Group companies

During 2014 shareholder's contribution has been given to Volvo Group UK Ltd by 283 and to Volvo Powertrain AB by 400. Subscription in the new company VFS Int Romania Leasing Operational has been made by 2. Divestment of Rossared Fastighets AB has been made by 26 and AB Fortos by 5. Write-down of shares in Volvo Group UK Limited has been made by 134 (-).

During 2013 a subscription in Volvo Group Japan Co was made by 3,392. Acquisition of shares in Prévost Car (US) Inc was disposed by shareholder's contribution to VNA Holding Inc. by 787. Shareholder's contribution was given to Volvo Information Technology AB by 600 and to Volvo Italia Spa by 124. Acquisition of shares in Renault Trucks Danmark A/S was made by 24. Renault Trucks Danmark A/S was later on merged into Volvo Danmark A/S. Write-down of shares in Volvo Group Japan Co was made by 843, in Volvo Italia Spa by 63, in Volvo Parts AB by 50 and in Volvo Business Services AB by 40.

AB Volvo's holding in Group companies is presented in the adjoining table.

Investments in associated companies and joint ventures

Write-down of the participation in Blue Chip Jet II HB was recognized by 21 (26). During 2013 write down of the participation in Blue Chip Jet HB was recognized by 5.

Shares and participations in non-Group companies

Revaluation to fair value of the holding in the listed company Eicher Motors Ltd has increased the value by 3,037 (415) recognized in other comprehensive income.

- 1 The percentage holding refers to the Parent Company AB Volvo's holding.
- 2 Refers to AB Volvo's carrying value of its holding.
- 3 Total holding by Volvo Lastvagnar AB and AB Volvo is 100%.
- 4 Total holding by Volvo Italia Spa and AB Volvo is 100%.
- 5 Total holding by AB Volvo and Volvo Trucks Region Central Europe GmbH is 100%.
- 6 Total holding by AB Volvo and AB Volvo Penta is 100%.
- 7 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 101,274 (101,937).
- 8 In Volvo Group the company is reported as a joint venture, consolidated according to equity method.

NOTE 14 | OTHER RECEIVABLES

	Dec 31, 2014	Dec 31, 2013
Accounts receivable	25	31
Prepaid expenses and accrued income	221	248
Other receivables	54	32
B/S Total other receivables	300	311

The valuation allowance for doubtful receivables amounted to 2 (2) at the end of the year. The company considers that fair value does not differ from carrying value.

NOTE 15 | UNTAXED RESERVES

	Dec 31, 2014	Dec 31, 2013
Accumulated additional depreciation		
Land	–	3
Machinery and equipment	4	2
B/S Total untaxed reserves	4	5

NOTE 16 | PROVISIONS FOR POST-EMPLOYMENT BENEFITS

The Parent Company has two types of pension plans:

Defined-contribution plans: post-employment benefit plans where the Company makes regular payments to separate entities and has no legal or constructive obligation to pay further contributions. The expenses for defined contribution plans are recognized during the period when the employee provides service.

Defined-benefit plans: post-employment benefit plans where the Company's undertaking is to provide predetermined benefits that the employee will receive on or after retirement. These benefit plans are secured through balance-sheet provisions or pension-fund contributions. Furthermore, a credit insurance policy has been taken out for the value of the obligations. The main defined-benefit plan is the ITP2 plan which is based on final salary. The plan is semi-closed, meaning that only new employees born before 1979 have the possibility to choose the ITP2 solution. The ITP2 plan for the Company is funded in Volvo Pension Foundation. Pension obligations are calculated annually, on the balance sheet date, based on actuarial assumptions.

The defined-benefit obligations are calculated based on the actual salary levels at year-end and based on a discount rate of 3.84% (3.84) for the ITP2 plan and 2.6% (2.2) for other pension obligations. Assumptions for discount rates and mortality rates are determined annually by PRI Pensionsgaranti for ITP2 and Finansinspektionen for other pension obligations, respectively.

The Volvo Pension Foundation was formed in 1996 to secure obligations relating to retirement pensions for white-collar workers in accordance with the ITP plan. Since its formation, net contributions of 249 have been made to the foundation by the Parent Company.

Provisions for post-employment benefits in the Parent Company's balance sheet correspond to the present value of obligations at year-end, less value of plan assets.

Obligations in defined-benefit plans	Funded	Unfunded	Total
Obligations opening balance 2013	535	135	670
Service costs	15	13	28
Interest costs	22	3	25
Pensions paid	(16)	(19)	(35)
Obligations as of December 31, 2013	556	132	688
Service costs	4	6	10
Interest costs	32	3	35
Pensions paid	(17)	(19)	(36)
Obligations as of December 31, 2014	575	122	697

Fair value of plan assets in funded plans	
Plan assets opening balance 2013	547
Actual return on plan assets	44
Contributions and compensation to/from the fund	–
Plan assets as of December 31, 2013	591
Actual return on plan assets	65
Contributions and compensation to/from the fund	–
Plan assets as of December 31, 2014	656

Provisions for post-employment benefits	Dec 31, 2014	Dec 31, 2013
Obligations ¹	(697)	(688)
Fair value of plan assets	656	591
Funded status	(41)	(97)
Limitation on assets in accordance with Swedish accounting principles	(81)	(36)
B/S Net provisions for post-employment benefits²	(122)	(133)

1 ITP2 obligations amount to 556 (533).

2 ITP2 obligations, net, amount to 0 (0).

Pension costs	2014	2013
Service costs	10	28
Interest costs ³	35	25
Interest income ³	(20)	(20)
Pension costs for defined-benefit plans	25	33
Pension costs for defined-contribution plans	54	40
Special payroll tax/yield tax ⁴	3	26
Cost for credit insurance FPG	2	1
Total costs for the period	84	100

3 Interest cost/interest income, net of 3 (3) is included in financial items.

4 Special payroll tax / yield tax are calculated according to Swedish Tax law and accrued for in Current liabilities.

Volvo Group applies IAS 19 Employee Benefits in the consolidated financial statements. This implies differences, which may be significant, in the accounting of defined-benefit pension plans as well as in the accounting of plan assets invested in the Volvo Pension Foundation.

