2016

THE VOLVO GROUP

ANNUAL AND SUSTAINABILITY REPORT

DRIVING PROSPERITY THROUGH TRANSPORT SOLUTIONS

Volvo Group

CONTENT

The Volvo Group's formal financial reports are presented on pages 76–169, 188–189 and 202–203 in the printed version and have been audited by the company's auditors.

OUR MISSION IS TO DRIVE PROSPERITY THROUGH TRANSPORT SOLUTIONS.

OUR VISION IS TO BE THE MOST DESIRED AND SUCCESSFUL TRANSPORT SOLUTION PROVIDER IN THE WORLD.

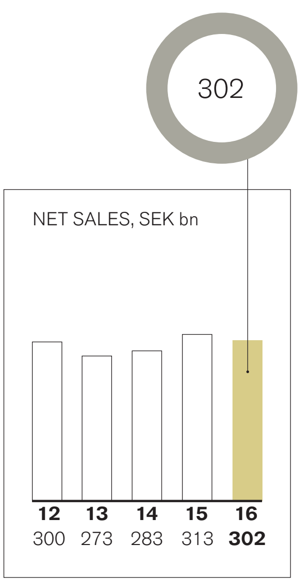
OUR ASPIRATIONS ARE THE GUIDE ON OUR JOURNEY.

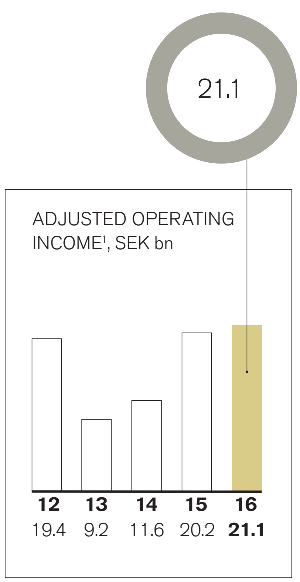
BUILDING A PERFORMANCE CULTURE. OUR COMPANY CULTURE IS HOW WE INTERACT WITH EACH OTHER, WITH OUR CUSTOMERS AND WITH SOCIETY AS A WHOLE.

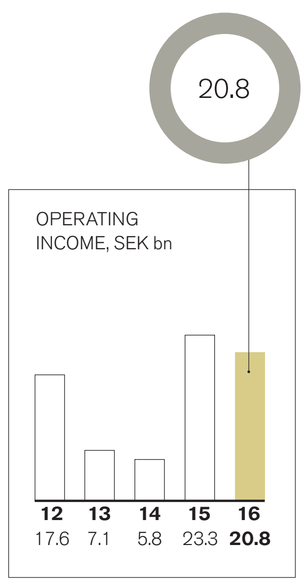
2016 IN BRIEF

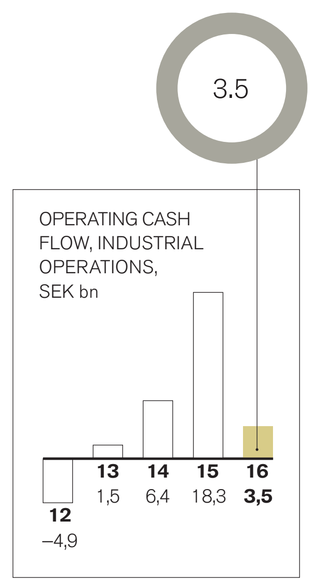
Improved underlying performance on lower volumes

- Lower net sales in the Americas partly offset by growth in Europe and Asia. In total net sales declined by 3% to SEK 302 billion.
- Cost reductions and productivity gains combined with a favorable product and market mix offset the impact from lower volumes. The adjusted operating margin rose to 7.0% (6.5).
- Operating cash flow in the Industrial Operations of SEK 3.5 billion despite being negatively impacted by SEK 6.5 billion from EU antitrust investigation and a negative market mix.
- Strong financial position with a net financial debt to equity in the Industrial Operations of 1.3%, excluding provisions for post-employment benefits.
- Implementation of brand-based organization with clearer commercial accountability for the Group's truck brands.
- New Mission – Driving prosperity through transport solutions. New Vision – the Volvo Group is to be the most desired and successful transport solution provider in the world.
- New Aspirations:
  1. Have leading customer satisfaction for all brands in their segments.
  2. Be the most admired employer in our industry.
  3. Have industry-leading profitability.









KEY RATIOS	2016	2015
Net sales, SEK M	**301,914**	312,515
Adjusted operating income[1], SEK M	**21,094**	20,235
Adjusted operating margin, %	**7.0**	6.5
Operating income, SEK M	**20,826**	23,318
Operating margin, %	**6.9**	7.5
Income after financial items, SEK M	**19,230**	20,418
Income for the period, SEK M	**13,223**	15,099
Diluted earnings per share, SEK	**6.47**	7.41
Dividend per share, SEK	**3.25**	3.00
Operating cash flow, Industrial Operations, SEK bn	**3.5**	18.3

[1] For more information on adjusted operating income, please see page 202.

KEY RATIOS	2016	2015
Return on shareholders' equity, %	**14.9**	18.4
Total number of employees	**94,914**	99,501
Share of women, %	**17**	18
Share of women, presidents and other senior executives, %	**24**	22
Employee Engagement Index, %	**72**	71
Energy consumption, MWh/SEK M	**7.1**	6.8
Total CO_2 emissions, tons/SEK M (scope 1&2)	**1.4**	1.4
Water consumption, m^3/SEK M	**15.2**	16.2
Share of direct material purchasing spend from suppliers having made a CSR self-assessment, %	**88**	87

OVERVIEW

Our customers make societies function

The Volvo Group's products and services contribute to much of what we all expect of a well-functioning society. Our trucks, buses, engines, construction equipment and financial services are involved in many of the functions that most of us rely on every day. The majority of the Volvo Group's customers are companies within the transportation or infrastructure industries. The reliability and productivity of the products are important and in many cases crucial to our customers' success and profitability.

Strong positions globally

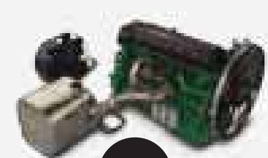
Thanks to competitive product programs, strong dealers and increasingly more complete offerings including services such as financing, insurance, leasing, various service contracts, accessories and spare parts that support the core products, the Volvo Group has established leading positions on a global market. Based on sales volumes the Group is number 2 in heavy-duty trucks, number 3 in construction equipment, number 2 in buses for target segments and markets, number 2 in heavy-duty diesel engines and number 1 in diesel engines for leisure boats.

#2

in heavy-duty trucks

#3

in construction equipment



#2

in heavy-duty diesel engines

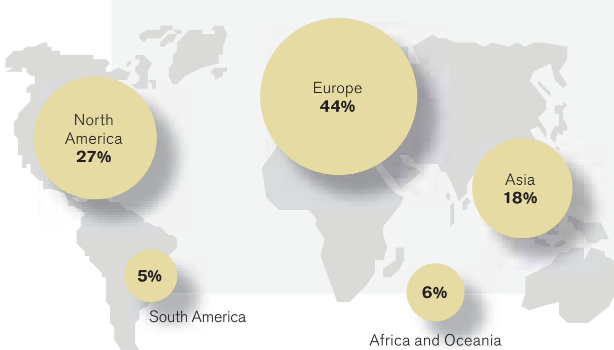
#2

in buses for target segments and markets

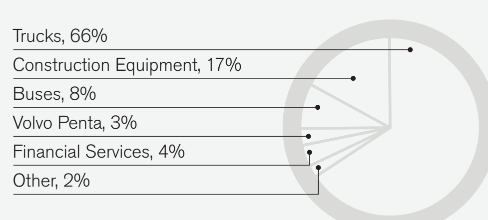
#1

in diesel engines for leisure boats

SHARE OF NET SALES BY MARKET 2016

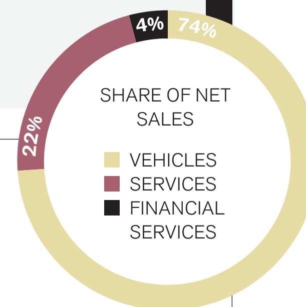


SHARE OF NET SALES BY BUSINESS AREA 2016



Strong brands

The Volvo Group's brand portfolio consists of Volvo, Volvo Penta, UD, Terex Trucks, Renault Trucks, Prevost, Nova Bus and Mack. We partner in alliances and joint ventures with the SDLG, Eicher and Dongfeng brands. By offering products and services under different brands, the Group addresses many different customer and market segments in mature as well as growth markets.

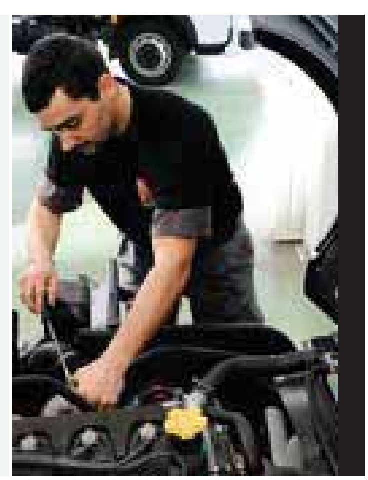


Competitive products

All of the Volvo Group's products have been developed to contribute to efficient transport and infrastructure solutions. Sales of new vehicles, machines and engines as well as used vehicles and machines, trailers, superstructures and special vehicles accounted for 74% of the Group's net sales in 2016. Sales of vehicles and machines build a population of products that drives spare parts sales and service revenue.

First class services

In addition to vehicles and machines, the Volvo Group's offering includes various types of services such as 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. The service business contributes to balancing the fluctuations in the sales of new products and is an area of priority. Sales of services accounted for 22% of Group net sales in 2016. The Volvo Group also offers financing for customers and dealers. In 2016 Financial Services revenue accounted for 4% of Group net sales.



CEO COMMENTS
A year of traveling

In my first full year at the Volvo Group, I spent a lot of time traveling, meeting with customers, dealers and business partners as well as Group colleagues in all corners of the world. These trips confirmed that we have many skilled and knowledgeable employees in all our businesses as well as committed and engaged dealers looking after our customers.

A passion for supporting customers

The trips also reinforced my understanding that the Group is well-invested with new and competitive products as well as attractive service offerings. We are truly at the forefront of new technology that brings benefits to both our customers and society as a whole.

Decentralization and focus on continuous improvement
For some time now we have focused on continuous improvements, but I think we can develop this further. We have identified improvement areas such as speeding up decision-making and strengthening our agility to adapt to market volatility. Our tools for achieving this include decentralizing decisions and accountability. One step in this direction was the implementation of a brand-based organization for our truck business. Each of the brands now has responsibility for its own commercial development and profitability. Moving more responsibility into the regions is something we will continue to drive within our ten business areas – the goal is to have as much of the daily decision-making as close to the customer as possible.

With the substantial restructuring activities now being completed and after major product renewals in recent years, we are currently intensifying efforts to increase productivity and product quality through continuous improvements and continuous introductions of new features into our products.

We have also reinforced our focus on growing the service business, which can reduce the impact on our earnings from cyclical drops in vehicle sales volumes. And more importantly, growing and continuously developing our services help keeping the vehicles and machines running and earning money for our customers.

- CUSTOMER FOCUS
- DECENTRALIZED DECISION-MAKING
- CONTINUOUS IMPROVEMENTS
- ORGANIC GROWTH

New strategic direction – Mission, Vision, Values, Aspirations and Strategic Priorities
Our mission is to drive prosperity through transport solutions. Modern logistics is a prerequisite for economic welfare since transports help combat poverty. Prosperity in a country or society depends on many complex factors, and having the right transport solutions and developing effective transport systems are one element for economic competitiveness and social well-being. The new vision is for the Volvo Group to be the most desired and successful transport solution provider in the world. That is a bold statement and there is only one way to succeed. That is to listen to our thousands of customers and understand their particular needs. Customers have a choice and that is a good thing, since competition inspires creativity and innovation. A passion for customer success is at the very heart of our strategy.

Productivity and cost reductions making impact on improved performance of the Group

In 2016 volumes were down in all markets except Europe, where activity remained high. Global sales decreased by 3% to SEK 302 billion. Despite the lower sales, the adjusted operating income improved to SEK 21.1 billion compared with SEK 20.2 billion in 2015. This corresponds to an adjusted operating margin of 7.0%. We stand financially strong, with almost no net financial debt in our industrial operations, pension liabilities excluded.

Improved performance in Trucks

Deliveries of trucks decreased by 8% mainly due to weaker demand in North America and continued low demand in South America as well as other emerging markets. The lower net sales had a negative impact on earnings, but profitability improved nonetheless due to our ability to reduce costs and improve productivity. The Group also demonstrated good volume flexibility in the manufacturing operations, which balanced a significant ramp-down in North America and ramp-up in Europe. The truck business had an adjusted operating margin of 8.7% which was a step up from 7.6% in 2015.

During the year we strengthened our product portfolio. Among the highlights were the launches of several new integrated power-trains in North America for both Mack and Volvo, offering increased fuel efficiency, productivity and reliability. We continue to invest in future technologies and participated in the EU truck platooning challenge when three Volvo trucks drove closely behind one another, using wireless communication, in a platoon from Gothenburg, Sweden to Rotterdam, the Netherlands. We supported this challenge as a way of underlining the changes required in European transportation legislation in order to introduce platooning and the positive consequences of reduced fuel consumption and emissions that platooning can bring.

We also demonstrated a fully autonomous truck as part of our efforts to create understanding for and a dialogue around future technology. The autonomous truck operates in a mine deep underground and is part of a research and development project involving autonomous vehicles that can substantially improve safety, fuel efficiency and productivity, initially for customers in the mining industry.

"

GROWING AND CONTINUOUSLY DEVELOPING OUR SERVICES HELP KEEPING THE VEHICLES AND MACHINES RUNNING AND EARNING MONEY FOR OUR CUSTOMERS.

Strengthened competitiveness for Volvo CE

The construction equipment business has been impacted by a global downturn. Volvo CE's markets were by and large weak during the year, with global demand roughly flat compared to a weak 2015. There are, however, some signs that demand is improving. Another positive development was that Volvo CE continued to gain market share in its stronghold segments – excavators, wheel loaders and articulated haulers. As a result of hard internal work to reduce costs, the adjusted operating margin improved somewhat to 4.4%, despite the flat volumes and an unfavorable product mix.

The ongoing work to strengthen Volvo CE's competitiveness is yielding results, but we have further steps to take. A new and more efficient R&D organization will be implemented, and we have also decided that Volvo CE will fit the Group's in-house 8-liter engine into mid-size excavators and wheel loaders, replacing externally sourced engines. Another step is the move of Volvo CE's headquarters to Gothenburg, Sweden to facilitate closer cooperation with the Group's other business areas and operations. We look forward to welcoming Volvo CE in Gothenburg.

We will continue to implement the performance plan and focus on Volvo CE's strongholds. Volvo CE has a competitive and profitable core business, which is a strong foundation for building a more profitable business.

In order for the Board of Directors of AB Volvo to be more efficient in following up and supporting the positive development of Volvo CE, while at the same time keeping full focus on the development of the Group's truck operation, the Board in January 2017 decided to establish a Volvo CE Committee. To create further simplicity, transparency and flexibility, the intention is to increase Volvo CE's structural independence within the Volvo Group.

During the year Volvo CE displayed a range of innovations, such as a hybrid wheel loader with the potential to improve fuel efficiency by up to 50%, as well as autonomous wheel loader and hauler prototypes. Volvo CE also launched a giant 60-ton articulated hauler, Volvo CE's largest ever, as well as a new 90-ton excavator. These new products offer significant productivity gains for customers and facilitate entry into new market segments.

More achievements – Volvo Buses and electrification

Volvo Buses is blazing the trail for the Volvo Group in electromobility, and since the launch of the first hybrid bus in 2010 more than 3,000 units have been sold. Volvo Buses' strong position in this area was most recently demonstrated by an order for the first series-produced fully electric buses combined with charging stations for an operator in Luxembourg. The Volvo 7900 Electric reduces energy consumption by 80% compared to a conventional diesel bus.

In 2016 the European bus market continued to improve and North America was stable on a good level. In total Volvo Buses' deliveries increased by 8%. Profitability was somewhat lower than in 2015, with an adjusted operating margin of 3.4%, positively impacted by volumes and internal efficiency measures and negatively by unfavorable currency development.

Volvo Penta and VFS

Volvo Penta continued to improve its performance with an operating margin of 12.8%. This is largely due to a good development in Europe and innovative products, giving Volvo Penta a competitive

edge in the market. In addition to its industry-leading marine engines, Volvo Penta continues to leverage on Group engine technology to attract new customers in the industrial engine segment.

Volvo Financial Services (VFS) is reinforcing activities to deliver bundled solutions to our customers, which is of importance to further leverage VFS' contribution to the growth of the Group's service business. The credit portfolio continued to perform well and VFS delivered close to SEK 2.1 billion in operating income and had a return on equity of 13.7%.

A comment on divestments

We regularly evaluate our businesses in order to identify ways to simplify operations and focus our investments on the core business. In April 2016 we concluded the sale of our external IT operation and the outsourcing of the IT infrastructure. This move will in the long term give us sustained cost savings, while at the same time provide us with the infrastructure we need for the future. We also announced our intention to divest our Governmental Sales business. We believe that a new owner will be better positioned to take the business to the next level. Furthermore, we divested non-core real estate in Gothenburg.

Back to the future

It is thanks to the accomplishments and professionalism of employees in teams across the Volvo Group that we can contribute to customer success and greater profitability for the Group. Our employees are key in the Group's future development.

What makes our jobs so gratifying is the fact that we are in an industry of the future. Due to demographic and economic trends, demand for transport and infrastructure rises. Transport is a means of connecting people to the jobs, schools, or homes they need to go to, a means of connecting communities, and goods to markets, as well as a crucial factor in facilitating trade and development in general. The products and services we develop to help our customers in driving these developments must be sustainable, safe and well integrated with other transport modes.

In this Annual and Sustainability Report you can read more about automation, connectivity, electrification, alternative fuels and other developments that will no doubt bring benefits to customers, society and the environment.

Martin Lundstedt
President and CEO

The Volvo Group journey continues

Following more than a decade of an active acquisition strategy to build the scale needed to be competitive in commercial vehicles, the Volvo Group is in a phase focused on organic growth, improved efficiency, increased profitability and getting closer to customers.

During 1999 to 2011 the Volvo Group's strategy was primarily targeted at growth, not least through acquisitions, while at the same time focusing the business on commercial vehicles. On the truck side, acquisitions include Renault Trucks, Mack and Nissan Diesel (now UD Trucks), the joint venture with Eicher Motors in India and, in 2015, the strategic alliance with a 45% ownership in Dongfeng Commercial Vehicles in China. Volvo Construction Equipment bought a 70% ownership in the Chinese wheel loader manufacturer Lingong (SDLG), Ingersoll Rand Road Development and the hauler business from Terex.

The acquisitions along with organic growth have enabled the Volvo Group to reach the position as the world's second largest manufacturer of heavy-duty trucks, one of the world's largest manufacturers of construction equipment, buses and heavy-duty diesel engines as well as a leading supplier of marine and industrial engines. These positions provide for economies of scale in product development, production, purchasing and financial services.

The streamlining to commercial vehicles has also involved the divestment of non-core operations such as Volvo Aero, Volvo Rents and real estate.

During 2012 to 2015 the Volvo Group underwent a transformation program aimed at reorganizing the company to take out overlaps, reduce structural costs and increase efficiency and profitability after the period of acquisition-driven growth. Among the activities in the program to reduce the Group's structural cost levels, which were launched at the end of 2013 and implemented in 2014 and 2015, were substantial reductions of white-collar employees and consultants, a reduction in research and development expenses, optimization of the sales and service channel and the industrial footprint as well as a consolidation and optimization of the spare parts distribution worldwide.

Now the Group has entered the next phase with a focus on organic growth and improved performance.

1999–2011

Acquisition-driven growth

Scale, synergies and geographical expansion.

2012–2015

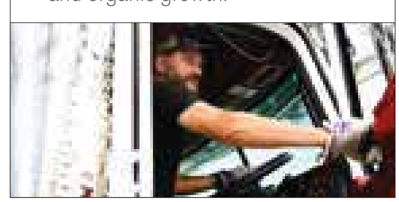
Transformation to close the gap

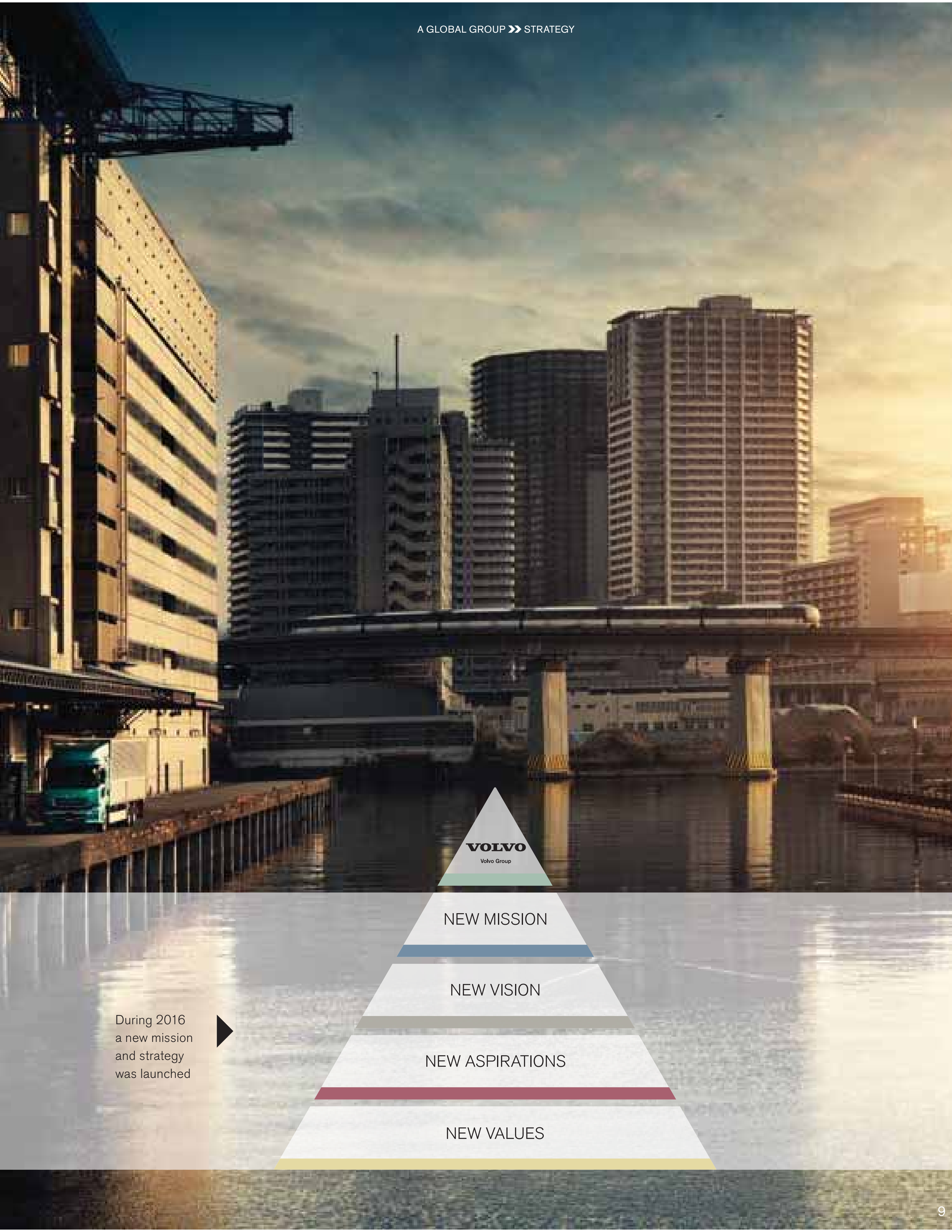
Product renewal, restructuring and cost efficiency.