The accounting principles for defined-benefit plans differ from IAS19 mainly relating to:

- Pension liability calculated according to Swedish accounting principles does not take into account future salary increases.
- The discount rate used in the calculations is set by PRI Pensionsgaranti and Finansinspektionen, respectively.
- Changes in the discount rate, actual return on plan assets and other actuarial assumptions are recognized directly in the income statement and in the balance sheet.
- Deficit must be either immediately settled in cash or recognized as a liability in the balance sheet.
- Surplus cannot be recognized as an asset, but may in some cases be refunded to the Company to offset pensions costs.

NOTE 17 | OTHER PROVISIONS

Other provisions include provisions for restructuring measures of 20 (31).

NOTE 18 | NON-CURRENT LIABILITIES

Non-current debt matures as follows:

2021 or later	7
B/S Total non-current liabilities	7

NOTE 19 | OTHER LIABILITIES

	Dec 31, 2014	Dec 31, 2013
Wages, salaries and withholding taxes	150	119
VAT liabilities	–	22
Accrued expenses and prepaid income	136	183
Other liabilities	22	18
B/S Total other liabilities	308	342

No collateral is provided for current liabilities.

NOTE 20 | CONTINGENT LIABILITIES

Contingent liabilities as of December 31, 2014, amounted to 279,807 (232,308) of which 279,796 (232,297) pertained to Group companies.

Credit guarantees are included to an amount corresponding to the credit limits. Credit guarantees amounted to 270,616 (223,669), of which 270,616 (223,669) pertained to Group companies.

The utilized portion at year end amounted to 134,504 (126,364), of which 134,493 (126,353) pertained to Group companies.

NOTE 21 | CASH-FLOW

Other items not affecting cash amounted to:	2014	2013
Revaluation of shareholdings	155	1,031
Gains/(losses) on sale of shares	0	106
Transfer price adjustments, net	(132)	558
Other changes	90	69
Total Other items not affecting cash flow	113	1,764

Further information is provided in Notes 5 Income (loss) from investments in Group companies, 6 Income from investments in joint ventures and associated companies and 7 Income from other investments.

Investments and divestments of shares in Group companies, net	2014	2013
Investments	(685)	(4,927)
Divestments	31	(106)
Total cash flow from investments and divestments of shares in Group companies, net	(654)	(5,033)

Investments and divestments of participations in Group companies are shown in Note 13 Investments in shares and participations.

Investments and divestments of shares in non-Group companies, net	2014	2013
Investments	(1)	(1)
Total cash flow from investments and divestments of shares in non-Group companies, net	(1)	(1)

Investments and divestments of participations in non-Group companies are presented in Note 13 Investments in shares and participations.

Change in loans, net

Increase in loans is related to the company's liability in the group account at Volvo Treasury AB. The liability has increased by 2,291 (6,021).

Proposed Remuneration Policy

The proposal by the Board of Directors of AB Volvo to be adopted by the Annual General Meeting April 1, 2015.

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 2014 sets out details on the total remuneration and benefits awarded to the Executives during 2014.

2. The principles for fixed salaries

The Executive's fixed salary shall be competitive and based on the individual Executive's responsibilities and performance.

3. The principal terms of variable salary and incentive schemes, including the relation between fixed and variable components of the remuneration and the linkage between performance and remuneration

The Executives may receive variable salaries in addition to fixed salaries. The variable salary may, as regards the President, amount to a maximum of 75 percent of the fixed annual salary and, as regards the other Executives, a maximum of 60 percent 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 2014 decided to adopt a share-based incentive program for senior executives in the Volvo Group relating to the financial years 2014, 2015 and 2016.

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 percent of the pensionable salary over 30 income base amounts and for the second plan the annual premiums amount to 10 percent 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 2015 fall within the frames of this policy.

Deviation from current Policy

The Board of Directors was authorized to deviate from the Policy on Remuneration to Senior Executives adopted by the Annual General Meeting of AB Volvo held in 2014 according to section 6 of said Policy. The Board has resolved on such a deviation by, under separation arrangements with two Executives, approving payment to those Executives of pension premiums corresponding to the period from the termination of the employment, however from the age of 60 at the earliest, until the age of 65, in addition to 12 months' severance pay. The premium payments correspond to about one annual salary for each Executive. The reason for the deviation is a reorganization within the Group entailing among other things that the number of Group Executive Team members has decreased from 16 to 10 and that the two Executives' respective positions do not remain.

Proposed Disposition of Unappropriated Earnings

AB Volvo	SEK
Retained earnings	21,705,022,946.00
Income for the period 2014	6,690,166,462.32
Total retained earnings	28,395,189,408.92

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	6,089,823,870.00
To be carried forward	22,305,365,538.92
Total	28,395,189,408.92

The record date for determining who is entitled to receive dividends is proposed to be Tuesday April 7, 2015.

In view of the Board of Directors' proposal to the Annual General Meeting to be held April 1, 2015 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 46.0 percent to 41.8 percent and the Group's solvency from 20.9 percent to 19.6 per cent, calculated as per year end 2014. 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 22,305,365,538.92 will remain of the Company's non-restricted equity, calculated as per year end 2014.

The Board of Directors has the view that the Company's and the Group's shareholders' equity will, after the proposed dividend, be sufficient in relation to the nature, scope and risks of the business.

Had the assets and liabilities not been estimated at their market value pursuant to Chapter 4, Section 14 a of the Swedish Annual Accounts Act, the company's shareholders' equity would have been SEK 3,995,279,712.00 less.

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 26, 2015

Carl-Henric Svanberg
Board Chairman

Matti Alahuhta
Board member

Jean-Baptiste Duzan
Board member

James W. Griffith
Board member

Kathryn V. Marinello
Board member

Hanne de Mora
Board member

Anders Nyrén
Board member

Olof Persson
President, CEO and
Board member

Lars Westerberg
Board member

Mats Henning
Board member

Mikael Sällström
Board member

Berth Thulin
Board member

Our audit report was issued on February 26, 2015

PricewaterhouseCoopers AB

Peter Clemetson
Authorized Public Accountant
Lead Partner

Johan Rippe
Authorized Public Accountant
Partner

Audit Report for AB Volvo (publ)

To the annual meeting of the shareholders of AB Volvo (publ), 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 (publ) for the year 2014. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 66–89 and 108–177.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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 Managing Director, 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 opinions.