2016 >

Improved performance

Customer focus, simplicity, speed, continuous improvements and organic growth.





During 2016 a new mission and strategy was launched

MISSION

"Driving prosperity through transport solutions"

We have a new mission statement that expresses a broad ambition – to drive prosperity. Modern logistics is a prerequisite for our economic welfare: transport helps combat poverty. Transport is not an end in itself, but rather a means allowing people to access what they need, economically and socially.

On the road

Our products help ensure that people have food on the table, can travel to their destination and roads to drive on.

In the city

Our products are part of the daily life. They take people to work, distribute goods and collect rubbish. Volvo Group is developing tomorrow's public transport solutions.

At the site

We contribute to the extraction of some of the world's most important raw materials. Volvo Group's engines, machines and vehicles can be found at mining and construction sites and in the middle of forests.

At sea

Our products and services are with you, regardless of whether you are at work on a ship, on holiday in your pleasure boat or need urgent help from the sea rescue services.

MAKING A DIFFERENCE AS A COMPANY

The Volvo Group's new mission is "Driving prosperity through transport solutions", but what does that really mean?

Reef Larsson, Director of Strategic Research & Studies at Volvo Group, explains how the Volvo Group's new mission statement reflects the social and economic environment we live in.

"Many people associate the word prosperity with material wealth, but the meaning is broader than that," says Reef Larsson. "It also means access to the things we need to sustain well-being and quality of life. On a societal level, that includes, for example, education, health care, good infrastructure and safe transportation, and of course caring for the environment."

Around the world, Volvo Group's customers contribute to the prosperity of societies by transporting people and goods, constructing buildings and infrastructure and providing many services needed in daily life. The Volvo Group enables this work through its products and services. Making an impact is also about developing solutions that are accessible.

Reef Larsson believes that the Volvo Group, with its research capacity and global reach, can drive innovations in fast-growing fields such as automation, connectivity and alternative drivelines. These areas can contribute to safety and productivity gains, as well as environmental sustainability. Ultimately, using a broad term like prosperity in a mission statement can create more possibilities to motivate and empower people:

"The ways the Volvo Group can fulfill the mission may evolve as we grow and change as a company, and as transport solutions are adapted to our ever-changing world," says Reef Larsson.

VISION

Be the most desired and successful transport solution provider in the world

In 2016, we updated our vision: To be the most desired and successful transport provider in the world. This is what we mean. We are in a people business. We operate in a business-to-business market, but people make the decisions. Trust and relations are as important as the total offer. We have competitive products and services and it is with these and our people that we build lasting relations with our customers. In the end, by bringing together the best of everything from the offer to the relationship, we will become the customers' preferred choice.

Sustainability is an important piece of the puzzle to drive prosperity. Transports drive growth, growth drives our customers' business and our customers' business drives our business. For the Volvo Group it is important to influence growth that contributes towards sustainable development, taking the three dimensions – economic, social and environmental – into account. We create economic value by delivering technologically advanced, clean, efficient and safe transport and infrastructure solutions. We invest in new technologies that drive efficiency, safety and emission reductions for the benefit of our customers and society. We invest in people, support sustainable growth and societal development while minimizing environmental impacts.

Building societies around the world

Our products, including trucks and construction equipment, help build and sustain key infrastructure: roads, railways, bridges, hospitals and schools.

ASPIRATIONS

The guides on our journey

Our vision describes where we want to be in the future.
The aspirations are there to guide us on our journey. Working towards them ensures that we are on the right track.

1

Have leading customer satisfaction for all brands in their segments

The only true measure of success is customer satisfaction.

Read more about how we measure customer satisfaction and why the Volvo FH came on top in the prestigious Fehrenkötter test on page 35.

Be the most admired employer in our industry

By being the most admired employer we attract and retain the best people.

2

On page 58 you can read more about the many ways in which the Volvo Group works to attract and retain talent and to create a culture of highly engaged employees.

3

Have industry leading profitability

Through strong performance we are able to invest in products, services and people – and own our own destiny.

The Volvo Group's financial targets comprise growth and profitability for the Group's various operations measured and benchmarked against competitors. More information is available on page 23.

VALUES

Building a performance culture

Our company culture is how we interact with each other, with our customers and with society as a whole to achieve our business objectives. It is rooted in our history and is critical to our company's long term success. It is the foundation on which everything else is built. The wanted Volvo Group culture is described by a set of five carefully chosen values. They serve as a guide to our day to day behavior, they drive our decisions at all levels of the organization. We have a culture of high performance created through employee engagement.

Customer success

- We truly understand our customers' business.
- We listen to and talk with our customers about their needs, desires and challenges.
- We focus on transport solutions that make customers successful and create value for society.
- We deliver on our promises.

Trust

- We are transparent and have respect for the individual.
- We trust other teams to do their best and we respect the decisions made.
- We collaborate easily and create excellent results through teamwork and open dialogue.
- We are empowered and have the courage to act.

Passion

- We are proud of the work and business we do.
- We are engaged and committed to meet our goals.
- We see how diversity strengthens us and try to bring out the best in everyone.
- We admit mistakes, fix them and learn from them.
- We are proud of our achievements, have fun and celebrate our successes.

Change

- We are curious about the world around us.
- We are innovative and find smart ways to create new solutions and business.
- We see change and transformation as a source of inspiration and energy.
- We are open-minded and share our knowledge.

Performance

- We have a strong business instinct.
- We have the skills, knowledge and intuition to do the right thing.
- We expect a lot from ourselves and others, and walk the extra mile to do a great job.
- We see the big picture and know when to let go of an idea, a project or a plan.

- CUSTOMER SUCCESS
- TRUST
- PASSION
- CHANGE
- PERFORMANCE

GLOBAL CONTEXT

Leveraging on trends and challenges in the world around us

We are a global business. As part of our business and sustainability strategies, we continually analyze global mega trends and challenges, as well as regional variations, and work to assess the impact of such developments on the Volvo Group and its customers. This helps us identify new business opportunities and position ourselves and our partners to meet the transport needs of the future.

FUEL
EFFICIENCY AND LOWER CARBON ALTERNATIVES

1

Environmental threats and resource scarcity

The burning of fossil fuels, including oil and diesel, is a major source of CO_2 and other greenhouse gas emissions, which cause pollution and climate change. Governments, business, and other stakeholders striving for sustainable transport are responding by improving fuel efficiency and moving towards lower carbon alternatives, as well as new business models for using resources more efficiently. Environmental concerns drive interest and opportunities in electromobility, as well as alternative and renewable fuels. Developments across regions and at city levels vary in speed and direction, depending on the availability of natural resources and fuels, infrastructure, political will, and incentives. Longer term, governments and multi-stakeholder partnerships will further focus on and incentivize renewable energy and lowering emissions. We strive to manage resource scarcity by finding better ways to utilize transport and to recycle, remanufacture, and refurbish products and components.

DIVERSE SOLUTIONS FOR CITIES

2

Urbanization

Today around 7.5 billion people live on the planet. The United Nations Population Fund expects there will 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 shift from rural to urban areas in Asia and Africa in particular. As urban populations grow, so do mobility demands. Cities face increasing social as well as environmental challenges, including congestion, pollution, noise, and traffic accidents. The transport and infrastructure industry must continue to build sustainable models for providing safer, cleaner, and more efficient solutions for all types of urban development, whether small or medium sized cities or mega cities. The growth in emerging markets is accompanied by the development of larger middle classes, and citizens with rising disposable incomes will spend more on consumption and housing. These are also important factors for the increased demand for transport and infrastructure solutions in these parts of the world.

550
THOUSAND CONNECTED VEHICLES

3

Digital and Technological Transformation

Today we live in a hyperconnected world with multiple technologies, the internet of things (IoT) and the cloud – all facilitating new customer experiences. In 1995 about 1% of the world's population had an internet connection – today around 40% of the population is connected. Estimates of the number of IoT connected devices in 2020 range from 25-30 billion to 200 billion or more. The expansion of the IoT will continue with increasing numbers of sensors in all sorts of devices. Digitization is sparking transformation across businesses and industries. While creating opportunities for businesses and customers, advances in digitization also create uncertainty and a steady challenge to fully leverage the value of the change. Today the Volvo Group has over 550,000 connected running vehicles in more than 50 countries. Our industry is monitoring and analyzing vehicle data and using it to continuously enhance customer value through increased productivity and uptime, better fuel efficiency and new safety solutions. Productivity gains in logistics and better utilization of infrastructure will gradually benefit our customers and society on the whole. Based on data insights we are working to provide new services for our customers as part of our total offering and to further engage our customers by providing high quality, differentiating and compelling experiences.

AUTO-NOMOUS VEHICLES

4

Automation and safety developments

Steady advances are being made in terms of automation for commercial vehicles and other machinery. We expect this development to intensify, and we also expect further automation in manufacturing. Some of the key drivers are the need to improve traffic safety and the challenge to improve transport efficiency and reduce the environmental load of transport. Every year there are more than 1.2 million fatalities and 50 million people injured in traffic accidents. Greater traffic safety education and better planning of roadways is part of the solution. The growing automation in transportation and infrastructure solutions through the use of self-driving vehicles will also allow the industry to provide greater safety, fuel savings, and transport efficiency. With advances in industrial robotics and increased sophistication in automation in manufacturing, we will also see quality gains and new possibilities for smarter product development. Automated driving technologies, including the automated operation of some construction machines, should be seen as a complement to the abilities and skills of the human driver/operator. Fully automated driving is not a general solution for all transport or machine operations, but can be suitable for some applications such as mines and other confined areas.

5

Evolving trade and regulatory environment

Our transport and infrastructure solutions are in demand in diverse markets across the globe. Trade legislation, transport related regulations, customer requirements, and competitive dynamics vary both between markets and within individual markets. Our industry is challenged to meet shifting economic and regulatory conditions, to access and develop human capital around the world, and continually work to improve sustainability, effectiveness, and safety and security in the supply chain. As mentioned above, we see the enormous potential for customer value connected to digitization, yet at the same time, governments, businesses, and other stakeholders must adapt rapidly to comply with evolving data protection legislation and secure data integrity in diverse market environments.

CHANGING CONDITIONS AROUND THE GLOBE

7 ››

STRATEGIC PRIORITIES

MOVING FORWARD

STRATEGY

Focused on creating value for our customers

To be successful the key is to create value for our customers by supporting their profitability. By understanding our customer's priorities and challenges, we are able to provide products and services that grow customers' revenues and decrease customers' costs. This is the basis for our strategic direction.

1

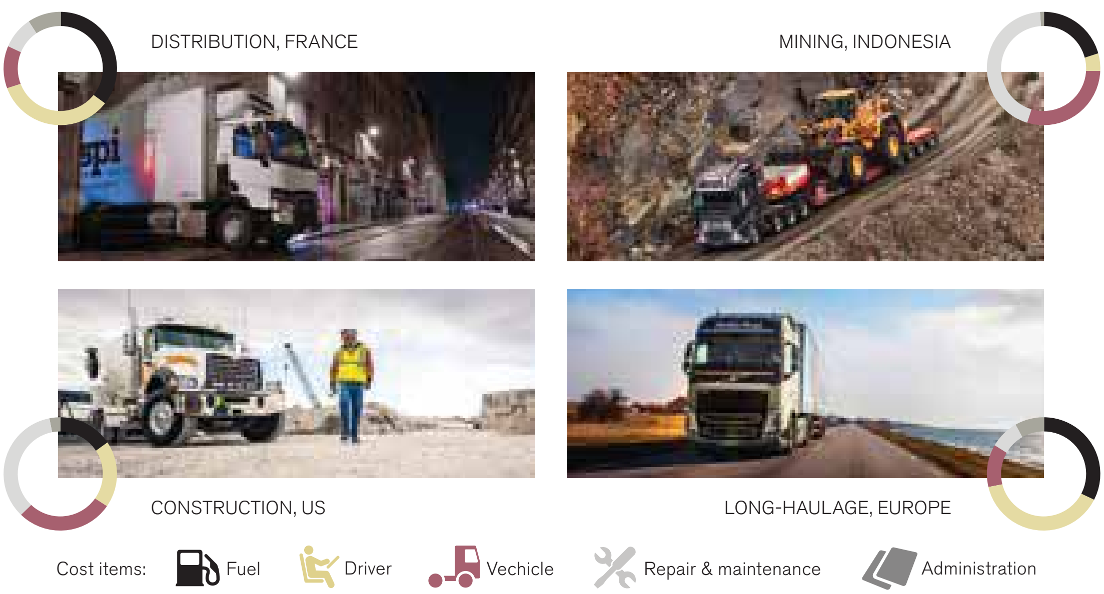
Reinforce **Volvo** as a global **premium heavy-duty truck brand** and **regain position and market shares** of **Renault Trucks, Mack and UD** as regional high-end truck brands.

2

Capture growth in Asia through having the joint ventures DFCV in China and VECV in India as well as the Group's value truck range in a separate value chain – and leveraging it in other emerging markets.

3

Create the most desirable heavy-duty product and service portfolio tailored to selected markets and segments. Customers have different cost structures and therefore want different propositions depending on their location and the type of transport work they carry out. Creating customer value by improving our customers' profitability therefore means offering trucks tailor-made for each application.

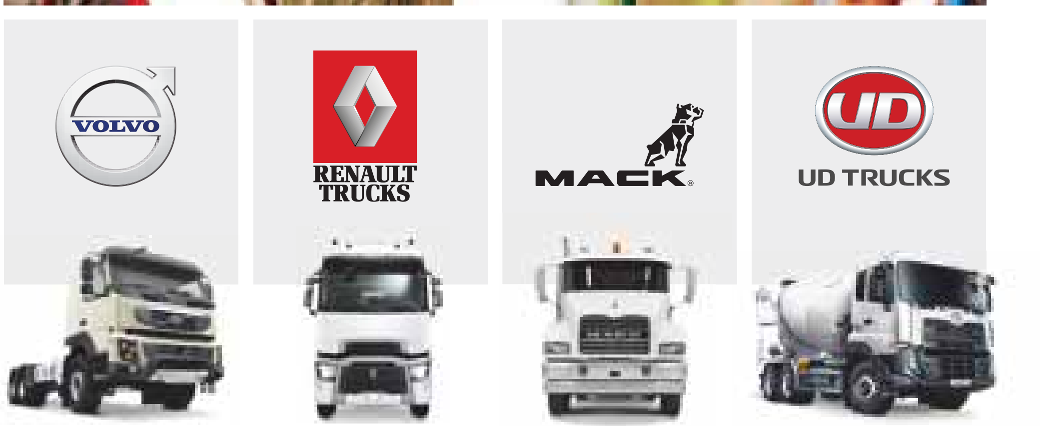


4

Secure robust profitability through leading R&D, quality, purchasing and manufacturing operations using **Volvo Production System,** which is the Group concept for driving continuous improvement in product development, production, sales and administration.

5

Have brand specific sales operations with a focus on **retail excellence** and a growing **service business** where decisions are made more quickly and closer to the customer. Each brand has an expanded mandate to develop its own businesses with an explicit responsibility for profitability.



6

Leverage Group assets in the non-truck Business Areas, creating additional profits, synergies and technology leadership. Many of the Volvo Group's products have a common architecture and shared technology (CAST) based on a modularized concept and standard interfaces. At the center of this strategy are the Group's engine platforms, which together with electronics and transmissions, are Group resources for the Business Areas to draw from.

7

Revitalize the Volvo Group culture with a focus on **Customer Success, Trust, Passion, Change** and **Performance.** We believe that a strong culture leads to engaged people. This in turn drives business performance.

FINANCIAL TARGETS

Improved outcome compared to 2015

Since 2012 the financial targets for the Volvo Group have been comprised of growth and profitability of the Group's various operations measured and benchmarked annually against competitors. This creates a clear picture of how Group operations are developing compared to the industry. Information on how the comparison with competitors made is available online in the Investors section of www.volvogroup.com.

INDUSTRIAL OPERATIONS

TRUCKS AND BUSES

TARGET

The annual organic **sales growth** for the truck and bus operations shall be equal to or exceed a weighted-average for comparable 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.

COMPARISON GROUP

Daimler, Iveco, MAN, Navistar, Paccar, Scania and Sinotruk.*

** Navistar's and Scania's figures are based on rolling four quarters as of the third quarter of 2016. MAN's and Sinotruk's figures are based on rolling four quarters as of the second quarter of 2016.*

PRELIMINARY OUTCOME*

The organic **sales** decreased by 5.0% for the Volvo Group's truck and bus operations which was less than the weighted average of a decrease of 7.3% for the competitors.

The operating margin of 7.4% for the Group's truck and bus operations was ranked number one in comparison with the competitors.

CONSTRUCTION EQUIPMENT AND VOLVO PENTA

TARGET

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.

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.

COMPARISON GROUP

Brunswick, Caterpillar, CNH Industrial, Cummins, Deere, Hitachi and Komatsu.*

** Deere's figures are based on rolling four quarters as of the third quarter of 2016. As of 2016, Terex former Construction segment has been dissolved as a result of new management reporting structure and business activities. Hence, Terex has been excluded from the comparison group.*

PRELIMINARY OUTCOME*

The organic **sales** increased by 0.9% for the Volvo Group's construction equipment operations and Volvo Penta which was more than the weighted average of a decrease of 13.6% for the competitors.

The operating margin of 5.0% for the Volvo Group's construction equipment operations and Volvo Penta was ranked number four in comparison with the competitors.

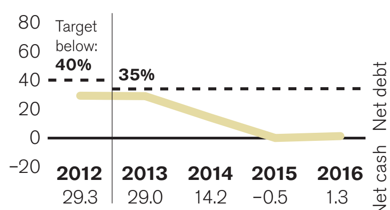
INDUSTRIAL OPERATIONS

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 2016, the financial net debt position was 1.3% of shareholders' equity compared with a financial net cash position of 0.5% at the end of 2015.

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 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, %

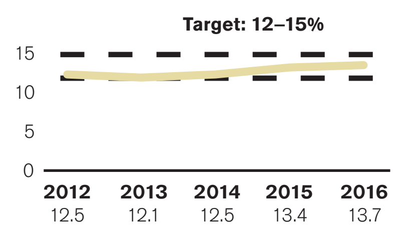


FINANCIAL SERVICES

TARGET AND OUTCOME

The target for Financial Services is a return on shareholders' equity of 12–15% and an equity ratio not less than 8%. The return on shareholders' equity for 2016 amounted to 13.7% (13.4). At year end 2016 the equity ratio was 8.0% (8.0).

Return on shareholders' equity, %



RELATIONS

MAKING THE RENAULT TRUCKS BRAND STRONGER

As a key link between the customer and the brand, the salesperson forms relationships with customers based on attentiveness and trust. Here is an example from Renault Trucks.

EMILIE RUIZ works with the Renault Trucks heavy-duty range in Corbas, close to Lyon in France.

"Our customers are looking for very specialized advice and expect a high level of professionalism from us," says Emilie Ruiz.

She has been a heavy-duty range salesperson since 2014, after eight years as a salesperson for the light commercial vehicles range.

"There are fewer heavy-duty customers and they are much more sought after, so it's crucial to build trust with them if we want to be consulted when they renew their fleets."

Her goal is to be consulted in 100% of renewal cases in her sector. In reaching her goal, she has an advantage: the strength of the Renault Trucks brand, which with its French origin is recognized as a mark of quality.

"But this is not enough. The advisory role of the salesperson is key, both at the technical level in order to recommend the right vehicle for the task and in terms of ensuring service, maintenance, extension of warranties and financing," says Emilie Ruiz.

That is a positioning that helps win deals. Emilie Ruiz sold a Renault Trucks T to one of her prospects who, until then, had mostly been affiliated with Mercedes. Patrick Folléas, CEO of BFT Transport, runs a family business comprising 45 people that offers transport and rental services.

"I have a special connection to the Renault Trucks brand because I started my career driving an R390," he says.

Patrick Folléas is also convinced of the reliability of trucks from Renault Trucks, especially since the launch of the new Euro 6 range.

"But what really makes the difference is the quality of service, attentiveness to my needs and the responsiveness of the teams."

In this case, BFT required a rental vehicle. "The vehicle had to be as versatile as possible, but we found a compromise that included the maximum number of options while keeping costs as low as possible," says Patrick Folléas.

To convince the customer, Emilie Ruiz loaned him a vehicle to test it.

"I am also the captain of a racing team," says Patrick Folléas.