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 2014 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 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 90–107. 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 Managing Director of AB Volvo (publ) for the year 2014.

Responsibilities of the Board of Directors and the Managing Director

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 Managing Director 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 Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director 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 Managing Director be discharged from liability for the financial year.

Göteborg, February 26, 2015

PricewaterhouseCoopers AB

Peter Clemedtsen
Authorized Public Accountant
Lead Partner

Johan Rippe
Authorized Public Accountant
Partner

Eleven-year Summary

The reporting in the eleven-year summary is based on IFRS. The transition to IFRS from 2004 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 business 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 statement

SEK M	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net sales	282,948	272,622	303,647	310,367	264,749	218,361	303,667	285,405	258,835	240,559	211,076
Cost of sales	(220,012)	(212,504)	(235,085)	(235,104)	(201,797)	(186,167)	(237,578)	(219,600)	(199,054)	(186,662)	(164,170)
Gross income	62,937	60,118	68,562	75,263	62,952	32,194	66,089	65,805	59,781	53,897	46,906
Research and development expenses	(16,656)	(15,124)	(14,794)	(13,276)	(12,970)	(13,193)	(14,348)	(11,059)	(8,354)	(7,557)	(7,614)
Selling expenses	(27,448)	(28,506)	(28,248)	(26,001)	(24,149)	(25,334)	(27,129)	(26,068)	(21,213)	(20,778)	(19,369)
Administrative expenses	(5,408)	(5,862)	(5,669)	(7,132)	(5,666)	(5,863)	(6,940)	(7,133)	(6,551)	(6,301)	(5,483)
Other operating income and expenses	(7,697)	(3,554)	(2,160)	(1,649)	(2,023)	(4,798)	(1,915)	163	(3,466)	(588)	(618)
Income from investments in joint ventures and associated companies	46	96	(23)	(81)	(86)	(14)	25	430	61	(557)	27
Income from other investments	50	(30)	(47)	(225)	(58)	(6)	69	93	141	37	830
Operating income	5,824	7,138	17,622	26,899	18,000	(17,013)	15,851	22,231	20,399	18,153	14,679
Interest income and similar credits	328	381	510	608	442	390	1,171	952	666	654	821
Interest expenses and similar charges	(1,994)	(2,810)	(2,476)	(2,875)	(3,142)	(3,559)	(1,935)	(1,122)	(585)	(972)	(1,254)
Other financial income and expenses	931	11	(301)	297	213	(392)	(1,077)	(504)	(181)	181	(1,210)
Income after financial items	5,089	4,721	15,355	24,929	15,514	(20,573)	14,010	21,557	20,299	18,016	13,036
Income taxes	(2,854)	(919)	(4,097)	(6,814)	(4,302)	5,889	(3,994)	(6,529)	(3,981)	(4,908)	(3,129)
Income for the period	2,235	3,802	11,258	18,115	11,212	(14,685)	10,016	15,028	16,318	13,108	9,907
Attributable to:											
Equity holders of the Parent Company	2,099	3,583	11,039	17,751	10,866	(14,718)	9,942	14,932	16,268	13,054	9,867
Minority interest	136	219	219	364	346	33	74	96	50	54	40
	2,235	3,802	11,258	18,115	11,212	(14,685)	10,016	15,028	16,318	13,108	9,907

Consolidated income statement Industrial Operations

SEK M	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net sales	275,999	265,420	296,031	303,589	257,375	208,487	294,932	276,795	249,020	231,191	202,171
Cost of sales	(217,251)	(209,307)	(231,216)	(233,097)	(197,480)	(179,578)	(232,247)	(214,160)	(192,400)	(180,823)	(158,453)
Gross income	58,748	56,113	64,815	70,492	59,895	28,909	62,685	62,635	56,620	50,368	43,718
Research and development expenses	(16,656)	(15,124)	(14,794)	(13,276)	(12,970)	(13,193)	(14,348)	(11,059)	(8,354)	(7,557)	(7,614)
Selling expenses	(25,778)	(26,904)	(26,582)	(25,181)	(22,649)	(23,752)	(25,597)	(24,671)	(19,999)	(19,616)	(18,317)
Administrative expenses	(5,367)	(5,824)	(5,639)	(4,753)	(5,640)	(5,838)	(6,921)	(7,092)	(6,481)	(6,147)	(5,310)
Other operating income and expenses	(6,931)	(2,710)	(1,600)	(1,045)	(659)	(2,432)	(1,457)	249	(3,275)	(397)	7
Income from Volvo Financial Services	-	-	-	-	-	-	-	-	-	2,033	1,365
Income (loss) from investments in joint ventures and associated companies	46	96	(23)	(82)	(86)	(15)	23	428	61	(568)	2
Income from other investments	49	(31)	(46)	(225)	(57)	(13)	69	93	141	37	828
Operating income	4,111	5,616	16,130	25,930	17,834	(16,333)	14,454	20,583	18,713	18,153	14,679