"I had the chance to drive a T model in which I transported my Renault Trucks racing truck all the way to the 24 Hours of Le Mans Race."

According to both the customer and the salesperson, the real work starts once a sale is completed.

"It's now up to us to demonstrate our ability to guarantee the expected level of service, especially when it comes to the implementation of the maintenance contract signed by BFT," says Emilie Ruiz.

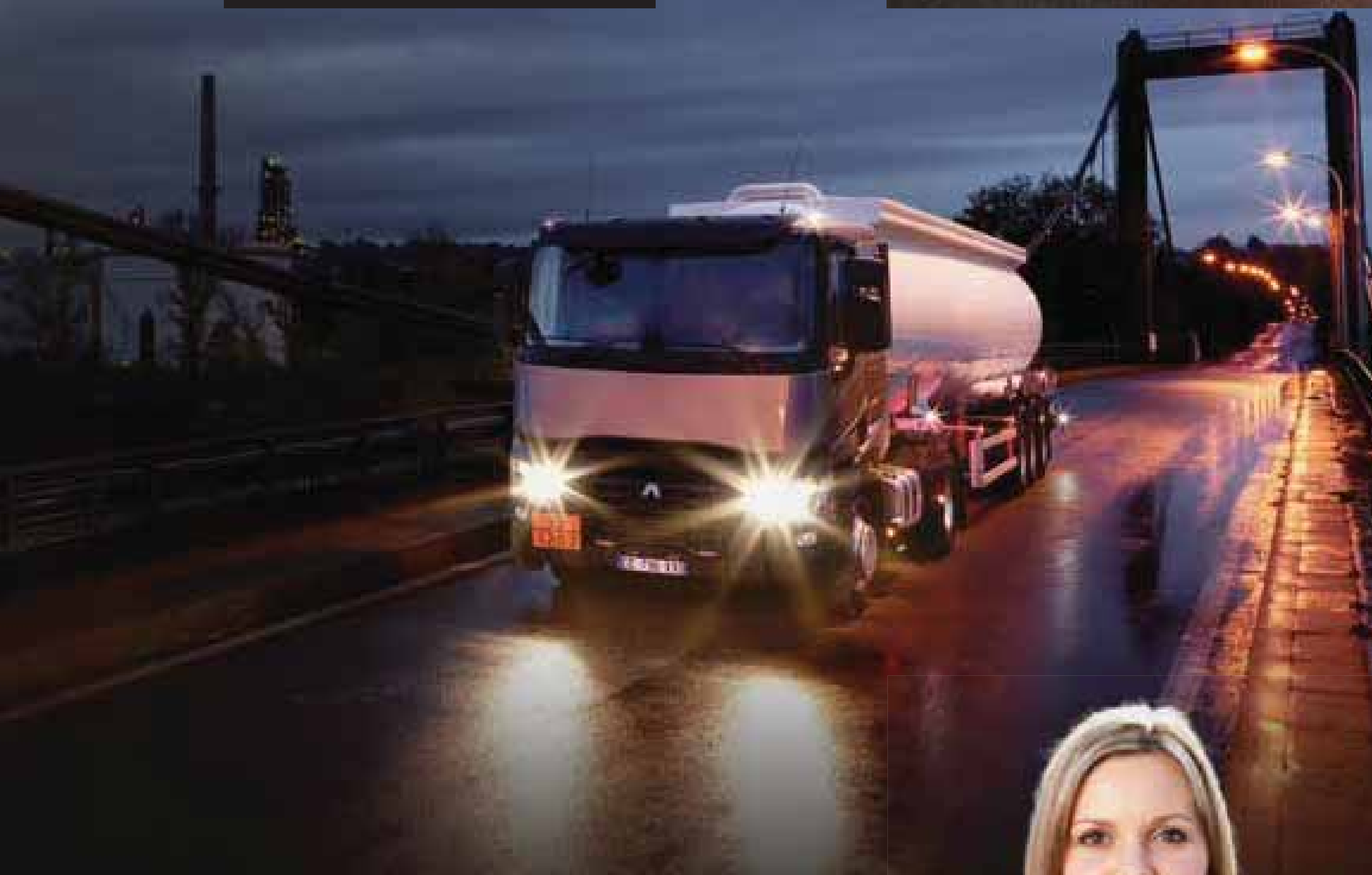
Here, the salesperson serves as the business co-ordinator and link. "Representatives of the workshop, as well as salespersons working with both ligh-duty and heavy-duty vehicles, meet every Monday morning."

The goal of these meetings is to exchange information and to talk about issues and opportunities in order to be able to speak to the customer with a common voice.

"Through consistency and transparency, we aim to provide the highest level of long-term satisfaction. Nothing can ever be taken for granted," says Emilie Ruiz. ■

> **OUR CUSTOMERS ARE LOOKING FOR VERY SPECIALIZED ADVICE AND EXPECT A HIGH LEVEL OF PROFESSIONALISM FROM US.**
>
> **Emilie Ruiz, heavy-duty trucks sales at Renault Trucks.**

PATRICK FOLLÉAS, CEO of BFT Transport, chose a Renault Trucks T after being impressed by the level of service he received.



EMILIE RUIZ has worked at the Renault Trucks Grand Lyon dealership in Corbas for 10 years. She has been in heavy-duty trucks sales since 2014 after eight years as a light commercial vehicles salesperson.

MATERIAL ISSUES

Considering impact on the business and importance to stakeholders

Our materiality approach determines the relevant economic, social and environmental aspects to address and report on. We consider their impact on the business and importance to stakeholders' decisions.

Materiality process

The materiality concept is important for reporting both financial and non-financial data and it is used in all major frameworks. Similar to previous years, the Global Reporting Initiative (GRI) G4 reporting principles have been taken into account for this report.

Through our materiality process, we address the economic, social and environmental issues of most importance to the Group's business and its stakeholders. This year, we identified the most material issues for the business from a sustainability perspective in an internal workshop. Thereafter, colleagues representing a majority of Group functions, segments, brands and geographies used a web survey to evaluate each topic in terms of its impact on business success and likelihood of an issue occurring.

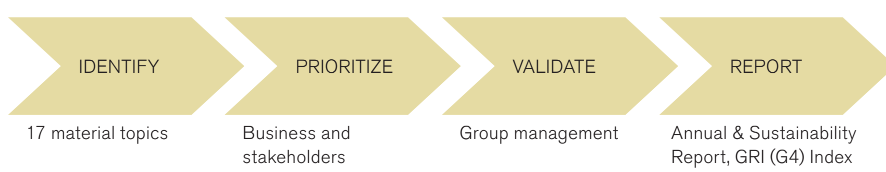
The Volvo Group's key stakeholder groups are customers, employees and investors as well as society, suppliers and other business partners. We identified the most important factors for them engaging with the Volvo Group using feedback from recent stakeholder dialogue to qualify the quantitative data gathered previously from stakeholders across key groups, segments and geographies. Combining internal and external analysis, we were able to prioritize 17 topics.

Members from Group Management approved that the material topics accurately reflect the organization's material sustainability issues and validated nine priority areas to be reported with added detail in this report.

There are no significant changes compared to 2015. Product safety and security was ranked slightly higher in 2016, on an overall level, and supply chain was ranked slightly lower.

For further information about the materiality process, including stakeholder engagement and definitions of all topics, please refer to the GRI (G4) Index, available at volvogroup.com. ■

OUR MATERIALITY PROCESS



DEFINITIONS OF KEY ASPECTS (ALPHABETICAL ORDER)

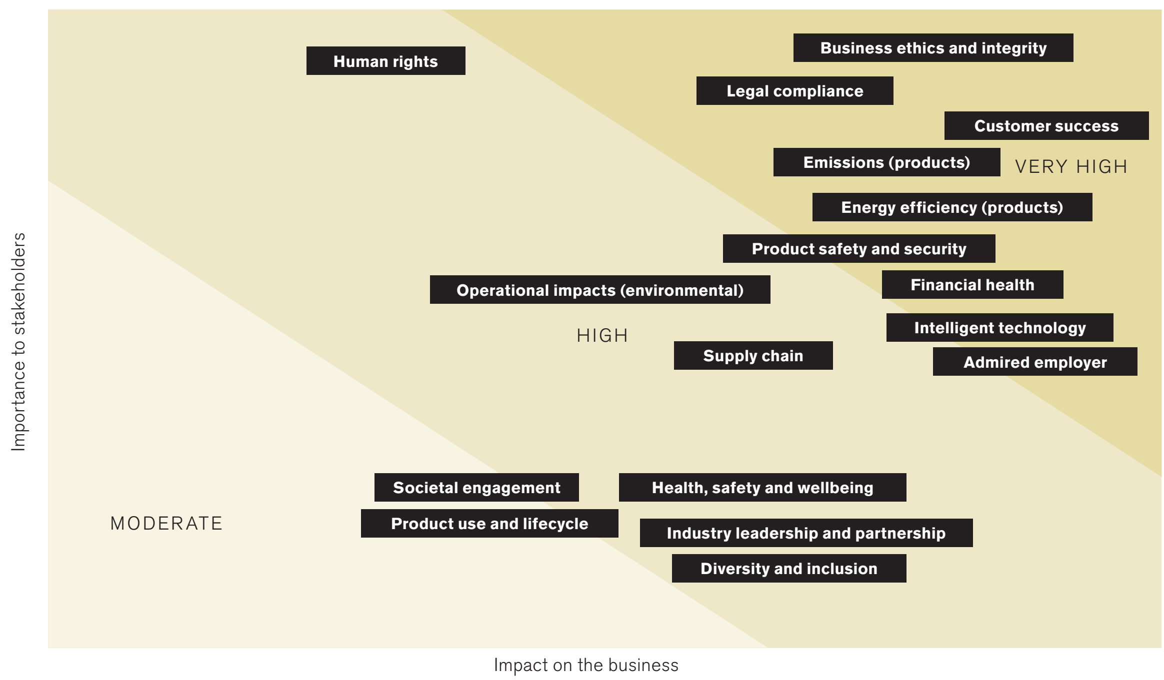
ADMIRED EMPLOYER – being the most admired employer in our industry. Leading and embracing change. Attracting people with a strong business instinct and developing a skilled and agile workforce with the optimal knowledge and competencies at all levels. Trusting and empowering colleagues to use their intuition and make the right decisions.

BUSINESS ETHICS AND INTEGRITY – creating, leading and maintaining a responsible culture built on the business ethics, human rights, social and environmental principles set out in our Code of Conduct, including principles on anti-corruption, taxation and political involvement. Reflecting the values of customer success, trust, passion, change and performance.

LEGAL COMPLIANCE – working to ensure compliance with all applicable laws, regulations, directives, international standards and widely-recognized initiatives. Continuous development of our corporate governance, policies and practices to ensure adherence.

CUSTOMER SUCCESS – engaging with customers to truly understand their business challenges, needs and ambitions. Creating value for customers by delivering transport solutions that increase profitability through lower running costs and higher revenues, thanks to improved uptime, fuel efficiency and productivity.

OUR MATERIAL ISSUES



EMISSIONS (PRODUCTS) – developing cleaner transport solutions designed to reduce consumption of fossil fuels and lower emissions of carbon dioxide (CO_2), nitrogen oxide (NOx), particulate matters and noise.

ENERGY EFFICIENCY (PRODUCTS) – developing innovative product and service solutions designed to reduce energy consumption, operational costs and environmental impacts.

FINANCIAL HEALTH – managing economic and financial risks and developing resilience to market volatility. Focusing on our new strategic priorities to reinforce and regain market share; grow by meeting customer needs in specific segments; and secure industry-leading profitability. Generating and distributing economic value to various stakeholders.

INTELLIGENT TECHNOLOGY – investing in pioneering research and development for innovative technology, transport and service solutions to contribute to efficient transport systems. Investing in connectivity, automation, safety, data protection and security. Adapting products and services to reduce congestion and improve the economic, social and environmental dimensions of mobility, distribution and infrastructure.

PRODUCT SAFETY AND SECURITY – researching and developing product, technology and training solutions designed to enhance driver and operator safety, traffic and site safety, and goods' security.

VOLVO CE

LAUNCHED NEW FLAGSHIPS

Emphasizing its long-term commitment to the market, Volvo Construction Equipment unveiled several new flagship products and intelligent machine services in 2016 – including the largest articulated hauler and excavator the company has ever introduced.

#1 LARGEST ARTICULATED HAULER TO DATE

Volvo Construction Equipment developed the concept of the articulated hauler, also known as dumper. Around the globe, Volvo CE is still the undisputed leader of articulated hauling in the most demanding conditions, terrain and applications. In 2016 Volvo CE launched the Volvo A60H, its largest ever 6x6-configuration articulated hauler. The Volvo A60H offers an impressive 40% higher payload than the company's previous largest articulated hauler, the A40G.

#2

BIGGER IS BETTER WITH VOLVO'S EC950E CRAWLER EXCAVATOR

Bigger jobs are done better, more powerfully and faster with Volvo's new 90-ton weight class EC950E crawler excavator. The machine offers the perfect combination of power and stability to handle high capacity duties in the toughest applications.

For Volvo's largest crawler excavator no task is too tough. The crawler excavator delivers more tons per hour due to its high bucket capacity, powerful performance and high durability. The EC950E offers superior digging force, particularly when working with hard and heavy materials.

#3

VOLVO CO-PILOT WINS HUMAN-MACHINE INTERFACE AWARD

Volvo CE also launched the in-house developed Volvo Co-Pilot system, which beat international innovations and wowed a panel of judges to win 'most innovative HMI feature' in the Car HMI Awards 2016 (which, despite the name, are not just for cars). Volvo Co-Pilot is designed for use on machines as diverse as excavators to pavers. It uses a tablet computer to deliver a new generation of intelligent machine services, such as Load Assist, Dig Assist, Compact Assist and Pave Assist. Volvo Co-Pilot and the assist-functionalities help operators to produce higher quality outcomes, in less time and with less effort.

Dig Assist allows excavator operators to complete digging tasks to greater accuracy in less time. Safety is also improved, as there is no need to repeatedly get out of the cab and physically check grades or levels. Load Assist delivers real time accurate load information to the operator. Preventing under- or over-loading, the system allows wheel loaders to work to their maximum efficiencies. Compact Assist offers two module options – Intelligent Compaction and Intelligent Compaction with Density Direct. Intelligent Compaction records and displays a pass counter and thermal mapping, while Density Direct calculates 100% of the surface density. Pave Assist is a family of modules and applications that will automate many of the paving parameters that currently have to be recorded manually in order to meet stringent road authority reporting requirements.

VALUE CHAIN

Placing the customer at the center of value creation

The Volvo Group is developing long-term competitiveness by maximizing value creation in every part of our value chain through increased efficiency, quality and performance and by acting responsibly towards business partners, employees and the world around us.

CUSTOMERS

The customer is at the center of everything we do and the customer's voice is present in every part of the value chain. By delivering customer value we will deliver value for ourselves.

REUSE

Working with lean methodologies enables us to use less material and energy, incorporate more recycled materials, recover heat and reduce waste.

PRODUCT DEVELOPMENT

Fulfilling our customers' needs and improving their long-term profitability forms the basis of our product and service development.

RETAIL & SERVICE

Our extensive network of dealers and service centers staffed by competent and service-oriented personnel are key factors for customer satisfaction and success.

PURCHASING

Long-term cooperation with suppliers drives efficiency, quality and responsible behavior throughout the value chain.

PRODUCTION & LOGISTICS

Our well invested global industrial and logistics system efficiently meets the demands of our organization.

INVESTMENTS

A significant portion of generated capital is normally transferred back into the operation. The capital is used for investments that will strengthen competitiveness and create long-term value for the Group and its stakeholders.

The Volvo Group's income for the year amounted to SEK 13,223 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 its strategies. The Board of Directors has proposed a dividend of SEK 3.25 per share, corresponding to a total of SEK 6,603 M for 2016.

CUSTOMERS

- More than 2 million trucks and 100,000 buses, which the Group manufactured in the past 10 years, operate on roads worldwide.
- According to our estimates 15% of food in Europe is delivered by our trucks and more than 10 million people worldwide can be transported daily on our buses and coaches.
- Our construction machines are present at construction sites all over the world. We have delivered around 500,000 units of construction equipment in the last 10 years.
- Our support services keep thousands of customers' fleets on the road, contributing to productivity and growth. Today, approximately 550,000 Volvo Group vehicles are connected via different telematics solutions.

PRODUCT DEVELOPMENT

- Investments in research and development amounted to SEK 14.6 (15.4) billion for 2016, corresponding to 4.8% (4.9) of Group net sales.
- Product development is based on the needs of customers, legislation, changes in society and new technologies.
- Around 98% of the environmental impact from a truck occurs during use. Consequently, sustainable transport solutions is one important area for product development.
- Our main areas of focus are improved performance of current products and services as well as automation, connectivity, electromobility and alternative fuels.
- The Volvo Group's cooperation with external research partners and participation in public research programs increases knowledge both for us and the societies we operate in.

PURCHASING

- In 2016, the Group made purchases of goods and services totalling SEK 205.9 (210.6) billion.
- We have around 41,000 Tier 1 suppliers, of which about 7,000 supply automotive product components.
- We strive to have long-term relationships with suppliers of technologically advanced components.
- The Volvo Group applies the principles in its Code of Conduct to assess suppliers as a part of the purchasing process.
- During 2016, 88% (87) of the value bought from automotive product suppliers underwent Corporate Social Responsibility (CSR) assessment. Of the suppliers that underwent the assessment 83% (80) of the value passed.
- Around 73% of the Volvo Group spending on automotive products comes from suppliers certified in accordance with ISO 14001 or its equivalent.

PRODUCTION & LOGISTICS

- At the end of 2016 the Group had 84,039 (88,464) regular employees and 10,875 (11,037) temporary employees and consultants, of which 40,798 (47,368) regular employees and 4,946 (4,341) temporary employees and consultants were blue collar.
- The Volvo Group has factories in 18 countries.
- 55% of Volvo Group employees are located in Europe, 17% in North America, 6% in South America, 19% in Asia and 3% in other parts of the world.
- In 2016, the Volvo Group's wholly-owned truck operations delivered 190,424 (207,475) trucks. The Group also delivered 9,553 (8,825) buses, 44,306 (44,718) units of construction equipment, 18,016 (17,413) marine engines and 19,251 (15,295) industrial engines.
- All the Volvo Group's wholly-owned production facilities have third-party audited quality certificates and 98% have environmental certificates.

RETAIL & SERVICE

- During 2016, our service business represented approximately 22% (21) of the Volvo Group's net sales.
- The Volvo Group's products are sold and distributed to customers through wholly-owned and independent dealerships.
- Our service network supports customers and maximizes their product's uptime.
- All Volvo Group-owned dealers are covered by the Volvo Group's Code of Conduct and adhere to ethical, social and environmental requirements. 90% of our distribution centers are certified according to ISO 14001.

REUSE

- In 2016, the total sale of remanufactured components amounted to SEK 9 billion, an increase of almost 8% compared to 2015.
- The Volvo Group has eight remanufacturing centers worldwide handling used components from our whole range of brands.
- Resource efficiency and recycling potential is designed into our products during product development.
- Remanufactured components are important to our offering in order to reduce customers' ownership and operating costs.
- Remanufacturing is more labor intensive than production of new products and requires high-skilled labor.

CUSTOMERS

Everything starts with the customer

Our customers' success is our success. By understanding the customers' businesses and their needs, desires and challenges, Volvo Group can offer transport solutions that make customers successful and create value for society. Therefore customer focus is integrated in every part of our value chain.

Creating value for customers

Fuel efficiency
Uptime
Productivity

Looking at our value chain through a customer lens supports our work towards our strategic objectives. To succeed, customer focus needs to be part of every decision.

In product development this means developing the right products and services at the right time. In production the focus is on a cost efficient process with high product and service quality. For our purchasing people, customer focus translates into securing supplies through long-term relationships and a selection process based on quality, price and responsible behavior. For our distribution and service networks, availability and customer uptime need to be prioritized and secured.

Strategic customer focus

The clear customer focus in the new Volvo Group strategy translates into the development and growth of our service business, the increase of speed in decision making and even closer cooperation with our customers. At the same time the strategy emphasizes the utilization of group synergies in powertrain and major components as well as common technology platforms in key areas e.g. automation, connectivity, electromobility and alternative fuels to increase cost efficiency.

From interviews with customers, a number of customer satisfaction surveys and our materiality analysis, we can conclude that our customers most value fuel efficiency, uptime and productivity.

Fuel efficiency

Volvo Trucks' latest generation of Euro 6 engines and the integrated intelligent Volvo I-Shift transmission improve performance while cutting fuel consumption. The level of fuel savings depends on the truck's specification and application but for a Volvo FH on long haul operations, it can be improved substantially. For heavy transportation, such as timber haulage, the saving may be even higher if the engine is combined with Volvo Trucks' recently introduced I-Shift with crawler gears and Tandem Axle Lift, the unique driven liftable rear axle.

In North America, both Mack Trucks and Volvo Trucks, recently launched 2017 engines that will power productivity and increase fuel efficiency while reducing greenhouse gas emissions. Mack Trucks introduced several upgrades and enhancements, boosting fuel efficiency from around 2% to almost 9% compared with previous engine models. Volvo Trucks incorporated multiple engine improvements to extend fuel efficiency benefits and compared with previous generation engines, Volvo's 2017 North American engines deliver between 2% and almost 7% better fuel efficiency.

The 2016 version of the Renault Trucks T benefits from improvements to the chassis and driveline, enabling it to reduce its consumption by a further 2%, while at the same time increasing the payload. It is also introducing Optivision, a predictive cruise control system with GPS.

Other ways to increase fuel efficiency and reduce CO_2 emissions include driver training and fuel management systems.

Uptime through connectivity and availability

To secure uptime, vehicles developed within the Volvo Group are equipped with connected devices to prevent un-planned stops; to schedule planned stops and to offer quick and easy support through availability and the right skills. You can read more about our retail and services on page 54.

By the end of 2016, more than 550,000 Volvo Group vehicles were connected via different telematics solutions and the number continues to increase.