Consolidated balance sheets

SEK M	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Intangible assets	37,115	36,588	40,373	39,507	40,714	41,628	43,958	36,508	19,117	20,421	17,612
Property, plant and equipment	55,181	52,233	55,004	54,540	54,242	55,280	57,270	47,210	34,379	35,068	31,151
Assets under operating leases	31,218	25,672	29,022	23,922	19,647	20,388	25,429	22,502	20,501	20,839	19,534
Shares and participations	9,839	6,327	2,890	1,874	2,098	2,044	1,953	2,219	6,890	751	2,003
Inventories	45,533	41,153	40,409	44,599	39,837	37,727	55,045	43,645	34,211	33,937	28,598
Customer-financing receivables	99,166	83,861	80,989	78,699	72,688	81,977	98,489	78,847	64,742	64,466	51,193
Interest-bearing receivables	2,555	1,389	5,635	3,638	2,757	3,044	5,101	4,530	4,116	1,897	3,384
Other receivables	68,448	59,943	55,531	59,877	53,154	50,575	61,560	55,152	42,567	42,881	35,747
Non-interest-bearing assets held for sale	288	8,104	-	9,348	136	1,692	-	-	805	-	-
Cash and cash equivalents	33,554	29,559	28,889	37,241	32,733	37,910	23,614	31,034	31,099	36,947	34,746
Assets	382,896	344,829	338,742	353,244	318,007	332,265	372,419	321,647	258,427	257,207	223,968
Shareholders' equity ¹	80,048	77,365	86,914	85,681	74,121	67,034	84,640	82,781	87,188	78,760	70,155
Provision for post-employment benefits	16,683	12,322	6,697	6,665	7,510	8,051	11,705	9,774	8,692	11,986	14,703
Other provisions	28,010	19,900	21,787	20,815	18,992	19,485	29,076	27,084	20,970	18,556	14,993
Interest-bearing liabilities	147,985	135,001	131,842	130,479	123,695	156,852	145,727	108,318	66,957	74,885	61,807
Liabilities associated with assets held for sale	130	350	-	4,716	135	272	-	-	280	-	-
Other liabilities	110,042	99,891	91,502	104,888	93,554	80,571	101,271	93,690	74,340	73,020	62,310
Shareholders' equity and liabilities	382,896	344,829	338,742	353,244	318,007	332,265	372,419	321,647	258,427	257,207	223,968
¹ of which minority interests	1,723	1,333	1,266	1,100	1,011	629	630	579	284	260	229
Assets pledged	7,680	5,078	4,099	1,832	3,339	958	1,380	1,556	1,960	3,255	3,046
Contingent liabilities	15,940	17,290	17,763	17,154	11,003	9,607	9,427	8,153	7,726	7,850	9,189

Consolidated balance sheets, Industrial Operations

SEK M	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Intangible assets	37,010	36,479	40,267	39,385	40,613	41,532	43,909	36,441	19,054	20,348	17,570
Property, plant and equipment	55,087	52,146	54,899	54,446	54,169	55,208	57,185	47,132	30,493	31,330	27,260
Assets under operating leases	19,484	17,013	21,263	16,749	13,217	13,539	16,967	13,850	11,822	10,260	8,477
Shares and participations	9,825	6,321	2,884	1,871	2,080	2,025	1,935	2,189	16,565	10,357	10,116
Inventories	45,364	40,964	40,057	43,828	38,956	35,765	54,084	43,264	33,893	33,583	28,291
Customer-financing receivables	1,828	1,406	1,397	1,702	1,428	1,367	975	1,233	1,193	1,377	230
Interest-bearing receivables	2,777	2,195	11,011	6,734	11,153	8,010	6,056	13,701	13,214	7,691	12,127
Other receivables	70,413	60,679	54,324	59,062	52,358	49,008	60,586	55,970	43,335	43,992	36,535
Non-current assets held for sale	288	8,104	-	9,348	136	1,692	-	-	805	-	-
Cash and cash equivalents	31,105	28,230	27,146	35,951	31,491	37,404	22,575	30,026	29,907	36,047	34,628
Assets	273,181	253,537	253,248	269,076	245,602	245,550	264,272	243,806	200,281	194,985	175,234
Shareholders' equity	70,105	68,467	78,321	76,682	66,101	58,485	75,046	75,129	87,188	78,760	70,155
Provision for post-employment benefits	16,580	12,249	6,663	6,635	7,478	8,021	11,677	9,746	8,661	11,966	14,677
Other provisions	25,054	17,575	19,653	19,101	17,240	17,456	27,015	25,372	19,385	17,164	14,115
Interest-bearing liabilities	48,180	52,491	54,472	55,394	59,857	78,890	46,749	38,286	9,779	13,097	13,968
Liabilities associated with assets held for sale	130	350	-	4,716	135	272	-	-	280	-	-
Other liabilities	113,131	102,405	94,139	106,548	94,791	82,426	103,785	95,273	74,988	73,998	62,319
Shareholders' equity and liabilities	273,181	253,537	253,248	269,076	245,602	245,550	264,272	243,806	200,281	194,985	175,234

Consolidated cash-flow statements

SEK bn	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating income (loss)	5.8	7.1	17.6	26.9	18.0	(17.0)	15.9	22.2	20.4	18.2	14.7
Depreciation and amortization	15.9	17.4	14.7	13.9	13.8	15.2	13.5	12.5	12.4	9.9	10.0
Other non-cash items	6.1	2.4	1.4	1.3	1.6	4.4	(0.2)	(0.5)	0.7	0.4	(0.1)
Change in working capital	(14.1)	(10.8)	(21.9)	(15.1)	4.8	16.9	(23.3)	(9.9)	(7.7)	(4.7)	(1.4)
Customer financing receivables, net	–	–	–	–	–	–	–	–	–	(7.8)	(7.4)
Financial items and income tax	(5.0)	(5.1)	(8.0)	(7.3)	(5.5)	(4.6)	(5.2)	(5.9)	(4.3)	(2.0)	(0.5)
Cash-flow from operating activities	8.7	11.0	3.8	19.7	32.7	14.9	0.7	18.4	21.5	14.0	15.3
Investments in fixed assets	(8.6)	(12.2)	(14.6)	(12.6)	(10.4)	(10.5)	(12.7)	(10.1)	(10.0)	(10.3)	(7.4)
Investments in leasing assets	(10.1)	(8.2)	(10.0)	(7.4)	(4.8)	(4.2)	(5.4)	(4.8)	(4.6)	(4.5)	(4.4)
Disposals of fixed assets and leasing assets	5.0	3.4	3.1	3.3	3.1	3.8	2.9	2.9	3.2	2.6	2.4
Shares and participations, net	0.1	0.0	(1.2)	(0.1)	(0.1)	0.0	0.0	0.4	(5.8)	0.3	15.1
Acquired and divested subsidiaries and other business units, net	7.4	0.9	3.4	(1.6)	0.6	0.2	(1.3)	(15.0)	0.5	0.7	(0.1)
Interest-bearing receivables including marketable securities	(4.8)	0.5	3.7	2.6	6.8	(8.9)	10.9	3.6	7.7	(1.3)	(6.4)
Cash-flow after net investments	(2.3)	(4.6)	(11.8)	3.9	27.9	(4.7)	(4.9)	(4.6)	12.5	1.5	14.5
Change in loans, net	6.7	13.0	14.1	8.7	(25.7)	12.6	18.2	28.7	(2.6)	3.6	(8.8)
Repurchase of own shares	–	–	–	–	–	0.0	–	–	–	(1.8)	(2.5)
Dividend to AB Volvo's shareholders	(6.1)	(6.1)	(6.1)	(5.1)	0.0	(4.1)	(11.1)	(20.3)	(6.8)	(5.1)	(3.4)
Dividend to minority shareholder's	0.0	(0.2)	0.0	0.0	(0.1)	–	–	–	–	–	–
Other	(0.1)	0.1	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0
Change in cash and cash equivalents excluding translation differences	(1.8)	2.2	(3.8)	7.5	2.1	3.7	2.2	3.8	3.1	(1.8)	(0.2)
Translation differences on cash and cash equivalents	1.1	(0.5)	(0.8)	(0.1)	(0.4)	(0.2)	1.0	0.0	(0.5)	1.1	(0.2)
Change in cash and cash equivalents	(0.7)	1.7	(4.6)	7.4	1.7	3.5	3.2	3.8	2.6	(0.7)	(0.4)