For Volvo Group, the data from connected devices gives information on how to improve uptime for our customers. Volvo Group Telematics enable commercial vehicles to perform services such as calling for help in case of an accident, tracking and even immobilizing stolen vehicles, monitoring driver times, connecting and managing fleets, supporting fuel saving, and preheating the vehicle in the winter.

CONNECTED VEHICLES
550,000

Volvo Group Telematics solutions now exist in our own and other products in the automotive industry in Europe, Asia, the US and South America under the names of Volvo Dynafleet, Volvo Vehicle Remote Diagnostics, Renault Trucks OptiFleet, UD Telematics and the Volvo CE CareTrack. Another example is the Mack Trucks' GuardDog Connect, which is now active in nearly 50,000 trucks. These services deliver a reduction in both diagnostic and repair time, leading to increased vehicle uptime.

VALUE CO-CREATION

CUSTOMER VALUE

- Customer productivity
- Asset uptime
- Fuel efficiency

- Increase customer revenue
- Decrease customer costs

- Grow customer profitability

VOLVO GROUP VALUE

- Excellent products & services
- Closeness to customers
- Efficient way of operating

- Increase Volvo Group revenue
- Decrease Volvo Group costs

- Grow Volvo Group profitability

TO BE SUCCESSFUL the key is to create value for our customers by improving their bottom line profitability. By understanding our customers' priorities and challenges, we are able to provide products and services that grow customers' revenues and decrease customers' cost. Key areas to create value for our customers are offers that increase our customers' productivity, ensure that vehicles and machines are running as they should and increase fuel efficiency. By delivering customer value, and doing so efficiently we will also deliver value for ourselves and our owners.

Turning productivity into profitability

In many markets there is a lack of, or fierce competition for the best, drivers and operators. Therefore we strive to understand drivers' and operators' conditions to give them the best support and work environment to turn productivity into profitability for our customers. A good example is the Brazilian campaign below.

CRAWLER GEARS

Another example of a recent productivity improvement is the Volvo Co-Pilot on-board services display designed for use on Volvo CE machines as diverse as excavators to pavers. See more information on page 29.

A third example is Volvo Trucks I-shift with crawler gears. The system is unique for series-produced heavy trucks and provides exceptional startability for trucks carrying heavy loads in demanding situations. For haulage firms carrying out heavy transport operations on demanding surfaces as well as regular highway driving, crawler gears also offer considerable flexibility and the possibility of improved fuel economy.

A scientific study recently confirmed the positive ergonomic effects of the Volvo Dynamic Steering (VDS). The steering aid based on a stabilization system, reduces the risk of work-related injuries for bus and truck drivers through increased safety and comfort. In 2016, one year after its introduction, more than half of Volvo's long-distance buses sold in Europe are fitted with VDS.

Driver and operator safety training

The Volvo Group runs traffic and site safety programs for drivers and operators all over the world:

- Driver training programs run jointly with Eicher in India trained more than 30,000 drivers during 2016. This adds up to more than 196,000 drivers since the start of the program.
- Operator training run by Volvo Construction Equipment in India trained close to 1,300 operators in 2016 and the total trained since the start 2007 is above 11,600.
- The TransFORM program has been running since 2008 in Brazil and since 2009 in Peru. In total close to 3,300 drivers have been trained.
- Volvo Driver Academy is a demo training project initiated in China for drivers to drive more safely and efficiently.

Continued »

Driver engagement

Volvo Trucks Brazil collected opinions from more than 3,000 Brazilian truck drivers to increase understanding of their situation. The initiative was part of a campaign where Jairo Cesar won the raffle for a week's trip to Sweden. The results from the survey will be used to determine relevant actions to emphasize the importance of the profession.

»

Measuring Customer success

For the Volvo Group, the only true measure of success is customer satisfaction. The Volvo Group vision of being the most desired and successful transport solution provider in the world summarizes the direction going forward and links to our aspiration of having leading customer satisfaction for all brands in their segments, and to our customer success value.

Each brand organization within the Volvo Group tracks customer satisfaction and brand image perception through surveys worldwide. Performance is integrated in our key performance indicators reporting and is used to increase our understanding of our customers' needs. Research and studies are done by leading international organizations and interviews are carried out with decision makers among customers and non-customers.

As outlined on page 33, for us, customer success means creating value for customers by delivering transport solutions that increase profitability through lower running costs and higher revenues. We strive towards customer success through enhanced customer relationships, long-term brand loyalty and business partnerships.

Follow-up on main brands in main markets

The Volvo brand occupies a strong position for both trucks and construction equipment, according to the latest customer satisfaction and benchmark surveys focusing on fuel efficiency, uptime, productivity and customer loyalty and carried out for our main brands in our main markets over the past three years.

For Volvo Construction Equipment (Volvo CE) the customer satisfaction indices in Asia Pacific (APAC), Europe, North America and Brazil are stable and our customers agree that our machines offer good productivity with Volvo providing good uptime support. Customer loyalty to the Volvo brand is high in these markets. In China, where overall market conditions are difficult for the entire industry, we see a negative trend in customer satisfaction. However, Volvo CE's position is stable relative to the competition. The overall perception of Volvo in terms of providing low fuel consumption is very strong among customers and non-customers.

For Volvo Trucks, in the main European markets, customer satisfaction indices indicate that customers agree that Volvo delivers good fuel efficiency; they are satisfied with the uptime and productivity delivered and overall customer care in service and sales.

In North America, customer satisfaction surveys indicate very high scores for fuel efficiency, uptime, productivity and overall customer care, compared to its competitive set as well as the overall market.

In Brazil, survey results remain stable at a good level for selected attributes. For uptime, there is a substantial improvement in the area of reliability but a decrease in fuel efficiency scores from last year's survey. Productivity remains at a very good level. The overall score for customer care in Brazil remains on a good level with further room for improvement within the complaints handling area.

In major South East Asian markets results are on a moderate level for uptime and fuel efficiency. In a mature Asian market like Korea the Volvo Trucks scores are significantly stronger, especially when it comes to fuel efficiency and driver productivity. ■

Volvo FH on top in Fehrenkötter test

IAA is Europe's leading trade show for transport and logistics. At the 2016 show in Hannover, Germany, the Volvo FH was awarded first position in the prestigious Fehrenkötter test, against seven new Euro 6 trucks from the major European brands. In addition to winning the overall evaluation, which focuses on total cost of ownership, the Volvo FH was also best for fuel economy. The multi-brand test stretches over 2.5 years in real-life customer operations and shows a leading position for Volvo FH in Euro 6 execution.

UPTIME

SUPPORT IN ZULU 24/7

In South Africa, there are 11 official languages. The team at the Uptime Solutions Centre in Johannesburg speak them all to meet the needs of customers in every region of the country.

TODAY THE VOLVO GROUP'S UPTIME SOLUTIONS CENTERS PROVIDE SUPPORT TO VOLVO TRUCKS, VOLVO BUSES, VOLVO PENTA, MACK TRUCKS, RENAULT TRUCKS AND UD TRUCKS IN LOCATIONS AROUND THE GLOBE.

A GLOBAL COMPANY is also a multilingual company. Meeting customers in their own language and communicating clearly in a global world is a competitive advantage. In South Africa, there are 11 official languages. The team at the Uptime Solutions Centre in Johannesburg speak them all to meet the needs of customers in every region of the country.

Jabulani Mkhwebane is the transport manager for SMP CUB Logistics, a medium-sized haulage company based in Johannesburg. The company has a fleet of 116 trucks, mostly Volvo, which operate throughout the region, mostly transporting coal. When something goes wrong, he has contact with the Uptime Solutions Call Centre, which is primarily responsible for South East Africa: South Africa, Namibia, Zambia, Zimbabwe, Botswana and Mozambique. It now also handles Angola, Somalia, Sudan and Ethiopia and also assists a number of other African countries.

Every minute that one of SMP CUB Logistics' 116 trucks is stationary it costs the company a great deal of money. Finding parts and service technicians is not always easy, so the support received from Uptime Solutions is decisive. Jabulani Mkhwebane thinks it is good to get help in his native Zulu.

"The problems can be both large and small. The drivers call me and I then handle the contact with Uptime Solutions. Even if I speak English, it's nice to be able to discuss matters in my mother tongue, Zulu, when the questions get complicated," he says.

What Jabulani Mkhwebane appreciates most is that the Uptime Solutions' staff do not merely solve his problems, they also keep him informed every step of the way. "They work quickly and I constantly receive updates so that I can inform the driver and make alternative plans when necessary. This really helps our operations," he says. ■

Uptime Solution office for Southern Africa is located in the Volvo Group facility in a Johannesburg suburb. A total of 11 coordinators work in shifts around the clock, 365 days a year. Almost all communication takes place in one of the four most common languages in South Africa: English, Afrikaans, Xhosa and Zulu. The team speaks all 11 official languages in South Africa, plus some of the languages that are used in neighboring countries.

PRODUCT DEVELOPMENT

For and with our customers

We base our development of products and services on legal requirements and on the needs and expectations of our customers. Therefore we closely follow the development in legislation and we listen to our customers. Some of our customers are involved in our development process.

Our strategic priority to secure robust profitability and our aspiration of having the industry's leading profitability are dependent on leading research and development.

Value creation and customer engagement
Value creation in the product development process is determined by skilled people with the right information about products and services that will meet market demand.

Our customers play a central role in the development process as their demands decide what we develop. In practice, this means supporting incremental product and service developments by continuous improvements as well as game-changing innovation in new markets, technology areas or value chains to secure a successful product offer.

Each stage of our product development process has different objectives e.g. financial, quality and reliability, that need to be met before proceeding to the next stage. As part of our work with continuous improvement we are currently further strengthening our quality management.

Customers and drivers participate in various ways in product development. At different phases of the process, they are invited to look at parts or features of the vehicle or machine and are asked for their opinion. At the end of the process customers are invited to drive our new products in field tests before they are launched.

One example of close collaboration in the development process is the Electric Site project launched in September 2016 in Sweden. In this project, Volvo Construction Equipment joined forces with several partners to develop technology to reduce customers' production costs (cost per tonne) by up to 25% and at the same time reduce carbon emissions by up to 95% using carbon-neutral electricity. For further details about this pilot project, see page 45.

Adapting to changes around us
As described in the customer section, fuel efficiency, uptime and productivity are key aspects in our development process as they greatly impact customers' profitability. Other areas relate to safety, driver environment and how products and services contribute to complete transport solutions. For future transport solutions we prioritize automation, connectivity, electromobility and alternative fuels as key enablers since we believe they will change today's transport industry.

Automation benefits to customers and society
The Volvo Group believes that automation will redefine the commercial transport solutions that most of us rely on every day. It will create benefits for both our customers and society in terms of uptime, productivity, safety, energy and fuel efficiency.

Three key areas

Automation
Connectivity
Electromobility & alternative fuels

There are however challenges with this kind of technology and some of them relate to cyber security, liabilities, standards and regulations.

Volvo Group is encouraging progress to secure data privacy and supports the development of safe and reliable communication standards and protocols.

The ideal automation level is determined by its added value for customers and society, see graph on page 40. Volvo Group will introduce automated applications gradually over time.

Read more about the very first self-driving Volvo FMX truck in an underground mine on page 40 and the Volvo Trucks' participation in the European Truck Platooning Challenge on page 46.

Connectivity opens up new opportunities
Connectivity, the Internet of Things and the possibility to analyze a much wider range of data are all leading to new services and products, and opening up new opportunities.

Connectivity is a key enabler for fleet management, uptime services and advanced vehicle services such as driver assistance and fuel economy. Connected services, such as data analytics, have huge potential for increasing customer productivity. Currently we are developing and evaluating different services and solutions in close collaboration with key customers through a number of pilot programmes. Read more on page 32 about the offers from our different brands on integrated transport systems based on wireless communication technology.

Progressing electromobility
Electric and hybrid vehicles contribute to increased energy efficiency and reduced emissions and noise pollution.

Urban Lab to save fuel

Renault Truck's Urban Lab 2 is a laboratory distribution vehicle developed with partners in the Efficient Distribution Truck project. By combining innovative technologies in aerodynamics, hybridization of the engine, tires and vehicle-infrastructure communication, the objective is to achieve 13% improved fuel consumption. The aim is to offer accessible innovation by 2020.

More and more cities are investing in electric public transport systems as the city bus market moves away from diesel-powered vehicles. As far back as 2012, Volvo Buses took the decision to only offer complete, low-floor city buses as hybrids on the European market.

Volvo Buses now offers the entire range of electrified city buses including hybrids, electric hybrids and all-electric buses. In 2016 Volvo Buses surpassed 3,000 (2,300) hybrid buses sold in 22 (20) countries since the start in 2010. During the year, Volvo hybrids were introduced in Mumbai, India.

Further research is needed to ensure that electric energy can be efficiently and reliably applied to medium-weight trucks. As part of this research, our customers Nestlé in Switzerland and Guerlain in France are testing fully electric Renault Trucks D range.

In the long run, the Group believes a dynamic supply of electricity from the road could power long-haul trucks and is therefore developing practical knowledge through our participation in Electric Road Systems concept studies.

Off-road equipment can also use electric power and Volvo CE is currently developing a hybrid wheel loader that is being tested in landfill applications in California, the US.

Alternative fuels positioning to meet demand

Volvo Group acknowledges that there is no single fuel to meet all needs. Conventional diesel fuel, with increasing renewable or synthetic content, will most certainly remain the dominant fuel for all types of commercial transport for many years. The Volvo Group position on alternative fuels prioritizes our research and development on the following applications:

- Long distance: liquid methane (LNG) and dimethylether (DME) are our main alternatives. Dynamic electric charging is an additional long term alternative.
- Medium distance: compressed methane (CNG) and DME are our main alternatives. Dynamic electric charging is an additional long term alternative.
- Urban: electricity, CNG and DME.

In 2016 the Renault Trucks D Wide compressed natural gas (CNG) was launched on the Spanish market. The truck is an option for customers searching for solutions with a reduced environmental impact.

Volvo Trucks has advanced its offer of alternative fuels for vehicles, such as methane and hydrogenated vegetable oils (HVO) and is testing DME in order to reduce the impact on environment and meet market demand. A new highly efficient gas-powered Volvo truck for Euro 6 will be introduced in Europe. The CO_2 emissions from this truck are about 20% lower than for a corresponding diesel-powered truck.

In North America, Volvo Trucks and Mack Trucks were the first original equipment manufacturers to approve the use of advanced hydrocarbon renewable diesel fuel in all of their products. The biggest challenge of renewable diesel is not compatibility or emissions, but rather the lack of sufficient supply. Volvo Trucks and Mack Trucks also offer trucks equipped with 9- and 12-liter natural gas engines as does Nova Bus. These vehicles offer the benefit of a fuel that is produced domestically and reduces emissions.

Taking a life cycle approach

The Volvo Group performs life cycle assessments for our main products, taking environmental impacts from production, operation and scrapping into consideration. Information about resources used and emissions created during the product life cycle, are collected, summarized and associated with environmental impacts, e.g. climate change and measured as global warming potential.

The result shows that the majority (98%) of the global warming potential is related to the operation of the truck based on calculations for a Volvo FH with a life time driving distance of 1,000,000 km, fuelled with conventional diesel.

Safety as a prerequisite

The Volvo Group's ambition is for zero accidents involving our vehicles and equipment. Road traffic and work site safety are global challenges and material areas for the Volvo Group. Safety is about reducing the risk of accidents and mitigating the consequences of any incidents that occur. Therefore, safety is an integral part of product development.

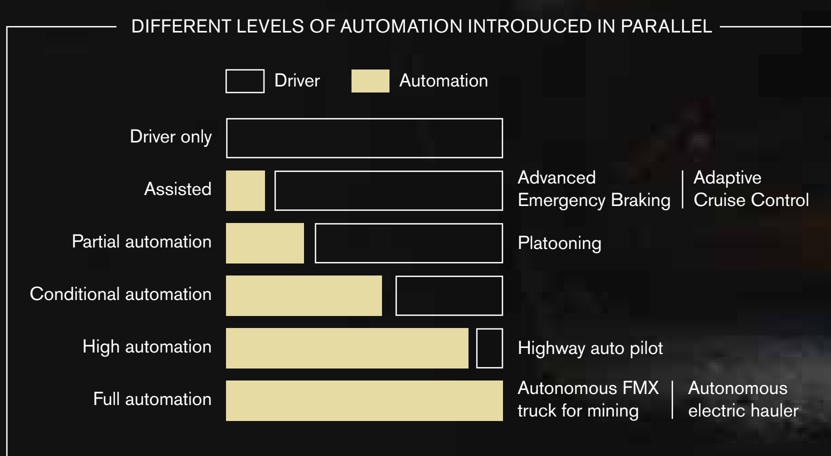
The Volvo Group's in-house Accident Research Team has investigated heavy truck accidents for close to 50 years. Combining accident data analysis with the Group's own research and test programs provides solid insights into the causes of accidents and

Continued on page 42 »

AUTOMATION

SELF-DRIVING TRUCK IN A MINE

Volvo's fully autonomous truck is being tested in operations deep underground in the Kristineberg Mine. The self-driving truck is part of a development project aimed at improving the transport flow and safety in the mine. The truck covers a distance of 7 kilometers, reaching 1,320 meters underground in the narrow mine tunnels.



Various solutions will be required depending on the degree of automation that is sought and the complexity of the situation where the transport solution is to operate.

Driver: Driver is fully engaged all the time.
Driver Assistance: Driver is fully engaged and can take over instantaneously. Driver may be "feet off" e.g. when using cruise control.
Partial Automation: Driver may be both "feet off" and "hands off", but must have eyes on the road and be able to take over instantaneously.
Conditional Automation: Driver may be "feet off", "hands off" and "eyes off", but must be able to resume control quickly.
High Automation: Automated in certain conditions. Driver is not expected to monitor road and has no responsibility during automated mode.
Full Automation: Driver does not have to be present in vehicle and has no responsibility during driving.

"Through our cooperation with Boliden, the development of autonomous vehicles is entering an exciting new phase. The results will provide valuable input into our ongoing mission to transform technical breakthroughs into practical customer benefits, explains Claes Nilsson, President Volvo Trucks.

VOLVO GROUP HAS taken yet another important step in the development of autonomous vehicles. A self-driving Volvo FMX truck is currently in regular operations in the Boliden mine in Kristineberg, Sweden. The aim is to examine how this technology can contribute to safe and productive transport in tough geographically limited application areas.

It is part of a research and development project to evaluate whether self-driving trucks may contribute significantly to increased transport efficiency and productivity. In particular in mines, ports and other geographically limited and well-controlled environments with a large proportion of repetitive driving.

The Boliden mine is where the very first self-driving Volvo FMX truck is operational. The operation will gradually add another three Volvo FMX trucks equipped with new functionality. Among other things, the vehicles include a system incorporating radar/laser-based sensors. This system is initially used to monitor the mine's geometry and to generate a map of the route that the truck has to traverse. The information collected is then used to regulate the vehicle's steering, gear changes and speed. On every new trip, the sensors are used to continuously scan the area around the truck and further optimize both the operation and the route.

The technology used makes it possible to optimize logistics in the mine in an entirely different way than at present. The truck can operate continuously, and thanks to precise route planning and steady speed there is no congestion and it is possible to cut loading and unloading times. During blasting operations, drivers must usually wait until the mine gallery has been ventilated before the ore can be loaded, but with self-driving trucks there are no such restrictions. This means that each truck can carry out more transport assignments per shift and the vehicles become an integrated part of the mine's overall production system. Smoother transport flow and steadier speeds are accompanied by lower fuel consumption and less wear and tear.

Safety gets top priority

An autonomous truck must be at least as safe and reliable as a manually-driven truck. If an obstacle appears near the truck the vehicle stops automatically and the transport management center is alerted. Of the six sensors included in the system, there are always two that monitor the same part of the truck's surroundings. If a fault occurs with the truck, it can be remotely operated from the transport management center. ■

Safety technology for unprotected road users

Pedestrian and Cyclist Detection will be introduced on Volvo's city buses in 2017. The system notifies nearby road users that the bus is approaching by transmitting an artificial background sound. If there is a risk of an incident, the bus horn is activated and the driver is alerted by both audible and visual signals.

»

injuries. This is important input to develop even safer products for our customers.

Volvo Group has pioneered a variety of driver assistance systems, including Driver Alert Support and Lane Changing Support, which enhance awareness and alert the driver before a situation turns critical. The Collision Warning with Emergency Brake system is another sophisticated system, which offers market leading emergency braking capabilities.

Driver comfort for improved overall experience

Improving the driver's working conditions and overall experience results in more relaxed, safer and healthier driving.

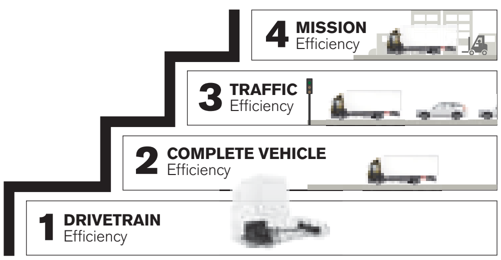
A publication from the Swedish Work Environment Authority states that truck drivers are over-represented in occupational injury statistics. Over the years Volvo Group has developed a number of features to support the driver's comfort and driving experience.

A recent introduction is the battery-powered parking cooler for Volvo Trucks North America sleeper models. The cooler allows drivers to keep the cab and sleeper comfortable without idling the engine, providing the most environmentally enhanced and efficient solution for maintaining comfort while parked.

Complete and sustainable transport solutions

As well as offering single products and services, we deliver complete transport and site solutions. The transport technologies in the context image to the right, shows how our work must include all parts in the development, from the driveline and vehicle to the desired outcome. The goal is to enhance customer productivity and concentrate on efficient delivery of the task. We can reduce customer downtime with intelligent, connected systems for efficient traffic and freight scheduling. This is supported by vehicle-to-vehicle and vehicle-to-infrastructure technology that reduces accidents and congestion and improves traffic flows while satisfying the customer's overall needs. The same mindset is applied when developing truck, bus and construction equipment solutions.

TRANSPORT TECHNOLOGIES IN CONTEXT



The Volvo Group is presently active in several programs addressing smart technology, integrated transport systems, advanced engineering, and pioneering vehicle combinations.