Operating cash-flow Industrial Operations

SEK bn	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating income	4.1	5.6	16.1	26.0	17.8	(16.3)	14.5	20.6	18.7	16.1	13.3
Depreciation and amortization	12.7	14.5	12.0	11.4	11.4	12.4	11.8	10.3	9.8	7.3	7.1
Other items not affecting cash	5.3	1.5	0.8	0.6	0.1	2.3	(0.7)	(0.4)	0.2	0.2	(0.6)
Change in working capital	(3.3)	(2.0)	(9.2)	(4.2)	4.6	4.7	(10.9)	(0.1)	(3.1)	(5.6)	(1.4)
Financial items and income taxes	(4.5)	(4.9)	(7.3)	(6.9)	(5.1)	(4.7)	(5.0)	(6.0)	(3.7)	(1.9)	(0.2)
Cash-flow from operating activities	14.3	14.7	12.4	26.9	28.8	(1.6)	9.7	24.4	21.9	16.1	18.2
Investments in fixed assets	(8.6)	(12.2)	(14.6)	(12.6)	(10.3)	(10.3)	(12.6)	(10.1)	(9.7)	(9.9)	(7.2)
Investments in leasing assets	(0.5)	(1.5)	(3.6)	(1.4)	(0.3)	(0.2)	(0.4)	(0.2)	(0.5)	(0.3)	(0.3)
Disposals of fixed assets and leasing assets	1.1	0.5	0.9	1.2	0.8	0.7	0.6	1.1	0.9	0.9	0.7
Operating cash-flow	6.4	1.5	(4.9)	14.1	19.0	(11.4)	(2.7)	15.2	12.6	6.8	11.4

Exports from Sweden

SEK M	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Volvo Group, total	78,174	88,560	84,314	91,065	72,688	41,829	96,571	88,606	80,517	71,133	62,653

Key ratios

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Gross margin, % ¹	21.3	21.1	21.9	23.7	23.3	13.9	21.3	22.6	22.7	21.8	21.6
Research and development expenses as percentage of net sales ¹	6.0	5.7	5.0	4.4	5.0	6.3	4.9	4.0	3.4	3.3	3.8
Selling expenses as percentage of net sales ¹	9.3	10.1	9.0	8.0	8.8	11.4	8.7	8.9	8.0	8.5	9.1
Administration expenses as percentage of net sales ¹	1.9	2.2	1.9	2.3	2.2	2.8	2.3	2.6	2.6	2.7	2.6
Return on shareholders' equity, %	2.8	5.0	12.9	23.1	16.0	(19.7)	12.1	18.1	19.6	17.8	13.9
Interest coverage, times ¹	2.2	2.1	6.7	9.6	5.9	(4.7)	8.8	20.7	26.1	16.7	11.0
Self-financing ratio, %	64	84	18	118	270	137	5	153	189	116	163
Self-financing ratio Industrial Operations, %	180	112	72	210	294	(16)	78	265	235	173	268
Financial position, Industrial Operations, SEK M	(9,924)	(19,828)	(22,978)	(19,346)	(24,691)	(41,489)	(29,795)	(4,305)	23,076	18,675	18,110
Net financial position as percentage of shareholders' equity ¹	(37.6)	(46.8)	(29.3)	(25.2)	(37.4)	(70.9)	(39.7)	(5.7)	29.2	23.7	25.8
Shareholders' equity as percentage of total assets	20.9	22.4	25.7	24.3	23.3	20.2	22.7	25.7	33.7	30.6	31.3
Shareholders' equity as percentage of total assets, Industrial Operations	25.7	27.0	30.9	28.5	26.9	23.8	28.4	30.8	40.6	40.4	40.0
Shareholders' equity excluding minority interest as percentage of total assets	20.5	22.0	25.2	23.9	23.0	20.0	22.6	25.6	33.6	30.5	31.2

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.

Volvo share statistics

Data per share (adjusted for issues and splits) ¹	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Basic earnings, SEK ¹	1.03	1.77	5.44	8.75	5.36	(7.26)	4.90	7.37	8.03	6.44	4.72
Cash dividend, SEK	3.00 ⁹	3.00	3.00	3.00	2.50	0	2.00	5.50	10.00 ⁸	3.35	2.50
Share price at year-end, SEK (B share)	84.70	84.45	88.80	75.30	118.50	61.45	42.90	108.50	90.70	74.90	52.70
Direct return, % (B share) ²	3.5	3.6	3.4	4.0	2.1	–	4.7	5.1	11.0	4.5	4.7
Effective return, % (B share) ³	4	(2)	22	(34)	97	43	(59)	25.7	39.8	48.5	25.5
Price/earnings ratio (B share) ⁴	82.2	47.7	16.3	8.6	22.1	neg	8.8	14.7	11.3	11.6	11.2
EBIT multiple ⁵	26.3	19.6	9.0	5.1	12.0	neg	3.6	9.7	10.3	9.3	9.2
Payout ratio, % ⁶	291	169	55	34	47	–	41	75	62	52	53
Shareholders' equity, SEK ⁷	39	38	43	42	36	33	41	41	43	38.80	34
Return on shareholders' equity, %	2.8	5.0	12.9	23.1	16.0	neg	12.1	18.1	19.6	17.8	13.9

- 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, (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.
- 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 extra payment of SEK 5 through redemption of shares.
- 9 Proposed by the Board of Directors.