One example is the charging station for electric buses, in Gothenburg, Sweden. The solution is based on the common OppCharge interface, part of the joint reference project between Volvo Buses and ABB. With OppCharge, electrified buses and charging stations from different manufacturers can be used together. The aim is to facilitate the introduction of electric bus systems in cities all over the world.

The ElectriCity project is an example of a sustainable solution and collaborative, cross-functional cooperation with partners from industry, the academic world and civil society. A bus line in Gothenburg is operated by three all-electric concept buses and seven electric hybrids from Volvo. The aim is to make use of electric buses and new connected services and products to create attractive public transport solutions and urban developments. To enable ElectriCity to function as a modern test and demo arena for innovative development projects, a digital innovation platform was created for information sharing and communication.

In June 2016, after one year of operation, it was clear that the expectations had been surpassed by a wide margin. The buses and bus stops received a high rating by both passengers and drivers alike, and the technology worked very dependably. Between June 2015 and June 2016, the service carried about 1.2 million passengers.

Volvo Buses is also a leading supplier of buses for high capacity transport systems, Bus Rapid Transit (BRT).

Other examples from Volvo Buses are the City Mobility program and Zone Management. The City Mobility program develops and implements integrated and innovative sustainable transport pilot projects that are suited to each individual city. Zone Management is a service that enables compliance with restrictions in various sensitive areas. By setting map boundaries and using real-time GPS tracking of the vehicle's position, the system automatically regulates the speed of the vehicle and the fuel source.

Volvo Penta's enhanced Glass Cockpit system is designed for customers for whom 'smart' technology is a way of life. The new generation Glass Cockpit further develops the all-in-one system that enables customers to monitor and control every aspect of boating, from the propulsion system to navigation monitoring, and the cabin environment. The system increases performance, safety and comfort through an ergonomically designed interface to make boating even easier.

Cooperating on emissions and energy efficiency

Volvo Group was the world's first automotive manufacturer to be approved by World Wildlife Fund (WWF) to participate in its Climate Savers program.

The current agreement, covering the period between 2015 and 2020, includes the following commitments:

- A cumulative reduction of CO_2 emissions from products and production by at least 40 million tons by 2020 compared to 2013
- Improving energy efficiency in production to save 150 GWh/year. This corresponds to 8% of the energy use in Volvo Group's production sites compared to 2013.
- Reducing CO_2 emissions per produced unit from the Volvo Group's freight transport by 20%.
- 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 the City Mobility concept in at least five cities.
- Hosting the Construction Climate Challenge (CCC) that aims to create a dialogue with construction industry representatives, academia and politicians and address mutual projects for improvement.

Follow-up on results

The results are audited by independent experts. The agreed target should challenge us to be more progressive than business as usual and it must also signify that we are leading our sector in the reduction of greenhouse gas emissions.

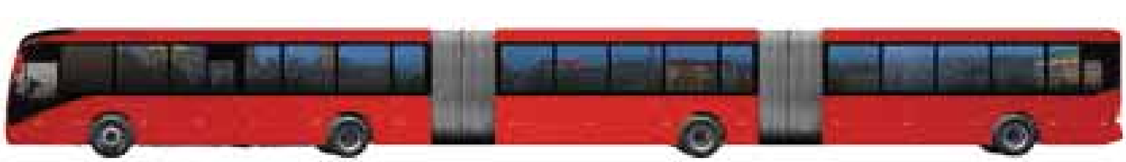
The results for activities undertaken in 2016 show 9 Mton CO_2 reduction in lifetime emissions from products.

During 2015 and 2016 about 400 energy saving activities have been implemented, resulting in 71 GWh/year in energy savings. ■

VOLVO GRAN ARTIC

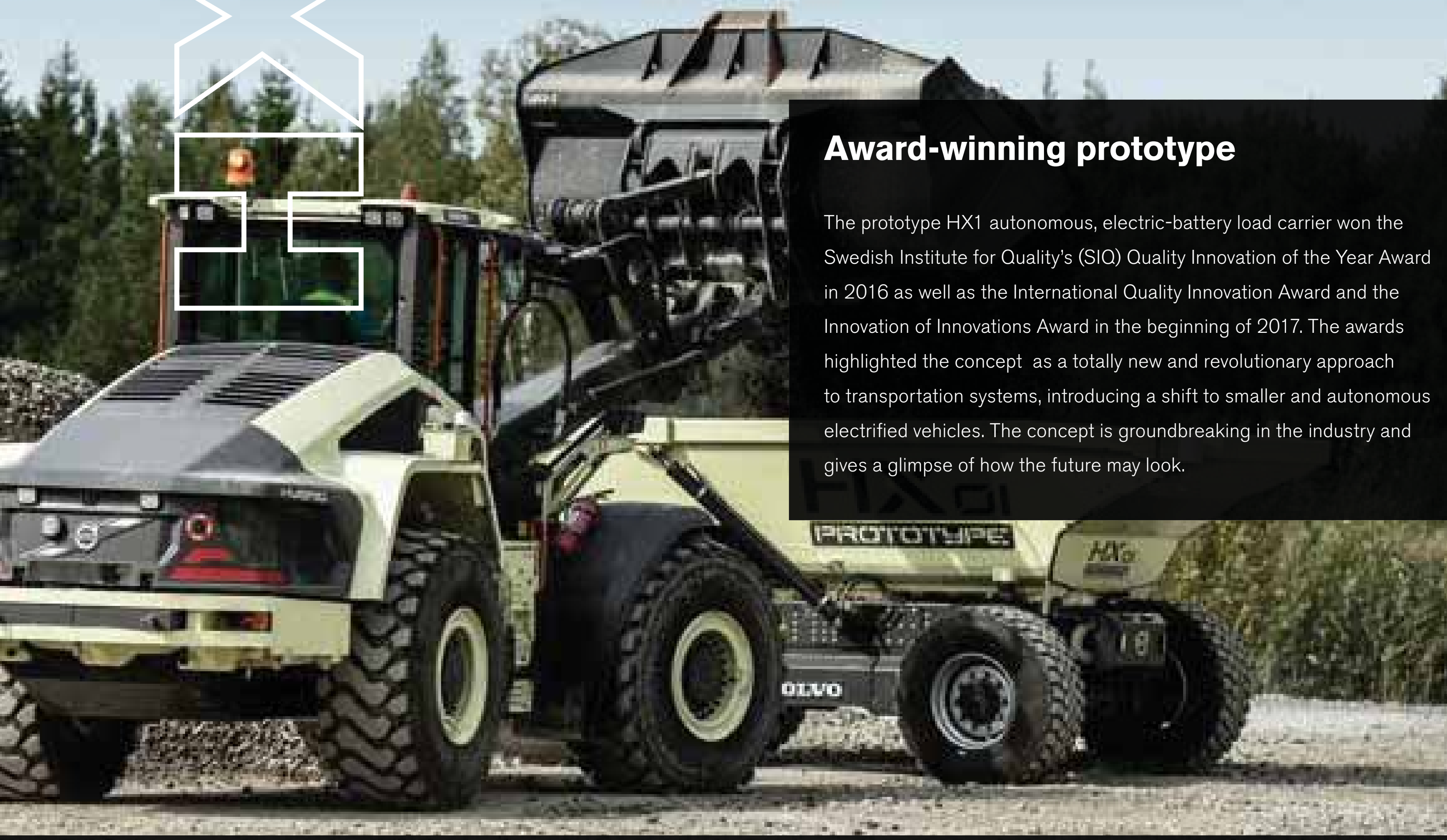
Largest bus in the world

Late 2016, the world's largest bus chassis, the Gran Artic 300, was launched. The bus is 30 meters long and can carry up to 300 passengers, replacing three standard vehicles. The Gran Artic 300 has been developed in Brazil especially for Bus Rapid Transit (BRT). The high-capacity buses reduce the number of vehicles operating in the bus corridors, leading to an increased average speed of the system as well as reduced emissions. Volvo Buses supply products and services to more than 30 BRT systems globally, including Colombia, Brazil, Chile, Mexico, India, South Africa and Sweden.



HX01

FROM ELEPHANTS TO ANTS...



Award-winning prototype

The prototype HX1 autonomous, electric-battery load carrier won the Swedish Institute for Quality's (SIQ) Quality Innovation of the Year Award in 2016 as well as the International Quality Innovation Award and the Innovation of Innovations Award in the beginning of 2017. The awards highlighted the concept as a totally new and revolutionary approach to transportation systems, introducing a shift to smaller and autonomous electrified vehicles. The concept is groundbreaking in the industry and gives a glimpse of how the future may look.

MANY SITE INEFFICIENCIES can be traced back to using only a few very large machines to reduce the costs of employing operators for several small machines. Relying on large machines, however, limits opportunities for adjusting production capacity. Small autonomous machines offer a cost-effective solution for increased site efficiency. Several Volvo Construction Equipment (Volvo CE) innovations for sustainably driving change were unveiled to customers, members of the international press, government representatives and academia at the Xploration Forum in Eskilstuna, Sweden. Among the highlights were:

- a prototype hybrid wheel loader with the potential to improve fuel efficiency by up to 50%
- the new concept autonomous, electric-battery load carrier, part of the Electric Site project
- a prototype autonomous wheel loader working together with an articulated hauler.

As part of ongoing research projects, these innovations are not commercially available at this stage, but they could become the equipment of the future.

Cleaner, leaner and smarter

Volvo CE's electric site project aims to transform the quarry and aggregates industry by reducing carbon emissions by up to 95% and the total cost of ownership by up to 25%. All innovations have been developed in close customer cooperation.

Automation and electrification make the simplified cab-less, driverless hauler possible. Unlike the bigger articulated hauler, the smaller machine is designed to work on fairly level sites on repetitive jobs. Loaded by a wheel loader, several hauler machines, like a colony of ants, can do the job of a larger one, like an elephant. The automation makes it more efficient while the electricity makes it cleaner.

PLATOONING

WIRELESS COMMUNICATION

In April 2016, three Volvo trucks drove closely behind one another using wireless communication, in a platoon, from Gothenburg, Sweden to Rotterdam in the Netherlands.

THE VOLVO GROUP'S JOURNEY through Europe and participation in the EU Truck Platooning Challenge was a great success, with very positive reactions from decision-makers, politicians and the general public.

"We drove in a convoy for over 1,500 km on public roads and gained a lot of great experience, not just about the technology but also about traffic environment. Everything went according to plan, which is a great feeling," says Anders Kellström, Project Manager for the Volvo Group's participation.

The purpose of the journey was to discuss and highlight the changes required in European transportation legislation that would facilitate the introduction of platooning.

Platooning involves trucks driving closely behind each other while communicating wirelessly. The vehicles' fuel economy is improved as a result of the reduction in drag. Drag accounts for up to 25% of a truck's total fuel consumption, and the closer the trucks drive to each other, the greater the fuel-saving potential. By communicating with each other wirelessly, the trucks automatically match each other's speed and braking. This means that the brake response times are close to zero when braking, leading to improved safety with no "accordion effect" influencing traffic congestion. ■

CONCEPT TRUCKS

CUT FUEL CONSUMPTION

In September Volvo Trucks North America unveiled an innovative SuperTruck demonstrator whose combination of advanced aerodynamics, vehicle and powertrain technologies boosted fuel efficiency by 70% – exceeding the 50% improvement goal set by the US Department of Energy (DOE) program.

FROM THE TOP-OF-CAB solar panels powering its battery and interior lights, to its ultra-light aluminum frame and highly advanced 425 horsepower 11-liter proprietary engine, the SuperTruck concept vehicle allowed Volvo Group engineers to push the boundaries of heavy truck efficiency.

The SuperTruck program was a five-year DOE research and development initiative to improve freight efficiency, meaning more payload carried while burning less fuel.

The DOE has now selected the Volvo Group to participate in DOE's SuperTruck II program. While not every technology demonstrated in the Volvo SuperTruck will be commercialized, two engine advancements developed through SuperTruck research – the wave piston and turbo compounding system – are already featured in Volvo Trucks' and Mack Trucks' 2017 engine line-up. Likewise a number of SuperTruck-derived aerodynamic improvements can be found on today's Volvo VNL tractors.

In Europe, Volvo Group engineers developed the Volvo Concept Truck with support from the Swedish Energy Agency. It was the result of a five year long research project aimed at creating more energy efficient vehicles. The concept truck reduces fuel consumption by more than 30%. One of the key factors behind the low fuel consumption is a massive improvement in aerodynamic efficiency on both the tractor and trailer.

Work on the Volvo Concept Truck began in 2011. The aim was to improve the efficiency for long-haul truck transportation. The concept vehicle was part of a research project and will not be available on the market. However, some of its aerodynamic features have already been implemented on series-produced vehicles, and more of its solutions may be fitted in the future. ■


Super Truck I


Volvo Concept Truck

PURCHASING

Strategic partnerships for a leading position

Building long-term partnerships with our suppliers supports cost efficiency, high quality and secures delivery of our products and services. Volvo Group expects its suppliers to be competitive and responsible all the way from project planning to production and delivery to our plants as well as supporting our service offer for the complete product life cycle.

In 2016, the Volvo Group bought goods and services at a total value of SEK 205.9 billion from suppliers. Generally we source from suppliers close to our production sites to ensure an efficient flow of supplies. This means that the majority of suppliers is located in Europe and North America while the Group's expansion in Asia has led to an increased number of suppliers located there. The strategic priority of capturing Asia growth will further increase the focus on securing a responsible supply chain in that part of the world.

Responsible purchasing

Being a trustworthy business partner results in high productivity and stable long-term relationships. This is mutual and the Volvo Group needs to respond to suppliers' expectations. Our suppliers highly value compliance, responsibility and fairness in business relations as well as environmental, safety and quality considerations. A continuous focus on these areas is essential to further develop long-term commitments.

When it comes to the Volvo Group's expectations on suppliers the principles and minimum standards of responsible behavior are set out in our Code of Conduct. Since 1996, our responsible purchasing program has consistently increased supplier requirements related to environmental issues, business ethics and human rights.

Our suppliers of automotive components are required to have a third-party certified environmental and quality management system. Around 73% of the Volvo Group spending on automotive products comes from suppliers that are certified in accordance with ISO 14001 or its equivalent.

Both Volvo Group and its suppliers must comply with the EU requirements on chemicals and harmful substances, REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) legislation. Suppliers must also meet additional requirements on chemicals from the Volvo Group.

Around 70% of purchasers and quality engineers have had training on business ethics, human rights and environmental issues related to the purchasing process.

Following CSR training based on our Code of Conduct for suppliers in Turkey, Poland and India during previous years, we extended the training to China in 2016.

Continuous development

The Volvo Group uses a self-assessment approach to evaluate potential and current suppliers' performance and compliance with our Code of Conduct requirements. This is in line with general automotive industry practice. Our Supplier Evaluation Model requires core suppliers and specifically those in high-risk countries or segments to update their assessments in our supplier system before new contracts are signed. For more on how we rank countries from a risk perspective, see page 54.

CSR SUPPLIER ASSESSMENT

%	2012	2013	2014	2015	2016
AP* suppliers CSR assessed	66	72	80	87	88
of which passed the assessment	53	62	72	80	83
AP* suppliers in high-risk countries	13	15	12	9	9
CSR assessed	84	80	92	92	94
of which passed the assessment	51	63	75	79	87

* Automotive Product.

Numbers based on spend/value.

In 2016 the Group started a pilot to gain further insight on social audit process in one of our high-risk countries. Based on the results a process will be set up to audit suppliers with a focus on high-risk countries.

During the year, we continued the work aiming to ensure that potential conflict minerals in one of our Volvo Penta engines originated from approved smelters. This can now be confirmed. The process is designed to meet both the demands from the US Dodd-Frank Act and the European regulation.

Within legal limits, Volvo Group works in favor of industry initiatives to increase harmonization and facilitate a more sustainable supply chain in the automotive industry. As a member of the European Automotive Working Group on Supply Chain Sustainability, Volvo Group continued this work during 2016.

Outcome of assessment

During 2016, 88% of the value bought from automotive product suppliers was assessed from a CSR perspective compared to 87% in 2015. The equivalent of 83% (80) of these suppliers passed the assessment.

In 2016, 9% (9) of the value of supplies was bought from automotive product suppliers located in high-risk countries. Of this, 94% (92) of the value was CSR assessed. We also assess our non-automotive suppliers, from a risk segment perspective including suppliers of indirect parts and services such as IT and logistics. In 2016, around 400 of these suppliers operating in high-risk segments, were CSR assessed and 80% (70) passed the assessment.

AWARDS

RECOGNIZING SUPPLIERS

In 2016, Volvo Group recognized 11 companies who received the Volvo Group Purchasing Supplier Award for their commitment to performance excellence and continuous improvement.

The top suppliers were recognized across six different categories: Cost, Fuel Efficiency & Innovation, Project Execution, Delivery, Aftermarket and Total Value Management. The award recognizes the importance of ensuring that we and our suppliers are at the forefront of research and development and innovation for all our product ranges, taking cost and profitability in all aspects into consideration.

Plan for non-compliant suppliers
The Code of Conduct assessment includes a requirement for an action plan if a supplier does not fulfill critical aspects. Among the most common causes for not passing are a lack of adequate compliance processes and systems to enforce the Volvo Group's requirements down to the supplier's own subcontractors. We expect non-compliant suppliers to resolve the issues and ensure that our requirements are met. ■

PRODUCTION & LOGISTICS
Continuous improvements

To secure robust profitability the Volvo Group has developed a mindset of continuous improvement as well as tools, processes and production systems that contribute to cost efficiency.

Our industrial and logistics system is well invested with modern production equipment and adequate technical capacity. To meet customer expectations the Volvo Group focuses on quality, lead times and delivery precision while ensuring health, safety and wellbeing at work for its employees. The Group has factories in 18 countries around the world. In addition to our production sites, our industrial operations worldwide include several product development centers, and a large number of parts distribution centers and logistics centers.

Factories and assembly plants to meet demand

Our industrial system for trucks consists of capital-intensive component factories as well as labor-intensive assembly plants. The component factories supply the Group's needs on a global basis whereas assembly plants in most cases are located close to end-markets to cater for different local needs and specifications and shorter delivery time.

All the Volvo Group's wholly-owned production facilities and distribution centers are third-party audited. We hold certificates as follows:

- ISO 9001 Quality management system: 100% of production facilities and 90% of distribution centers
- ISO 14001 Environmental management system: 98% of production facilities and 90% of distribution centers
- ISO 50001 Energy management system: Lehigh Valley, Hagerstown and New River Valley plants in the US.

Large restructuring programs completed

To enhance our manufacturing efficiency and strengthen competitiveness in Europe, we have spent the past couple of years restructuring our European truck assembly. We have achieved the right balance and size and from now on, changes will be driven by continuous improvement and adaptation to external factors.

Across all areas of production and logistics, continued standardization and process harmonization will contribute to improved productivity.

In Asia, the Volvo Group has its own industrial structure as well as established sales and distribution channels with UD Trucks, Volvo Trucks, Volvo CE and SDLG.

The Group Trucks Asia & JV's business area is responsible for the Group's proprietary heavy-duty truck UD Quester, and for the joint ventures VE Commercial Vehicles (VECV) in India and Dongfeng Commercial Vehicles (DFCV) in China. VECV, of which Volvo Group owns 45.6%, operates within the truck and bus industry in India. DFCV, where our ownership amounts to 45%, operates within commercial vehicles in China.

One of the strategic priorities presented at the beginning of 2016 is to capture growth in Asia through a separate value chain consisting of UD Quester as well as the cooperations with DFCV and VECV. Having product development, manufacturing and sales in its own system and better leveraging the possibilities created by the joint ventures, provides the conditions necessary to offer the right products at the right cost.

Environmental performance

In 2016, we had 14 licensed facilities in Sweden. The permits cover general conditions, such as allowed production volumes and environmental performance measures. All permits have specific site requirements related to impact on neighbors and the local environment. We estimate that no environmental permits need to be renewed due to regulatory or authorities requirements in 2017. There were no major environmental incidents in Sweden during 2016.

The Volvo Group has reported environmental data since 1991. The latest quantitative data is presented in the graphs on page 52 and in the 11-year summary on page 200. Please see the GRI (G4) Index at volvogroup.com for further information related to chemical and harmful substances and waste and water.