Other share data	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Number of shareholders at year-end	237,871	246,265	242,482	251,715	240,043	233,311	220,192	197,519	183,735	195,442	202,300
Number of Series A shares outstanding at year-end, million	492	499	526	643	657	657	657	657	131.4	131.4	131.5
Number of Series B shares outstanding at year-end, million	1,537	1,530	1,502	1,385	1,371	1,371	1,371	1,369	273.4	273.1	278.6
Average number of shares outstanding, million	2,028	2,028	2,028	2,027	2,027	2,027	2,027	2,025	404.7	405.2	418.5
Number of Series A shares traded in Stockholm during the year, million	86.3	53.0	45.4	130.5	203.2	147.0	308.0	172.3	56.4	39.3	42.0
Number of Series B shares traded in Stockholm during the year, million	2,068.7	1,878.5	2,081.2	2,944.1	2,272.4	2,713.9	3,130.0	2,712.4	617.0	518.7	498.0
Number of shares traded in ADR, NASDAQ during the year, million	–	–	–	–	–	–	–	113.5	14.1	19.8	24.0

The largest shareholders in AB Volvo, December 31, 2014 ¹	Number of shares	% of total votes	Share capital, %
Industrivärden	144,493,586	22.0	7.1
Cevian Capital	108,874,195	13.4	5.4
Norges Bank Investment Management	119,622,843	6.2	5.9
SHB ²	39,748,666	5.8	2.0
Alecta (pension funds)	87,885,000	4.6	4.3
AFA Insurance	26,867,366	3.5	1.3
AMF Insurance & Funds	52,044,952	2.6	2.6
AP4 Fund	17,965,296	1.8	0.9
Swedbank Robur Funds	89,760,772	1.7	4.4
Skandia Liv	13,906,883	1.2	0.7
Total	701,169,559	62.8	34.6

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, 2014 ¹	Number of shareholders	% of total votes ¹	Share of capital, % ¹
1–1,000 shares	178,811	2.7	2.7
1,001–10,000 shares	53,663	6.2	7.3
10,001–100,000 shares	4,684	3.7	5.5
100,001–	713	87.4	84.5
Total	237,871	100.0	100.0

1 Based on all registered shares.

AB Volvo held 4.7% of the Company's shares on December 31, 2014.

Business area statistics

Net sales ¹												
SEK M		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Trucks	Europe	72,757	73,640	76,365	83,451	69,606	65,874	109,914	108,651	93,282	79,706	77,431
	North America	53,696	40,314	42,650	37,042	26,901	21,563	26,588	27,255	50,605	46,129	35,154
	South America	19,669	23,318	21,172	26,847	21,680	12,490	14,680	11,483	9,213	7,657	5,223
	Asia	29,264	26,740	36,531	37,840	35,231	26,943	37,515	26,593	8,975	13,551	12,378
	Other markets	15,518	14,462	15,565	13,741	13,887	12,069	14,538	13,910	9,190	8,353	6,693
	Total	190,904	178,474	192,283	198,920	167,305	138,940	203,235	187,892	171,265	155,396	136,879
Buses	Europe	6,139	5,429	6,200	6,631	6,242	7,707	7,321	7,767	7,924	7,142	6,948
	North America	6,721	5,929	6,675	7,532	7,200	5,673	5,355	4,630	4,910	4,247	2,960
	South America	2,559	1,836	2,794	2,715	1,737	1,235	1,571	1,623	1,537	2,641	521
	Asia	1,892	2,055	2,853	2,953	3,299	2,749	2,094	1,802	2,003	1,612	1,632
	Other markets	1,334	1,457	1,774	1,992	2,038	1,101	971	786	897	947	661
	Total	18,645	16,707	20,295	21,823	20,516	18,465	17,312	16,608	17,271	16,589	12,722
Construction Equipment	Europe	17,215	16,356	16,518	17,765	16,138	12,987	25,192	25,294	20,326	15,524	13,453
	North America	10,784	8,319	12,027	7,829	6,267	5,475	10,159	11,170	11,280	10,337	8,601
	South America	3,234	3,314	3,788	4,163	4,130	2,578	2,913	2,155	1,358	1,238	922
	Asia	18,458	21,911	27,033	29,999	24,352	12,957	13,738	12,179	6,903	5,717	4,961
	Other markets	3,164	3,539	4,192	3,745	2,923	1,661	4,077	2,835	2,264	2,000	1,423
	Total	52,855	53,437	63,558	63,500	53,810	35,658	56,079	53,633	42,131	34,816	29,360
Volvo Penta	Europe	3,779	3,714	3,620	4,274	4,507	4,390	6,554	6,798	6,111	5,102	4,907
	North America	1,584	1,491	1,486	1,379	1,500	1,100	1,947	2,674	2,815	2,832	2,500
	South America	386	297	306	335	335	284	364	274	221	208	142
	Asia	1,615	1,692	1,867	2,130	2,008	2,054	2,082	1,624	1,359	1,427	1,324
	Other markets	425	356	352	341	366	331	486	349	268	207	184
	Total	7,790	7,550	7,631	8,458	8,716	8,159	11,433	11,719	10,774	9,776	9,057
Volvo Aero	Europe	-	-	2,404	2,893	3,768	3,942	3,497	3,462	3,798	3,406	3,179
	North America	-	-	2,657	3,300	3,599	3,508	3,534	3,723	3,815	3,612	3,127
	South America	-	-	0	7	27	34	58	127	173	168	138
	Asia	-	-	109	104	233	205	234	234	356	284	400
	Other markets	-	-	49	52	81	114	125	100	91	68	81
	Total	-	-	5,219	6,356	7,708	7,803	7,448	7,646	8,233	7,538	6,925
Other and eliminations		5,806	9,252	7,044	4,532	(680)	(538)	(575)	(703)	(654)	7,076	7,228
Net sales Industrial Operations		275,999	265,420	296,031	303,589	257,375	208,487	294,932	276,795	249,020	231,191	202,171
Customer Finance	Europe	5,120	4,686	4,703	4,663	4,733	7,127	7,099	4,484	4,388	4,797	6,613
	North America	2,999	2,900	2,833	2,326	2,605	3,004	369	2,467	2,569	2,036	2,432
	South America	1,122	1,009	1,195	1,131	1,156	1,070	791	620	608	570	396
	Asia	638	707	795	571	435	435	158	87	45	101	90
	Other markets	232	237	257	192	101	75	68	47	38	45	67
	Total	10,111	9,539	9,783	8,883	9,031	11,711	8,485	7,705	7,648	7,549	9,598
Eliminations		(3,162)	(2,336)	(2,167)	(2,104)	(1,658)	(1,836)	250	905	2,167	1,819	(693)
Volvo Group total		282,948	272,622	303,647	310,367	264,749	218,361	303,667	285,405	258,835	240,559	211,076

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.