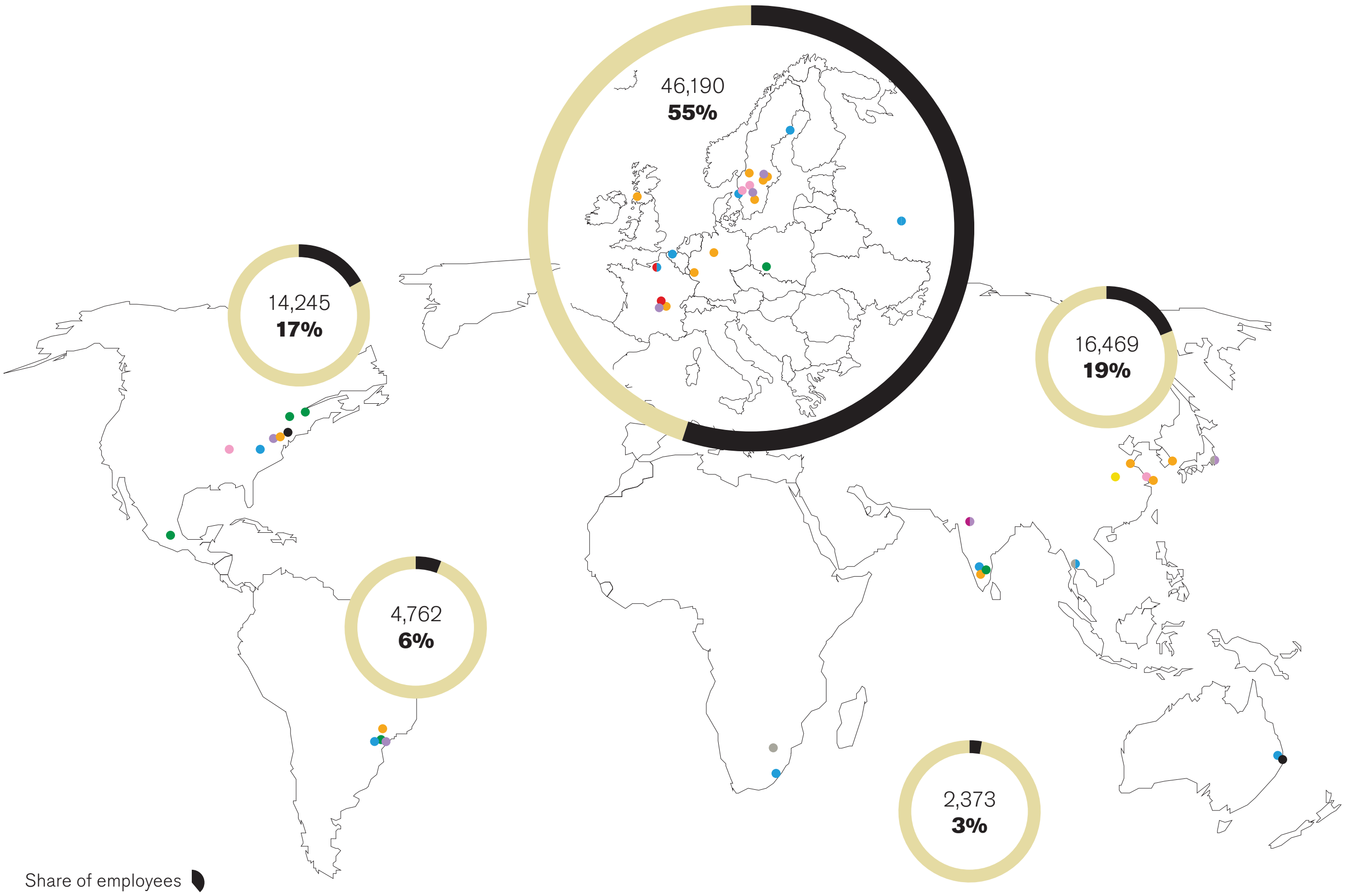
Measuring emissions

The Greenhouse Gas (GHG) Protocol is developed by the World Resources Institute (WRI) and the World Business Council on Sustainable Development (WBCSD). It sets the global standard for how to measure, manage, and report greenhouse gas emissions. According to the GHG Protocol Corporate Standard a company's GHG emissions are classified into three scopes. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions, not included in scope 2, that occur in the value chain of the reporting company.

Continued on page 52 »

GLOBAL INDUSTRIAL STRUCTURE

Regular employees
2016



MAJOR PRODUCTION FACILITIES

	NORTH AMERICA	SOUTH AMERICA	EUROPE	ASIA	AFRICA AND OCEANIA
Volvo Trucks	New River Valley (US)	Curitiba (BR)	Blainville (FR), Göteborg, Umeå (Cabs, SE), Gent (BE), Kaluga (RU)	Bangalore (IN), Bangkok (TH)	Brisbane (AU), Durban (ZA)
UD Trucks				Ageo (JP), Bangkok (TH)	Pretoria (ZA)
Renault Trucks			Blainville, Bourg-en-Bresse (FR)		
Mack Trucks	Lehigh Valley(US)				Brisbane (AU)
Eicher*				Pithampur* (IN)	
Dongfeng Trucks*				Shiyan* (CN)	
Engines and transmissions	Hagerstown (US)	Curitiba (BR)	Köping, Skövde (SE), Vénissieux (FR)	Ageo (JP), Pithampur* (IN)	
Construction Equipment	Shippensburg (US)	Pederneiras (BR)	Arvika, Braås, Eskilstuna, Hallsberg (SE), Konz-Könen, Hameln (DE), Belley (FR), Motherwell (UK)	Changwon (KR), Shanghai, Linyi* (CN), Bangalore (IN)	
Buses	St Claire, St Eustache (CA), Mexico City (MX), Plattsburgh (US)	Curitiba (BR)	Borås, Wroclaw (PL)	Bangalore (IN),	
Volvo Penta	Lexington (US)		Göteborg, Vara (SE)	Shanghai (CN)	

* Ownership ≥ 45%

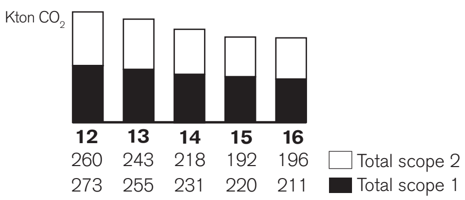
Carbon emissions from production

In 2016, the Volvo Group's total CO_2 emissions from production facilities, including scope 1 direct emissions and scope 2 indirect emissions, decreased by 1% from 412,000 tons to 407,000 tons.

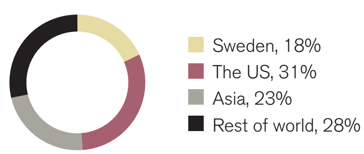
About 40% of our total energy use came from low-carbon renewable sources, including hydropower electricity and biomass heating.

The Volvo Group has carbon-neutral facilities in Ghent, Belgium, as well as Vara, Tuve and Braås in Sweden.

SCOPE 1 AND 2 CO_2 EMISSIONS



SCOPE 1 AND 2 CO_2 EMISSIONS PER REGION 2016



ENERGY SOURCES	**GWh**
Electricity	953
District heating	188
Natural gas	556
Diesel	191
Other	188
Total	**2,076**

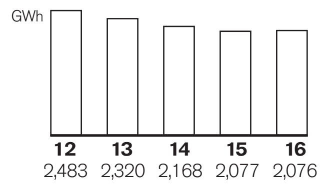
Energy efficiency in operations

The Group's 2016 total energy use amounted to 2,076 GWh, similar to the 2,077 GWh that was used 2015.

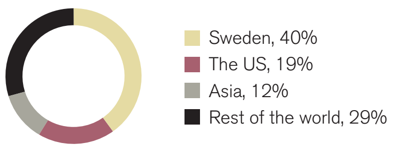
Our energy efficiency index, which compares energy use with net sales, was 7.1 MWh/SEK M. For the last five years, energy efficiency index has increased by 16%.

The long-term goal is to implement energy saving projects that together save 150 GWh per year. The target should be fulfilled by 2020. Since 2015, approximately 400 energy saving projects have been implemented resulting in a yearly saving of 71 GWh. This saving should be viewed in a longer turn perspective as the turning of the saving effects not fully corresponds to calender year. By reducing energy, we both reduce costs and lower emissions. Between 2006 and 2016, the Volvo Group's energy use from its own production processes decreased by 20% in absolute terms. This means that the corresponding energy cost has decreased by more than SEK 300 M comparing 2016 to 2006. The accumulated saving is significantly larger.

ENERGY USE



ENERGY USE BY MAIN REGIONS 2016



One example of an energy saving activity is our cab plant in Umeå, Sweden, where improvement activities have saved 10 GWh per year compared to 2013. This is equivalent to every 10th cab being produced without using any energy at all.

Through its membership in the Department of Energy's Better Buildings Better Plants program, Volvo Group North America met its 25% energy reduction goal in 5 years instead of 10. This was done through greater engagement of employees in the drive to reduce energy use and collaboration both internally and externally to learn and apply best practices. The plants in New River Valley, Lehigh Valley and Hagerstown, which together account for approximately 85% of the Volvo Group's energy consumption in the US are all in the Department of Energy's Top 10 plants for energy consumption savings.

Value chain measurements

Volvo Group also measures the 15 factors in scope 3 of the GHG protocol standard. The use of our products represents 98% of the Volvo Group's total carbon footprint. Therefore we focus on reducing our products' emissions. In our commitment to World Wildlife Fund (WWF) Climate Savers we have a target to reduce product life time emissions by 40 Mton CO_2 between 2015–2020, compared to 2013. For 2015–2016, the savings were 9 Mton CO_2.

As part of scope 3 reporting, we also focus on carbon emissions from freight transport involved in the supply of materials and deliveries to customers. The size of these emissions is similar to the CO_2 emissions from our production plants. Therefore this is a prioritized area and our long-term goal is to reduce CO_2 emissions from Volvo Group freight transport per produced unit by 20% by 2020.

Carbon emissions for the total volume transported in our manufacturing supply chain were calculated to 409,000 tons for 2016 compared to 435,000 in 2015. Since the base year 2013, a reduction of 11% CO_2 per produced unit has been achieved.

During 2016, we initiated a project to optimize full truck loads from material suppliers to Volvo Trucks and Renault Trucks production plants within Europe. This resulted in an annual CO_2 saving of approximately 380 tons – equivalent to the CO_2 emissions of 800 round trip flights between Gothenburg in Sweden and Lyon in France. ■

VPS

BETTER EVERY DAY

The secret to improving is to keep your eyes open and constantly re-evaluate ways of working.

CONTINUOUS improvement has always been of importance within the Volvo Group. Over the years the progress and maturity level has constantly increased. Working with Volvo Production System (VPS) secures a systematic and sustainable approach for continuous improvement. This supports us to produce the best products on the market by focusing on reduced costs, improved quality and shorter lead times. In 2016 a new VPS system was implemented to grasp the full potential for the Volvo Group. The new system is an evolution of previous systems. It is designed to be flexible allowing it to be adapted to any kind of work environment like sales, product development and administration to name just a few. VPS aims to create a culture where we continuously improve to be the best in our business, by increasing customer value and removing waste through everyone's involvement.

At our production units, we have safety delegates, quality and environmental coordinators and we measure and monitor to continuously improve.

A good example of continuous improvement is the Group's assembly plant in Bourg-en-Bresse, France, where the reasons for the gap between the production process and the delivery process were identified. An action plan was drawn up, and the plant improved its performance from 80% on-time deliveries to 95%.

RETAIL & SERVICE

Supporting customers around the globe

Customers are loyal to brands, and our brands are built by our service and retail personnel. One of our strategic priorities is to establish brand-specific sales operations with a focus on retail excellence and a growing service business.

The respective brand organizations within the Volvo Group support customers through efficient workshops, service and maintenance agreements. Our global network of skilled service technicians maximizes uptime and reduces the risk of unplanned stops for our customers. With our service contracts, customers know when their vehicle or machine is due for service and what the cost will be for maintenance and repairs. Roadside assistance services are available, in their own language, whenever customers need support.

Customer loyalty starts in retail

During 2016, the spare parts and services in total represented approximately 22% of the Volvo Group's net sales, compared to 21% in 2015. As services are needed on a continuous basis while our products are in use, they help to balance out the fluctuations in our business cycle.

Clear and transparent product, marketing and sales information is important for customers to make an informed decision about our products and services. Therefore, customers receive environmental product information for many of our products, based on lifecycle assessment. For more details, please see the GRI (G4) Index at volvogroup.com.

Certified uptime centers

In 2016 both Volvo Trucks and Mack Trucks in North America started to implement certified UpTime centers. The certification evaluates dealer service locations on a number of process elements, ranging from shop organization to implementation of diagnostic tools. Through the certified UpTime centers, offering standardized workflows and service processes, as well as redesigned service bays, the service experience for customers is faster and more efficient. The results from pilots show an immediate increase in the number of trucks being fully repaired during a 24-hour period, as well as positive customer feedback. Read more on our UpTime centers on page 36.

Encouraging best practice

To encourage the sharing of best practice and increase knowledge and skills, the Volvo Group runs local, regional and global competitions for our service personnel.

In June 2016, Team Harju from Finland, won the Volvo International Service Training Award (VISTA). VISTA is the world's largest competition for service personnel and it is open for Volvo Trucks and Volvo Buses service networks. Its primary goal is to develop and improve the participants' knowhow, skills and ability to cooperate – factors that ultimately improve customer service and increase customer satisfaction.

The Gemba challenge is UD Trucks service competition and experience-sharing platform for employees in Asia and Africa. The competition tests service teams on their knowledge, skills and team collaboration effectiveness. In 2016, the UD Truck's South African team won out of 186 teams in total.

The next Road to Excellence Championship, Renault Trucks' European service challenge, will take place in 2017. The competition highlights the Renault Trucks network's expertise in customer service quality.

Every two years, the Volvo Construction Equipment Global Masters competition gathers the best technical people from Volvo CE's dealer network worldwide. The competition recognizes the technical skills of mechanics and spare parts personnel. The 2015/2016 competition was won by Rudd Equipment from the US and recorded the greatest level of engagement in the 12 times the event has run.

Customer risk assessment

In 2016 our risk analysis tool covering business ethics, social and environmental factors for customer financing was further developed. A pilot was initiated to evaluate a new database as a search tool and the geographical scope was extended. During the year, the number of assessments performed was 46 for the truck brands, 34 for Volvo Construction Equipment and 7 for Volvo Buses. Risks were identified in 11% of the cases and these were followed by mitigation activities.

The project was initiated following the Swedish Government's introduction of requirements on the Swedish Export Credit Agency, EKN, to include human rights in their credit assessments of customers. The tool is used on customers in high-risk segments and extreme and high-risk countries, as defined in our CSR Country Risk Atlas. The atlas is tailor made for the Volvo Group using risk indices from a global risk analytics company based on the principles in our Code of Conduct. ■

SERVICE

EVERY-WHERE ANY TIME

The local Volvo Penta dealer knows their customers' engines better than anyone and offers service and support that can be tailored to their specific needs, enabling customers to focus on their core business.

WITH MORE AND MORE operators using Volvo Penta industrial engines around the world, Volvo Penta's industrial dealer network is constantly under development as we adapt and expand our – geographical presence to meet customer needs – wherever they work. The Volvo Penta industrial dealer network, with around 750 authorized dealers worldwide, offers service and support to help customers maximize productivity throughout the engine's lifecycle.

Volvo Penta's Industrial dealers are trained in the latest technology and repair processes and are required to comply with Volvo Penta's industrial dealer operating standard. The standard is designed to ensure consistent high-quality service and support. Aligned with Volvo Penta's core values of quality, safety and environmental care, the dealer operating standard focuses on:

- Technical competence, including advanced diagnostics
- 24/7 accessibility
- On-site support
- Excellent parts availability
- Speedy repairs and quick response to customer questions

To secure the best possible service and support, Volvo Penta provides its industrial dealers with continuous product training, as well as regular competence assessments to secure the local expertise necessary to keep customers' businesses going, wherever they operate.

> **"UTILIZING THE WIDE RANGE OF VOLVO PENTA SERVICE AND SUPPORT HELPS CUSTOMERS TO MAXIMIZE PRODUCTIVITY AND THE VALUE OF THEIR INVESTMENT.**

REUSE

Great potential for circularity

Increasing circularity means better business. Efficient use of resources, lower energy consumption and reduced emissions contribute to lower costs for the company, improved cost of ownership for the customer and less impact on the environment for society.

Increasing the options to repair, renovate, reuse and recycle components and parts reduces costs, which is especially important in the value segment. It also promotes circularity, which is desirable within the premium segment. Our remanufacturing business is increasing in importance every year and to take further advantage of the opportunities, it is already considered as part of product development.

In 2016, total Volvo Group sales of remanufactured components amounted to SEK 9 billion, an increase of close to 8% compared with 2015. In the last 7 years, sales from the Volvo Group's remanufacturing business have increased by a yearly average of 10%.

With increased demands from our customers and our customers' customers on resource efficiency and lower environmental footprints we see great potential for this business.

The first Volvo Group remanufacturing center opened in 1960 in Flen, Sweden. Other centers are located in France, Japan, Brazil, US, China and India.

Lower costs for customers

Remanufactured components are offered to Volvo Group customers worldwide. The exchange system works by customers receiving and installing a factory remanufactured component and returning the replaced component to the dealer. Through exchange, engines, gearboxes, exhaust filters and rear axle transmissions can be renovated to the same condition as new parts. Customers benefit from the same quality and a full warranty, delivered at a lower price.

VOLVO PENTA IPS

In 2016 Volvo Penta expanded its offer of factory remanufactured exchange components for marine products with drives and components for the Inboard Performance System (IPS). With a guarantee of providing the same quality, reliability and performance as new genuine Volvo Penta parts, the Volvo Penta Exchange system enables customers to have components replaced more quickly and offers a cost-effective alternative to repair and overhaul. Today, Volvo Penta offers more than 600 components in the Exchange system.

Volvo Trucks and Renault Trucks brands have launched new, more basic versions of the brands' exchange Automated Manual Transmission (AMT) gearboxes. The new products offer a more sustainable and cost-effective solution for customers with ageing vehicles. Firstly, the new gearboxes are produced through remanufacturing, which uses 80% less energy and material than producing a new component. Also, as these basic gearboxes are delivered without several electronic features, they are less expensive to produce and have a lower retail price than 'complete' versions of the remanufactured gearboxes. This will allow Volvo Trucks and Renault Trucks to extend the exchange business beyond the current target group and attract customers with even older vehicles.

"IN 2016, TOTAL VOLVO GROUP SALES OF REMANUFACTURED COMPONENTS INCREASED BY CLOSE TO 8% COMPARED WITH 2015.

Financial and environmental benefits

A truck produced by the Volvo Group is largely recyclable, since almost 85% of its weight consists of metal – mostly iron, steel and aluminium. The additional materials are mainly plastic, rubber and material from electronics components.

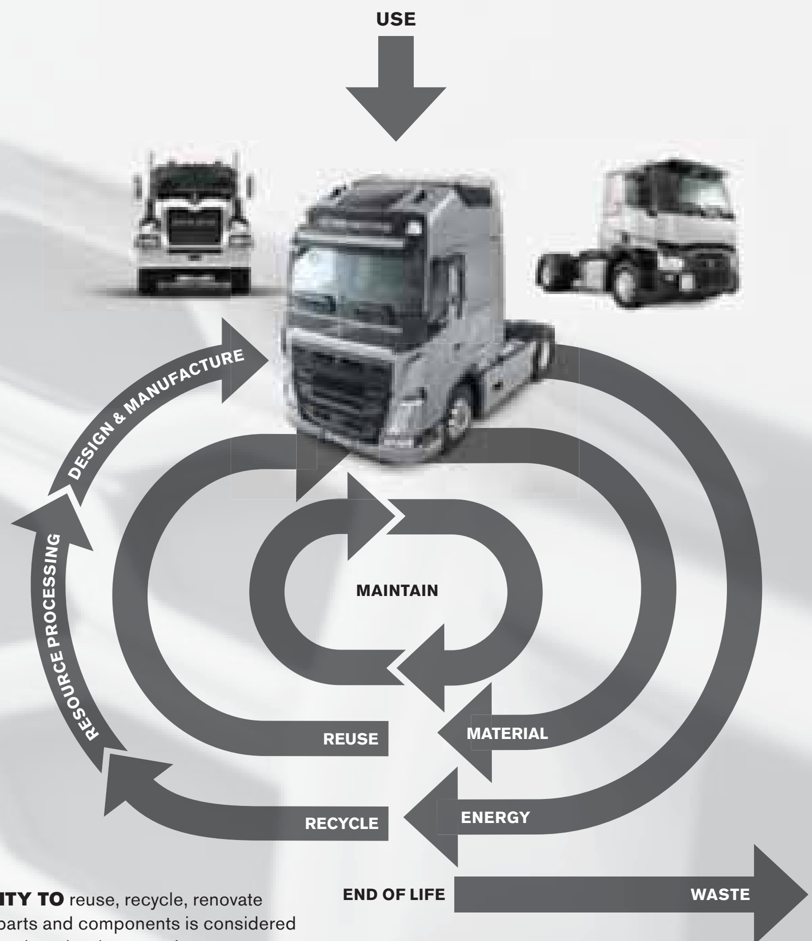
The Volvo Group works consistently with lean methodologies to use less material as well as processes to integrate more recycled materials, reduce waste and energy, recover heat, and assess our water footprint. As well as extending the life time of our products and reducing costs for our customers, remanufacturing ensures that potentially dangerous residuals inside worn components are dealt with correctly.

Promoting circularity

Volvo Construction Equipment initiated the Climate Construction Challenge (CCC) to bring together key players in the construction sector. The aim is to reduce its carbon footprint and promote sustainability, life cycle and resource-efficient thinking throughout the value chain. As part of its work program, CCC has supported research projects in circular business models and resource and energy efficiency.

In Sweden, lithium-ion batteries from Volvo Buses electrified buses on line 55 in Gothenburg will get a second life in a building project, Positive Footprint Housing. Second life batteries will be used together with solar panels for local energy storage and production. The purpose is to study energy management and value over time. The energy storage in the building is being developed collaboratively between the energy sector, building sector, and

Taking advantage of opportunities



THE ABILITY TO reuse, recycle, renovate and repair parts and components is considered as part of product development. It supports a growing remanufacturing business, less waste and reduced environmental impact.

vehicle sector to demonstrate and research future energy solutions. Batteries for storing solar energy already exist on the market but the aim of this project is to prolong the lives of batteries built to recharge quickly at bus stops and to see if their lives may be extended by 10 to 15 years if used in buildings with less load. Considering the great potential of electrified vehicles and machines, reuse and extended life is positive both from a total cost of ownership perspective for the bus operator and from an environmental perspective. ■

LITHIUM-ION BATTERIES

EMPLOYEES

Our people behind it

The Volvo Group's aspiration to be the most admired employer in our industry is a key factor for reaching our vision of being the most desired and succesful transport solution provider in the world. To succeed it is important to attract the right talent and create a culture of highly engaged employees.

ADMIRED EMPLOYER

Today's organizations act in greater uncertainty and can rely less on experience and established processes. Values will increasingly guide people and organizations in how they act and make decisions. Working for a responsible company that contributes to society is becoming more important for current and potential employees.

With the launch of our strategy in early 2016, work on revitalizing our culture and building a more values-driven organization began. Our values – customer success, trust, passion, change and performance – guide our day-to-day behavior and create the basis for a high performing culture. The work to build an even stronger culture is driven by employees and leaders at all levels via training, seminars and workshops.

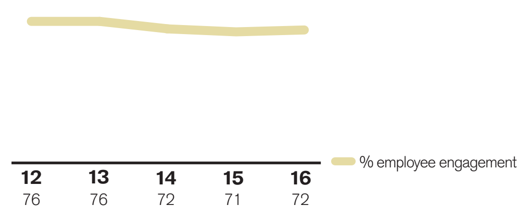
A global employer

The Volvo Group is a global company and as such we need to be aware of the various challenges to attract and retain talent around the globe. We put a great deal of effort into balancing the needs of diverse professional groups and nationalities as well as bridging generational knowledge and skills gaps.

There are many ways to attract and retain the right skills and become the most admired employer in our industry. The Volvo Group uses talent management, student and graduate programs, personal business plans and a broad offer of training programs in our in-house Volvo Group University. Other important factors include personal development, compensation and employee engagement as well as being known for fair and responsible business practice.

Progress in employee engagement

The 2016 results show an improvement from 71% 2015 to 72% 2016.



Engagement and performance

Employee engagement is the driving force behind high performing organizations and Volvo Group has a long tradition of working on engagement and measuring it annually through the Volvo Group Attitude Survey (VGAS).

In 2016, 93% of all employees responded. After three years of a declining Employee Engagement index there was an increase

Campus Lundby – the new home for Volvo Group in Gothenburg

Within a 10 year period, the majority of the Group's office staff in Gothenburg, Sweden, will be brought together in the Lundby area. Lundby is historical ground for Volvo Group and the site where it all started back in 1927. Today, operations, sales, technology and Volvo Penta are located in the area. By relocating physically closer to one another, it will become easier to cooperate, bounce ideas off each other and benefit from all the know-how among colleagues throughout the organisation. With Campus Lundby, Volvo Group wants to be a positive driving force in the city's development while increasing engagement among employees.

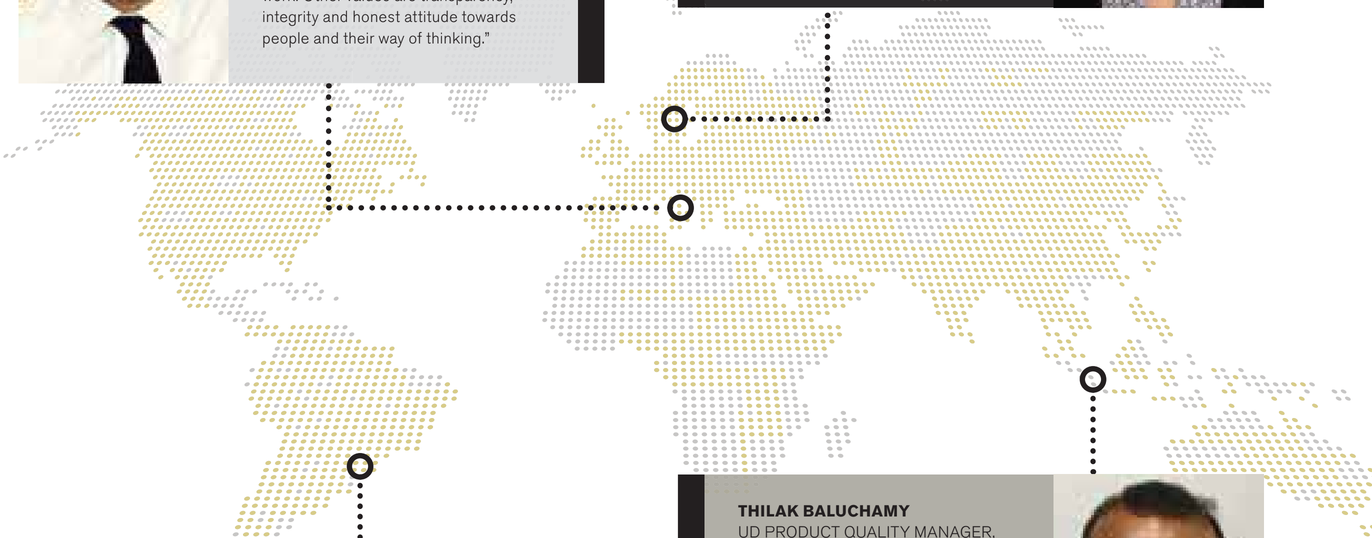
WHAT DO YOU VALUE IN AN EMPLOYER?

GIACOMO MONDINI
SALES MANAGER, VOLVO PENTA, MILANO, ITALY:

"The biggest value is the way of managing people, businesses and problems with many different leadership skills and the ability to find continuous ways to engage people in their everyday work. Other values are transparency, integrity and honest attitude towards people and their way of thinking."

ANNA BODIN
GROUP MANAGER , GROUP TRUCKS TECHNOLOGY, GOTHENBURG, SWEDEN:

"I truly value the possibility to work with sharp people, exciting products and world class truck technologies while still being able to balance my family life. The trust and respect the Volvo Group shows by offering flexible work conditions makes me a better person both at work and at home."

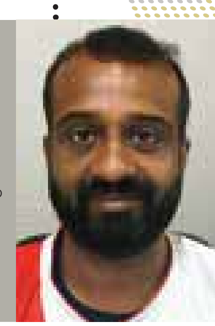


ROSANGELA PEREIRA DA SILVA
ASSEMBLY WORKER, GROUP TRUCKS OPERATIONS, CURITIBA, BRAZIL:

"It's about quality of life. The company must respect the employees and establish a relationship of trust. In my view, the Volvo Group can achieve its goal of becoming the most admired employer in the industry by encouraging personal and professional development for all employees."

THILAK BALUCHAMY
UD PRODUCT QUALITY MANAGER, GROUP TRUCKS ASIA & JVS, SINGAPORE;

"The employer should recognize my efforts and provide advice when needed. The company should back me up and treat all my peers with impartiality. Remuneration is also important, but after a certain stage in your career it is secondary. I value an employer that develops and sustains a strong, inclusive and understanding leadership."



from 71% engaged employees in 2015 to 72% in 2016. Even though the results were over the global norm, we did not reach our target: to be amongst the world's top 25% of companies in the comparison database of approximately 15 million employees from more than 400 companies.

To continue the upward trend we have a strong focus on communicating our vision of the future, connecting it to each team and employee and encouraging open and honest communication between leaders and employees. Other important areas are increased collaboration and dialogue about our values.

Attracting talent around the globe

The Volvo Group cooperates with top engineering and business universities worldwide. We maintain a close dialogue with selected target groups of students through study visits and internships at Volvo Group and on-campus company activities.

Our 12-month Volvo Group International Graduate Program aims to support the Group's continued development by recruiting the best global graduates and strengthen Volvo Group employer brand attractiveness.

Our Academic Partner Program (APP) is a highly exclusive program for selected universities performing research, education and competence development in areas of importance for the Volvo Group's future business needs. The program consists of 12 preferred partners in Sweden, France, the US, China, India and Japan. To complement the existing elements of research and talent, a third element was added to the APP in 2016. The learning partnerships will focus on competence development and ensure that the best-in-class pedagogic methodologies developed by the academic world are shared with our in-house Volvo Group University.

A major initiative in Sweden is the Volvo Step program. The program brings young people out of unemployment and safeguards future competencies for the Group. Read more about this and our vocational schools in Africa in the Societal Engagement section on page 72.

Strategic leader development
In the Volvo Group, we view talent as a strategic asset, and our people as the greatest creator of value. The toolbox for talent reviews is a structured and formalized review of performance and potential across the pool of leaders. It includes succession planning for our leadership teams to make sure we meet future needs. Our leadership programs and other learning offers target leaders globally and at various development stages in their careers.

Personal business plan to successfully do the right things
Employees are expected to have a personal business plan that translates our corporate strategic objectives into individual objectives and contributions. It includes business-related and competence development targets, and provides essential feedback for both short- and long-term individual development. Employees review their plan annually with their manager to ensure mutual understanding of roles, performance, competence development and expectations.

Volvo Group University supports business
Every year around half a million training days are completed by our employees and retail organizations worldwide. The Volvo Group University is established as the center of further education providing learning solutions in all our major competence areas. The academies are governed by the business and the university enhances consistency and quality to ensure that training outcomes support business operations.

First line managers and the engineering community have been identified as important target groups for value creation and business success.

In 2016, 2,000 persons in total participated in different leadership programs. Competencies addressed include coaching and developing direct reports. Efforts prioritized for the engineering community support improved quality and reduced lead time in product development.

Harmonized salary setting tools
Volvo Group has developed a global compensation approach which has been implemented in our 15 major countries. This global approach focuses on fair pay in relation to performance while ensuring market alignment. During 2017 and 2018, the approach will be rolled out to more countries. During the same period, the Group will also work on designing an overall compensation and benefits approach that supports the attraction and retention of our future workforce. ■

LABOR RELATIONS – COOPERATING FOR PERFORMANCE

For us, maintaining good relationships with unions and works-councils is vital for long-term business success. The Volvo Group Code of Conduct includes labor relations topics, covering all employees. Our employees are represented in several dialogue platforms to contribute with their views:

- In the AB Volvo Board of Directors, there are three ordinary members of employee representatives and two deputies appointed by employee organizations.
- Volvo European Works Council (EWC) meets twice a year focusing on European issues and sharing best practice. In 2016 there were eight formal information and consultation meetings.
- Volvo Global Works Council (GWC) members include union representatives from the existing EWC and from wholly-owned Volvo Group companies with more than 500 regular employees outside of Europe. In 2016, over 50 representatives represented 25 different countries.
- Volvo Global Dialogue (VGD) gives employee representatives from the GWC a yearly opportunity to meet with Volvo Group Executive Board and Group Management. The 2016 VGD gathered 46 representatives from 20 different countries and focused on the Volvo Group's new mission, vision, aspirations and values.

Supporting freedom of association
As stated in our Code of Conduct, all employees are free to join an association to represent their interests as employees, to organize and to bargain collectively or individually. An employee's right to refrain from joining a union is equally respected.

The Group reports on collective bargaining agreements in 22 (22) countries. The latest mapping covered nearly 95% of all regular employees. Overall, 72% (71) of employees in these countries were covered by collective bargaining agreements, and we estimate that more than 41% (43) of employees were members of an independent trade union.

During 2016, approximately 0.33% (0.25) of available working days were lost through lockouts or strikes within the Volvo Group. These strikes were mainly related to salary negotiations in a downturn environment in Brazil and a national protest against the Belgium government in which Volvo Group employees participated. All issues were resolved through close dialogue and partnership with our employee representatives.

Collaborating to find solutions
During 2016 total Volvo Group employees decreased by about 3,000 (3,400) due to economic conditions and sales volumes. Compulsory redundancies accounted for less than 3.5% (4.0) of

the total regular headcount. In addition, about 2,800 people were part of an outsourcing project in 2016 with the IT partner, HCL Technologies, driving the delivery of infrastructure and operations services.

In accordance with the Volvo Group's Code of Conduct and legal requirements, employees' representatives and relevant government authorities are notified about major changes in our organization. Labor organizations are informed via formal forums.

The Volvo Group enters into consultation and negotiations with trade unions and/or works councils about changes that affect their members. During 2016, 61 (105) consultations were held with trade unions and 84 (126) consultations with works councils over organizational changes (e.g. restructuring, outsourcing, layoffs).

In the spirit of the Volvo Group culture and our Code of Conduct, we work to find reasonable solutions for employees who are laid off. This includes for example internal mobility forums, which support the establishment of new enterprises, and outplacement support. ■

WORKING ACTIVELY WITH HEALTH, SAFETY AND WELLBEING

Investing in a good working environment is not only good for the health and wellbeing of the individual employee, it also contributes to the bottom line by making it easier to recruit and retain employees. On top of that it increases engagement and productivity. Volvo Group works actively to create safe and healthy workplaces for employees, visitors, suppliers and customers and is committed to helping employees meet daily challenges for staying healthy and feeling well. Mental health is part of this work and we have a global plan to increase awareness and work more proactively in this area.

Our Health and Safety Policy is based on the belief that accidents, near misses and work-related illnesses can be prevented. The policy sets out where minimum standards, training, awareness and upstream integration in product and working processes should be applied.

Providing a workplace where physical and psychological hazards are minimized is essential for ensuring the wellbeing of our employees and people we work with in our premises.

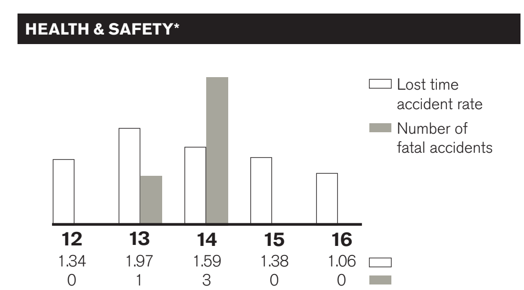
Increased sites with zero accidents

In 2016, our Lost Time Accident Rate was 1.06 (1.38) covering 100% (91) of employees. This was an improvement of 23% compared to 2015. For the second year in a row there were no fatal accidents.

Volvo Group works with workplace health and safety in many different ways. It is critical that we define minimum requirements through policies, procedures and/or practices and secure outcome at our locations through OHSAS 18001 certification, Volvo Production System and health and safety audits.

In 2016 over 30 (29) of the production sites were OHSAS 18001-certified.

In 2016 we achieved zero accidents at 16 plants compared to 13 in 2015.



*The scope of employees included in the numbers have increased substantially over the past five years and in 2016 it covers 100%.

Health, safety and wellbeing award

For 10 years Volvo Group has internally run best practice health and safety awards. In 2016, 34 initiatives from 16 different countries competed, representing a wide range of innovations and improvements in the area. The Volvo Group Health & Safety Award 2016 was given to an aftersales team at Volvo Buses in North America for their work to prevent accidents when working alone. The solution included a policy and a smartphone app for employees working alone at customers' premises or on the road. ■

DIVERSITY AND INCLUSION A COMPETITIVE ADVANTAGE

Our long-term target is that the Group's employee and management pool reflects the diversity of the regions where we do business. As our customers and other stakeholders have different backgrounds we need employees with different backgrounds to facilitate understanding. Recognizing each individual's abilities and understanding how diversity strengthens us are key factors to develop our products and services and meet our goals.

Diversity and Inclusive Leadership training
For the third year, Volvo Group celebrated Diversity and Inclusion Week in September 2016. The focus was on the strong connection between diversity and inclusion and our values.

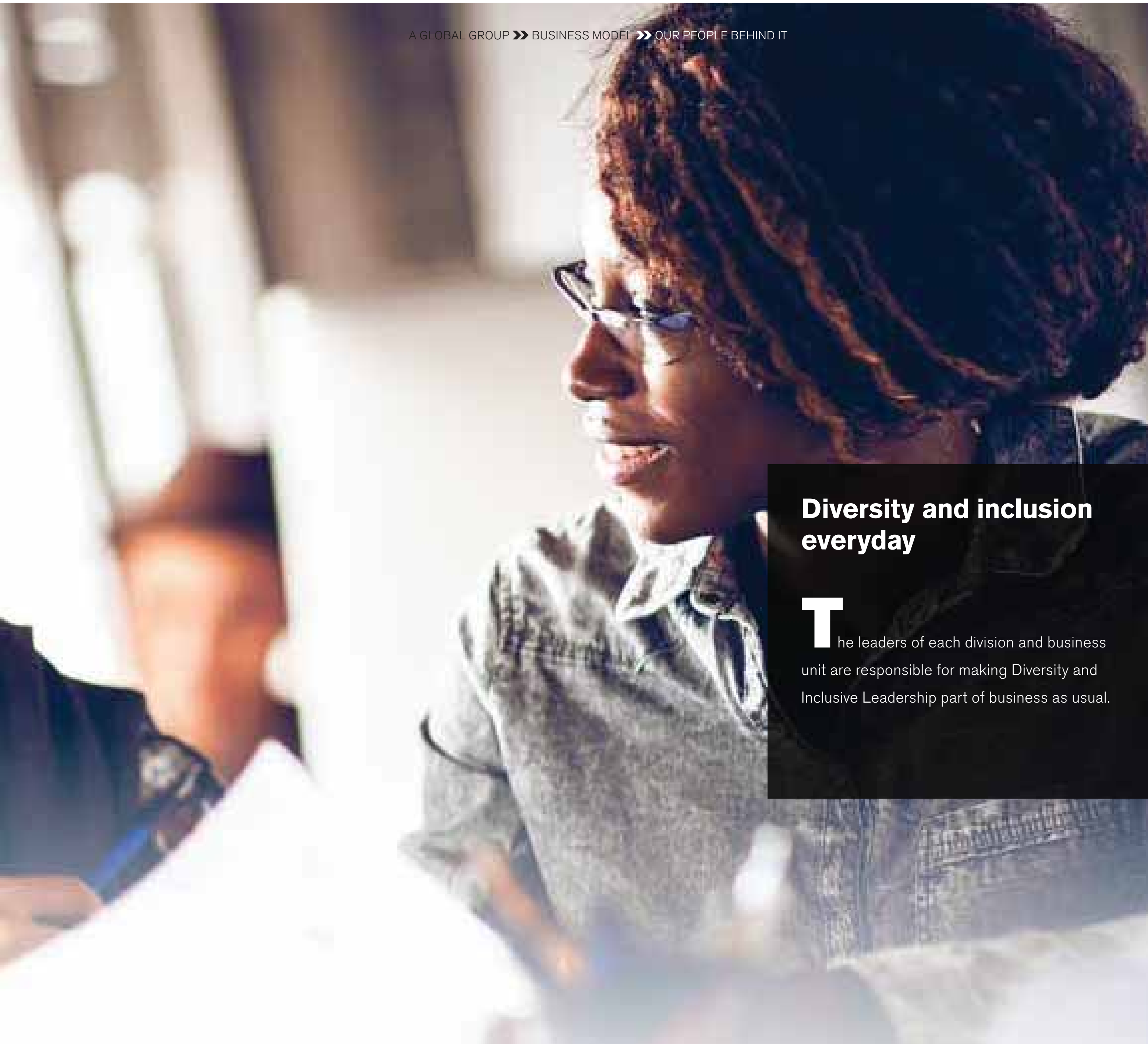
All our values – customer success, trust, passion, change and performance – connect to diversity and inclusion. Inclusion is built on trust and an inclusive mindset, which opens up to new ideas, challenges the way we do things and creates positive change.

The leaders of each division and business unit are responsible for making diversity and inclusive leadership, part of business as usual. By the end of 2016, over 2,600 leaders were trained.

Measuring progress
While diversity is considered to be a global competitive force, it still must be handled in a local way since diversity challenges can be different in different places. Therefore, in order to maximize the positive results of diversity, it is expected that there are many different local and business specific diversity goals and action plans.

Globally we use two key performance indicators to measure diversity:

- The Balanced Team Indicator is a quantitative measure covering nationality, gender, age and experience across different Volvo Group entities. The results for 2016 show improvement in terms of diversity especially in the Group Executive Board with regards to nationality. In the level below the Executive Board, average diversity scores were stable.
- The Inclusiveness Index is based on how employees judge their workplace to be inclusive. The Inclusiveness Index showed mixed results in 2016 with improvements in terms of respect from leaders and employee relationships compared



Diversity and inclusion everyday

The leaders of each division and business unit are responsible for making Diversity and Inclusive Leadership part of business as usual.

to the previous year. Ongoing revitalization work on our culture and values should have a positive impact in the coming year.

We also measure gender balance in total and at senior management level as described in the gender diversity table:

- The Gender Balance Indicator shows that women accounted for 17% of the Volvo Group's global workforce, at the end of 2016.
- The share of women among presidents and senior executives was 24%.

In 2016 a group of high leadership potentials participated in the external pilot Women Up mentoring program as a way to develop our female pipeline and help our male mentors better understand the cultural changes needed to be even more inclusive. Participants will also mentor future women leaders internally, creating a cascade effect on our pipeline. For more information about diversity in the Volvo Group and a detailed breakdown of data, see the GRI (G4) Index at www.volvogroup.com. ■

GENDER DIVERSITY OF THE VOLVO GROUP WORKFORCE

%	2016	2015	2014	2013	2012
Share of women	17	18	17	17	17
Share of women, presidents and other senior executives	24	22	21	19	20

OUR ROLE IN SOCIETY

Creating value for our business, our stakeholders and society

The Volvo Group's approach to Corporate Social Responsibility (CSR) and sustainability focuses on conducting business in a responsible manner, creating value for our stakeholders and society, and contributing to the business, sustainable transport solutions and sustainable development at large.

Driving prosperity through transport solutions requires us to create value for the Volvo Group, our stakeholders and society at large. Some of our 2016 contributions are shown in the table below.

To be economically, environmentally and socially sustainable, value creation must be executed responsibly. Business ethics and integrity, tax and legal compliance and human rights are therefore integral components of this work. It provides us with a solid foundation on which to build our societal engagement activities and demonstrate industry leadership towards sustainable development.

New model approach

As a signatory of the United Nations (UN) Global Compact, partner in the WWF Climate Savers program, and supporter of the UN 2030 Agenda for Sustainable Development, we consider global trends and challenges, international norms of responsible business behavior and stakeholder expectations when developing our work. See more information on stakeholder engagement in the GRI (G4) Index at volvogroup.com.

In 2016, we reviewed and updated our CSR and sustainability approach and activities to ensure we focus on areas that support the Volvo Group's new mission, vision, aspirations, values and strategic priorities. Our response both aligns with and leverages our business strategy and strengths to provide solutions with multi-stakeholder benefits. The CSR and sustainability approach is divided into three parts:

1. **Our value chain activities** – taking a life cycle approach to developing and delivering products and services responsibly and sustainably. See examples in the value chain section of this report.
2. **Towards sustainable transport** – transforming business and society through products and services that advance sustainable economic, social and environmental development. Leading the transition towards a more sustainable transport system by focusing on policy and regulatory issues aligned with business priorities as well as engaging in strategic partnerships. See examples of sustainable transport solutions in the value chain section of this report and the Volvo Group definition on the opposite page.
3. **Our role in society** – by addressing societal challenges related to our industry we contribute to a prosperous and resilient society. See further details of this work on the following pages.

VALUE BY STAKEHOLDER GROUP, SEK M	**2016**	2015
To suppliers – Purchases of goods and services	205,910	210,598
To employees – Salaries and remuneration[1]	39,069	40,458
To society – Social costs[1]	8,228	8,995
To society – Pension costs[1]	3,884	4,340
To society – Income taxes paid	4,219	3,110
To creditors – Interest paid	1,584	1,683
To the Volvo Group – Investments in tangible assets	6,643	6,561
To shareholders – Dividend	6,603[2]	6,093

1 For further information, please see note 27 to the consolidated financial statements.
2 According to the Board's proposal.