Operating income											
SEK M	2014 ⁵	2013 ⁴	2012 ³	2011	2010	2009	2008	2007	2006 ²	2005	2004 ¹
Trucks	4,157	6,145	10,216	18,227	10,112	(10,805)	12,167	15,193	13,116	11,717	8,992
Buses	92	(190)	51	1,114	780	(350)	(76)	231	745	470	158
Construction Equipment	652	2,592	5,773	6,812	6,180	(4,005)	1,808	4,218	4,072	2,752	1,898
Volvo Penta	724	626	541	825	578	(230)	928	1,173	1,105	943	940
Volvo Aero	–	–	767	360	286	50	359	529	359	836	403
Customer Finance	1,712	1,522	1,492	969	167	(680)	1,397	1,649	1,686	2,033	1,365
Other	(1,514)	(3,557)	(1,217)	(1,408)	(102)	(994)	(731)	(762)	(684)	(598)	923
Operating income (loss)											
Volvo Group	5,824	7,138	17,622	26,899	18,000	(17,013)	15,851	22,231	20,399	18,153	14,679

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 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.

2 Operating income in 2006 includes adjustment of goodwill of neg 1,712, reported in Trucks.

3 Volvo Aero was divested October 1, 2012.

4 Operating income in 2013 includes a revaluation of neg 1,500 related to Volvo Rents, reported in Other.

5 Operating income in 2014 included provisions of 4,450 for pending EU antitrust investigation of 3,790 and expected credit losses of 660.

Operating margin											
%	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Trucks	2.2	3.4	5.3	9.2	6.0	(7.8)	6.0	8.1	7.7	7.5	6.6
Buses	0.5	(1.1)	0.3	5.1	3.8	(1.9)	(0.4)	1.4	4.3	2.8	1.2
Construction Equipment	1.2	4.9	9.1	10.7	11.5	(11.2)	3.2	7.9	9.7	7.9	6.5
Volvo Penta	9.3	8.3	7.1	9.8	6.6	(2.8)	8.1	10.0	10.3	9.6	10.4
Volvo Aero	–	–	14.7	5.7	3.7	0.6	4.8	6.9	4.4	11.1	5.8
Volvo Group Industrial Operations	1.5	2.1	5.4	8.5	6.9	(7.8)	5.2	7.8	7.9	7.9	7.3
Customer Finance	16.9	16.0	15.3	10.9	1.8	(5.8)	16.5	21.4	22.0	26.9	14.2
Volvo Group	2.1	2.6	5.8	8.7	6.8	(7.8)	5.2	7.8	7.9	7.5	7.0

Number of employees at year-end											
Number ^{1,2,3}	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Trucks	58,067	58,542	61,256	62,315	57,796	56,505	64,280	64,390	49,900	50,240	49,450
Buses	6,900	6,648	7,514	8,529	8,685	9,541	8,930	9,290	7,760	7,710	7,700
Construction Equipment	14,901	14,663	14,788	18,422	16,648	16,126	19,810	19,710	11,050	10,290	9,930
Volvo Penta	1,422	1,412	1,361	2,549	2,353	2,928	2,940	3,000	1,650	1,560	1,580
Volvo Aero	–	–	–	3,179	3,120	3,278	3,510	3,550	3,510	3,460	3,350
Financial Services	1,339	1,355	1,362	1,323	1,235	1,234	1,290	1,150	1,010	1,070	1,100
Other	10,193	12,913	12,436	1,845	572	596	620	610	8,310	7,530	7,970
Volvo Group, total	92,822	95,533	98,717	98,162	90,409	90,208	101,380	101,700	83,190	81,860	81,080

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	2014	2013	2012 ¹	2011
Energy consumption (GWh; MWh/SEK M)	2,176; 7.9	2,536; 9.6	2,518; 8.6	2,471; 8.1
CO ₂ emissions (1,000 tons; tons/SEK M)	231; 0.8	280; 1.1	235; 0.8	255; 0.8
Water consumption (1,000 m ³ ; m ³ /SEK M)	4,982; 18.1	5,815; 21.9	7,372; 25.2	7,970; 26.2
NO _x emissions (tons; kilos/SEK M)	332; 1.2	347; 1.3	413; 1.4	474; 1.6
Solvent emissions (tons; kilos/SEK M)	2,387; 8.6	2,221; 8.4	2,358; 8.1	2,554; 8.4
Sulphur dioxide emissions (tons; kilos/SEK M)	18.3; 0.1	23.4; 0.1	26; 0.1	34; 0.1
Hazardous waste (tons; kg/SEK M)	24,944; 90.4	28,395; 107.0	32,547; 111.4	25,943; 85.5
Net sales, SEK bn	276.0	265.4	292.2	303.6

1 Restated according to new accounting rules.

2 Excluding UD Trucks and Ingersoll Rand Road Development.

Employees											
Number ¹	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Sweden	21,384	22,588	23,052	24,663	23,073	22,763	28,190	28,660	27,830	27,070	28,530
Europe, excluding Sweden	29,449	29,746	30,382	30,458	29,239	29,793	32,940	32,780	30,070	29,650	28,930
North America	15,217	16,397	16,569	15,427	12,844	12,640	14,200	15,750	14,820	15,140	14,620
South America	6,353	6,275	5,977	5,234	4,322	4,257	4,380	4,640	3,890	3,690	3,110
Asia	17,793	17,953	20,222	19,924	18,535	18,416	19,090	17,150	4,420	4,210	4,130
Other markets	2,626	2,574	2,515	2,456	2,396	2,339	2,580	2,720	2,160	2,100	1,760
Volvo Group total	92,822	95,533	98,717	98,162	90,409	90,208	101,380	101,700	83,190	81,860	81,080

1 As of 2009 regular employees are shown, previously temporary employees were also included.

Delivered units											
Number	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Heavy-duty trucks (>16 tons)	173,650	170,307	172,798	179,779	123,522	82,675	179,962	172,322	179,089	172,242	152,300
Medium-duty trucks (7–15.9 tons)	15,114	16,779	32,935	34,631	30,657	21,653	30,817	27,933	14,695	18,643	18,800
Light trucks (<7 tons)	14,360	13,188	18,284	23,982	25,811	23,354	40,372	36,101	26,147	23,494	22,120
Total trucks	203,124	200,274	224,017	238,391	179,989	127,681	251,151	236,356	219,931	214,379	193,220

Number		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Trucks	Total Europe	72,458	82,088	84,355	95,113	65,503	49,145	121,847	128,070	114,417	103,622	102,670
	Western Europe	57,038	64,275	63,730	75,728	56,215	43,919	95,969	100,106	97,074	91,087	90,750
	Eastern Europe	15,420	17,813	20,625	19,385	9,288	5,226	25,878	27,964	17,343	12,535	11,920
	North America	57,714	44,755	47,806	42,613	24,282	17,574	30,146	33,280	70,499	64,974	49,270
	South America	23,741	29,137	23,443	29,274	21,483	12,587	18,092	15,264	11,646	11,248	9,190
	Asia	32,399	28,692	51,514	56,165	53,833	34,800	60,725	39,916	12,817	25,706	24,880
	Other markets	16,812	15,602	16,899	15,226	14,888	13,575	20,341	19,826	10,552	8,829	7,210
	Total	203,124	200,274	224,017	238,391	179,989	127,681	251,151	236,356	219,931	214,379	193,220
Buses	Total Europe	2,221	2,146	2,491	2,695	2,395	3,164	3,313	3,748	3,570	3,723	3,417
	Western Europe	2,054	2,073	2,427	2,601	2,336	2,896	3,140	3,377	3,081	3,385	3,073
	Eastern Europe	167	73	64	94	59	268	173	371	489	338	344
	North America	1,590	1,752	1,826	3,014	2,092	1,539	1,884	1,547	1,741	1,546	1,388
	South America	2,985	2,434	2,560	2,620	1,174	690	995	1,318	1,236	2,297	624
	Asia	1,242	1,822	2,945	3,417	3,477	3,839	3,033	2,757	3,349	2,554	2,341
	Other markets	721	756	856	1,040	1,091	625	712	546	464	555	462
	Total	8,759	8,910	10,678	12,786	10,229	9,857	9,937	9,916	10,360	10,675	8,232

	2010	2009	2008	2007 ²	2006	2005	2004
	2,315; 9.0	1,888; 9.1	2,530; 8.6	2,426; 9.6	2,612; 10.5	2,683; 11.6	2,695; 13.3
	279; 1.1	213; 1.0	291; 1.0	242; 1.0	282; 11.4	292; 1.3	293; 1.5
	7,519; 29.2	6,637; 31.8	8,205; 27.8	7,067; 27.9	7,596; 30.6	7,419; 32.1	8,495; 42.2
	719; 2.8	322; 1.5	800; 2.7	542; 2.1	606; 2.4	672; 2.9	645; 3.2
	2,294; 8.9	1,435; 6.9	1,945; 6.6	1,979; 7.8	2,048; 8.3	1,960; 8.5	2,085; 10.3
	33; 0.1	38; 0.2	64; 0.2	58; 0.2	69; 0.3	209; 0.9	184; 0.9
	22,730; 88	17,558; 84	27,675; 94	27,120; 107	26,987; 108.8	23,590; 102	24,675; 122.1
	257.4	208.5	294.9	253.2	248.1	231.2	202.1

ANNUAL GENERAL MEETING, APRIL 1, 2015

The Annual General Meeting of AB Volvo will be held in Göteborg in Konserthuset, Götaplatsen, Wednesday, April 1, 2015, at 3:00 p.m. Registration to the Annual General Meeting starts 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 26, 2015 and give notice of intention to attend the meeting no later than March 26, 2015:

- by telephone, +46 8 402 90 76, notice of intention to attend the meeting could be given by telephone no later than 4.00 p.m. on March 26, 2015
- by mail addressed to AB Volvo (publ), "AGM", P.O. Box 7841, 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
- number of any accompanying assistant(s)

Shareholders having their shares registered in the name of a nominee must request the nominee to enter the shareholder into the share register. Such registration, which can be temporary, must have been effected by March 26, 2015 and should therefore be requested well in advance of March 26, 2015.

VOLVO'S ELECTION COMMITTEE

The following persons are members of Volvo's Election Committee:

Carl-Olof By	Chairman of the Election Committee, AB Industrivärden
Lars Förberg	Cevian Capital
Håkan Sandberg	Svenska Handelsbanken, SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund and Oktogonen
Yngve Slyngstad	Norges Bank Investment Management
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 on the first quarter 2015	April 24, 2015
Report on the second quarter 2015	July 17, 2015
Report on the third quarter 2015	October 23, 2015
Report on the fourth quarter 2015	February 5, 2016
Annual Report 2015	March, 2016

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 are published regularly on www.volvogroup.com.

CONTACTS

Investor Relations:

Christer Johansson	+46 31-66 13 34
Patrik Stenberg	+46 31-66 13 36
Anders Christensson	+46 31-66 11 91
John Hartwell	+1 201 252 8844

Aktiebolaget Volvo (publ) 556012-5790

Investor Relations, VHQ

SE-405 08 Göteborg

Sweden

Tel +46 31 66 00 00

E-mail: investorrelations@volvo.com

www.volvogroup.com

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.

Gross margin

Gross income divided by net sales.

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 operating capital

Income for the period divided by average operating capital.

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.

TOGETHER WE MOVE THE WORLD

The societies where many of us live would not function without the type of products and services the Volvo Group provides. Like a circulatory system, our trucks, buses, engines, construction equipment and related services are involved in several of the functions that most of us rely on every day. Together, we move the world.



VOLVO

AB Volvo (publ)

SE-405 08 Göteborg, Sweden
Telephone +46 31 66 00 00
www.volvogroup.com