STRATEGIC DELIVERY OF GOALS

A NEW CSR AND SUSTAINABILITY PLAN was developed in 2016 to ensure that we focus on areas supporting the Volvo Group's new mission, vision, aspirations, values and strategic priorities. The UN Sustainable Development Goals are both prerequisites for and objectives of this work.

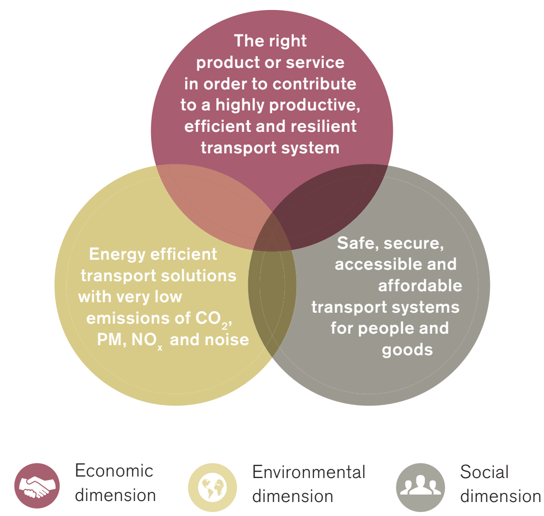
By linking each of the three areas we build resilience and mitigate risk through embedding CSR and sustainability into daily work. We clarify accountability by assigning responsibility to the Group CSR and Sustainability function to develop the strategic model for the work while responsibility of delivery lies within the business area or entity closest to the objective.

Under our new approach, the business defines priorities and sets goals and KPIs for the focus areas to secure both business value creation and integration with the UN Sustainable Development Goals (SDGs). Innovation, technology and enhanced modern logistics services will form the basis of the Volvo Group's contribution to all SDGs.

Sustainable transport solutions contribution

Our value chain activities are described in the value chain section in this report and our role in society will be further elaborated on the following pages. Examples of sustainable transport solutions can also be found in the value chain section but to understand the complete approach to how CSR and sustainability contribute to business value creation we need to understand how the Volvo Group defines sustainable transport solutions. The Group uses the definition recommended by the UN General Secretary's High-level Advisory Group on Sustainable Transport, which the Volvo Group chaired for three years. Sustainable transport services and infrastructure move people and goods – advancing economic and social development to benefit today's and future generations – in a manner that is safe, affordable, accessible, efficient, and resilient, while minimizing carbon and other emissions and environmental impacts. This is shown in the illustration to the right. For further details of the Volvo Group's involvement in the Advisory Group, please see page 73.

SUSTAINABLE TRANSPORT SOLUTIONS



Responding to the Sustainable Development Goals

On 1 January 2016, the 17 SDGs of the 2030 Agenda for Sustainable Development officially came into force. The 2030 Agenda for Sustainable Development is a plan of action for people, planet and prosperity adopted by UN General Assembly and supported

UN SUSTAINABLE DEVELOPMENT GOALS

by the SDGs. The SDGs are not legally binding but governments are expected to take ownership and establish national frameworks for the achievement of the Goals. They encourage and promote effective public, public-private and civil society partnerships in order to succeed. Our ambition is to contribute to all SDGs in our activities, but to focus on those most relevant for our business where we can contribute the most. For the Volvo Group, this means focusing on:

UN SDG 3 – Good health and wellbeing and especially the target to halve the number of global deaths and injuries from road traffic accidents by 2020.

Examples of our activities:

- Safety focus in product development, pages 39 and 42
- Safety features in our vehicles and machines, pages 33 and 41
- Safety training for drivers and operators, page 33
- Safety campaigns for school children, cyclists and other road users, page 72.

UN SDG 9 – Industry, innovation and infrastructure with particular emphasis on the targets to develop quality, reliable, sustainable and resilient infrastructure including development in developing countries through enhanced financial, technological and technical support to African countries.

Examples of our activities:

- Efficient and reliable trucks and machines in the construction segment, see pages 28, 29, 32 and onwards
- Investments in innovative technologies such as automation, electromobility and connectivity for construction sites, pages 38 to 45
- Vocational schools in Africa, page 72.

UN SDG 11 – Sustainable cities and communities and the target to provide access to safe, affordable, accessible and sustainable transport systems for all, by 2020, notably by expanding public transport.

Examples of our activities:

- ElectriCity and sales of hybrid buses, pages 39 and 42
- Supplies to Bus Rapid Transport systems and zone management systems, pages 42 to 44.

UN SDG 13 – Climate action and taking urgent action to combat climate change and its impacts.

Examples of our activities:

- Fuel efficiency and alternative fuel focus in product development, pages 32, 33 and 39
- Activities to lower energy consumption and reduce emissions from operations, pages 50 and 52
- First automotive industry manufacturer to be approved for WWF Climate Savers program, page 44
- Host of the Construction Climate Challenge, page 44. ■

CONSIDERING ETHICS AND INTEGRITY

For the Volvo Group, our Code of Conduct sets the framework for everything we do. In today's digital society the effects of not behaving ethically or with integrity will not only affect the way the Volvo Group is perceived, they may also have an impact on our bottom line.

For us, business ethics and integrity involve risk awareness and transparency regarding our work on anti-corruption, competition law, tax strategies, political neutrality and the risk of human rights violations.

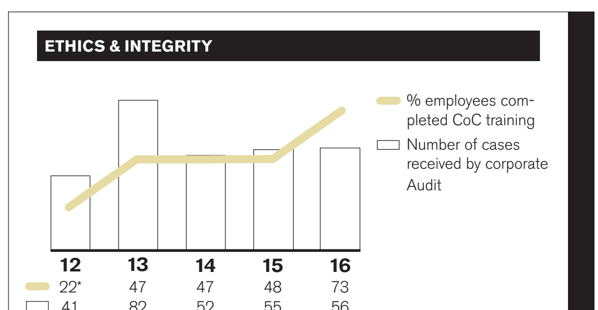
Code of Conduct (CoC)

The Volvo Group Code of Conduct is a mandatory Group-wide policy for appropriate ethical business behavior and responsibility towards our stakeholders. Its content is based on international norms, including the United Nation's (UN) Global Compact and the OECD's guidelines for multinational companies.

The Code is publicly available on www.volvogroup.com. The Volvo Group Code of Conduct is complemented by around 20 other policies that describe in more detail how we address the code's minimum standards.

Great improvement with the Game of Conduct

In 2016, the Game of Conduct was launched in order to increase awareness and knowledge of responsible behavior in the Group. The Game replaces the former e-learning tool. It is available in 14 languages and it is followed up by team discussions on ethical dilemmas. An improvement compared to the old e-learning is that it is possible for employees to play the Game of Conduct on mobile devices.



*Low value due to launch of CoC training in November 2012.

Our three year target is for 90% of all white-collar employees to complete the Game of Conduct. In 2016, nearly 73% completed the training. This was an improvement compared to a 48% completion of the e-learning between 2012 and 2015. In 2016, close to 4,000 team managers performed discussions on ethical dilemmas. To increase awareness and knowledge about responsible behavior outside the Group, the Game is available externally at www.volvogroup.com/gameofconduct.

Monitoring adherence

Adherence to the Code of Conduct is monitored through management control systems, internal controls, audits and the annual employee survey. All employees are expected and encouraged to

The Global Compact

In 2001, the Volvo Group signed the Global Compact, the UN's initiative on responsible business practices.

"Our Code of Conduct is based on international charters, including the UN Global Compact. Upholding its norms is something we firmly believe in." Martin Lundstedt, President and CEO.

report suspected violations to their managers. If reporting to superiors is not feasible or possible, a whistleblower procedure is available, which gives employees the possibility of reporting suspected violations to the Head of Corporate Audit and the opportunity to remain anonymous where permitted by law. The Volvo Group does not tolerate retaliation against a person for making complaints in good faith of violations or suspected violations against the Code of Conduct. In total, 56 (55) reports were logged by Corporate Audit in 2016 including 27 (22) incident reports sent by management. All cases were addressed, investigated and reported to the Audit Committee of the AB Volvo Board of Directors. In total 4 (2) whistleblower cases and 8 (8) management reports were substantiated. The most commonly reported categories were conflicts of interest and personnel management.

Enhanced whistleblower intake process
In 2016 a secure on-line reporting mechanism called the Volvo Group Whistle was designed and approved for implementation in early 2017. The tool will be available for all employees, contractors, consultants and other third parties to report violations or suspected violations of laws, regulations or other areas in the Code of Conduct.

Most frequent business ethical questions
Over the course of 2016 the most common business ethics questions from stakeholders were:

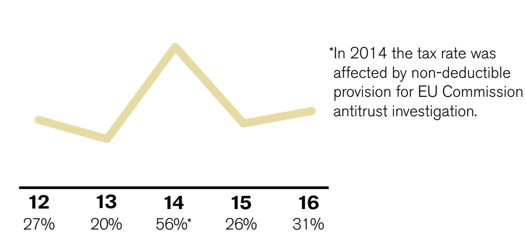
- The settlement with the European Commission regarding an antitrust investigation. The settlement resulted in a fine of SEK 6.5 billion. The Volvo Group's full cooperation with the Commission resulted in a very substantial reduction in the fine. For more information see note 21 and 24 on pages 146 and 150.
- Business connected with complex markets like Israel, Palestine, Burma/Myanmar, Saudi Arabia and Iran. The Volvo Group believes that trade is something good that generally contributes positively to a country's or a region's development. We comply with the laws and regulations of each country where we operate. In countries with weak commitment to business ethics, human rights, environmental protection or legal enforcement the business activities are expected to be performed in accordance with the principles in our Code of Conduct.
- Governmental Sales and the use of the vehicles sold by the business area. In November 2016 it was announced that Volvo Group has conducted a strategic review of the Governmental Sales business area and intends to initiate a process to divest this business. The Volvo Group's sales of defense material, as defined in the Swedish Military Equipment Ordinance (1992:1303) section A, amounted to 0.26% (0.32) of net sales in 2016. ■

RESPONSIBLE TAX PRACTICES

The Volvo Group's new mission to drive prosperity through transport solutions involves contributing to society in many different ways. Given the role of taxes as a way to fund public welfare we regard corporate tax compliance as a matter of responsible business behavior. The Volvo Group shall comply with the tax laws and regulations of each country where we operate. We do not engage in any aggressive tax planning activities through structures in tax havens or otherwise. Where tax laws do not give clear guidance, prudence and transparency shall be the guiding principles. A fundamental objective of our tax policy is to ensure compliance with these principles throughout the Group, and at the same time ensure tax efficiency through tax-conscious management of our operations.

Reporting in accordance with new regulations
As part of the OECD project on Base Erosion and Profit Shifting (BEPS), new international standards for reporting corporate income tax on a Country-by-Country basis (CBCR) have been developed. The Volvo Group will report in full compliance with these new standards and is well advanced in developing reporting tools to accommodate these new requirements as they are currently being implemented into local legislation.

TAXES



The average corporate tax rate of the Volvo Group for the last five years is approximately 30%, whereof SEK 7 billion or 43% of current taxes relates to developing and emerging markets as defined by the IMF. ■

COMPLYING WITH LEGAL REGULATIONS

Legal compliance forms the basis for everything we do in the Volvo Group. It covers many different areas and involves a variety of employees with expertise and knowledge across the Group such as our work related to complying with emissions regulations, described next.

Two examples from the Code of Conduct are our commitments to comply with antitrust (competition) and anti-corruption laws in all jurisdictions where we conduct business. Our Code of Conduct states that we shall compete in a fair manner and with integrity and not participate in or endorse any corrupt practices. These principles of compliance are implemented through the Volvo Group Compliance Policy and dedicated compliance programs.

Awareness of compliance

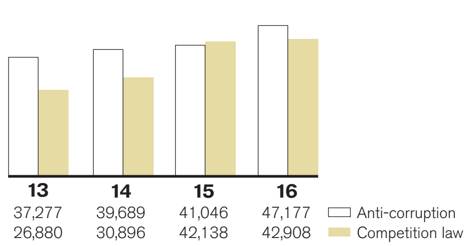
Across the Group we have programs consisting of a number of elements, including policies and guidelines, a comprehensive range of e-learning and tailored face-to-face training, counselling and support, as well as auditing and review. The Volvo Group whistleblower procedures also apply to our compliance programs.

The process for anti-corruption due diligence assessments of business partners aims to enhance the existing processes designed to prevent bribery by third parties carrying out business on behalf of the Volvo Group. The system includes the use of external tools, and applies to existing and new business partners.

Measuring compliance training

Compliance training in the form of e-learning and face-to-face training is provided on a rolling basis with different focus areas each year. In 2015 and 2016, the focus has been on face-to-face training and during this period, more than 13,800 (10,200) employees received face-to-face training in compliance. In addition, our competition law e-learning was completed by more than 42,900 (42,100) employees during the same period. This represents around 90% of all white-collar employees. ■

E-LEARNING COURSES*



*Number of accumulated, completed e-learning courses between 2013 and 2016. The numbers may include former employees.

Emissions regulations

In recent decades, regulators in Europe, the US, and Japan have progressively implemented stricter emissions standards for new heavy-duty engines for trucks and buses.

In spite of great progress, particularly related to lower levels of nitrogen oxide (NO_x) and particulate matters (PM), air pollution and climate problems remain. A common focus for regulators going forward is the actual engine performance in-use instead of a generic engine model in a test cell. The Volvo Group actively follows developments to ensure adherence by developing engines that meet all legal requirements.

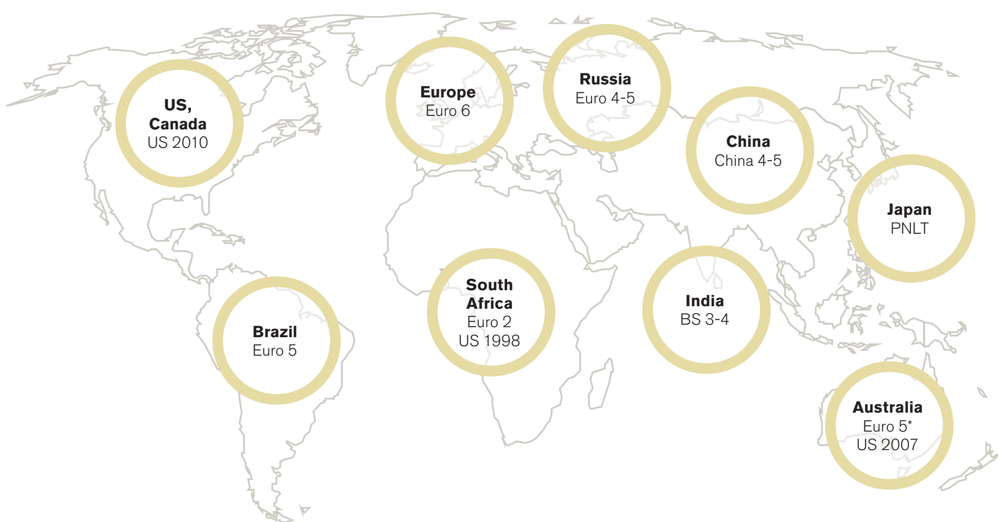
Europe

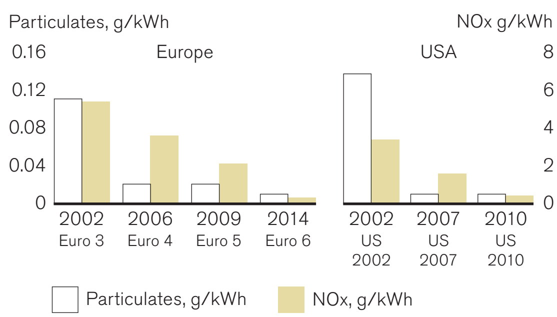
In 2016 a new regulation, Stage V, was published for non-road engines in EU. The main changes compared to Stage IV relate to particulates. The new requirements, valid from 2018/2019 are set at a performance level currently expected to be achieved with particle filters.

The emissions regulation for on-road vehicles was also updated with a Euro VI step D entering into force 2018/2019. The main updates concern the in-service conformity testing with portable emissions measurement systems (PEMS) where the limits regarding payload and power have been changed to include low load duty cycles in a better way.

A regulation for certified declaration of carbon dioxide (CO_2) emissions and fuel consumption, including reporting and monitoring, is being developed by the EU Commission with broad support from the Volvo Group and the industry via the European Automobile Manufacturers' Association (ACEA). The certified declaration, planned to start in the beginning of 2019, will be the most advanced in the world and is based on certified measurements of components and calculation of complete vehicle CO_2 emissions. The system will give customers a possibility to, on an equal and fair basis, compare CO_2 emissions of different product offerings and specifications. This will even further strengthen and support the market forces regarding CO_2 and fuel consumption. The declaration will be followed by a reporting and monitoring regulation, allowing the EU Commission to follow the progress and implement further actions if needed.

EMISSIONS REGULATIONS FOR HEAVY-DUTY VEHICLES





THE EMISSIONS LEGISLATION varies for different regions. In some regions the implementation of stricter rules is hindered by insufficient availability of good fuel quality and low sulfur content. In many parts of the world, the emissions legislation is based on EU and US legislation. In 2010, US 2010 was implemented in North America and at the end of 2013 Euro 6 was introduced in the EU. With the implementation of US 2010, emissions levels for particulates and nitrogen oxides (NOx) have decreased substantially. 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.

* In addition to Euro 5 and US 2007, there is also NLT in Australia.

USA

In the US, the EPA (Environmental Protection Agency) and NHTSA (National Highway Traffic Safety Administration) published the US Greenhouse Gas (GHG) regulation phase II final rule. As before, it includes separate regulations for engines and vehicles but also a new separate trailer regulation starting in 2018. One main difference from the current regulation is that the vehicle regulation includes the actual engine performance of the vehicle instead of a generic engine model. All limit values for engines and vehicles have been updated with new values. The level of stringency will according to EPA increase by up to 27% between year 2017 and 2027.

Regarding criteria pollutants, California Air Resources Board (CARB) has adopted optional low NOx certification standards for on-road heavy-duty engines. The emissions levels are reduced by up to 90% compared to the current federal NOx levels.

Local initiatives

On top of these regulations there are other local initiatives where cities around the world set more stringent regulations to improve air quality in cities. One example is the commitment from Paris, Mexico City, Madrid and Athens made at the C40 Mayors Summit* to remove diesel vehicles from their cities by 2025.

* C40 is a network of the world's megacities committed to addressing climate change.

HUMAN RIGHTS – PART OF BUSINESS

Our products are built by people, used by people, and serve people with goods and services. That is why human rights are important to the Volvo Group. People are at the core of what we do and managing human capital responsibly, including respecting human rights, is important for long-term business success.

Social sustainability part of prosperity

Sustainable transport solutions are a prerequisite for the Volvo Group's mission of contributing to prosperity. Sustainable transport solutions advance both social and economic development while reducing environmental impacts.

As a global company, we have operations, suppliers, customers and other business partners all over the world, including countries with higher risks of human rights violations. All countries have their own laws, cultural norms, social and economic challenges and varying degrees of protection and respect for human rights.

Guidance through Code of Conduct

The human rights management work is integrated into our overall work on responsible and ethical business behavior and is inspired by the United Nations (UN) Guiding Principles on Business and Human Rights. Specific steering documents, such as the Code of Conduct, Health and Safety Policy and Responsible Purchasing Management Directive, guide the work.

The Code of Conduct clearly states that the Volvo Group shall support and respect internationally proclaimed human rights and that we shall make sure that the Group is not complicit in human rights abuses. We also encourage all our business partners to respect human rights. Read more about the Code of Conduct on page 66.

Working with human rights due diligence

Our human rights due diligence work is primarily based on the principles in the Code of Conduct. It is a continuous journey, similar to our work with other compliance-related areas.

During 2016 we developed a due diligence process tailored for Volvo Group operations. The aim is to help us identify, assess, mitigate and remedy potential human rights violations. A pilot was initiated in one country and will be finalized in the first quarter of 2017. A second pilot in another country will start in the first half of 2017 to gain additional knowledge.

On page 48 there is more information on our Responsible Purchasing Program, including the pilot of a social audit process performed in late 2016.

During 2016, two private assembly business partners carried out Code of Conduct self-assessments, which include human rights. In 2017, we plan to continue with self-assessments at private assembly partners in countries defined as high risk.

The Volvo Group manufactures commercial products used to build and maintain communities around the world. We follow all legal and export control regulations, and the products are sold openly and without restrictions. We have limited possibilities to influence how the products will be used.

The Group's risk analysis tool considering business ethics, social and environmental factors for customer financing is one way of identifying and mitigating such risks, read more on page 54.

For Governmental Sales, we have an additional directive for military sales to certain destinations, including human rights considerations.

During the first half of 2017, we will publish Modern Slavery Statements for relevant companies within the Volvo Group.

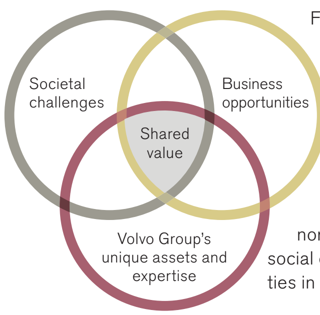
For more information, please see our GRI (G4) Index at volvogroup.com. ■

SOCIETAL ENGAGEMENT

Volvo Group's approach to societal engagement consists of shared value activities, disaster relief, donations and community support. It involves driving Corporate Social Responsibility (CSR) initiatives, establishing strategic partnerships and encouraging employee participation in volunteering opportunities. In addition to our global efforts, we take a country-based approach to CSR.

Moving from sharing created value to creating shared value
Our 'Creating Shared Value' principle is described in the diagram below. To maximize the shared value creation, the approach is connected to Volvo Group's mission, business and expert capabilities. The highest potential for mutual benefit is where our business significantly interacts with society. Therefore, our selected focus areas are: education and skills development, traffic and worksite safety and environmental sustainability. In 2016 the number of CSR activities linked to the focus areas was 38% compared to 45% 2015.

SHARED VALUE



For the Volvo Group, creating shared value involves moving both our business and society forward. We enhance our competitiveness while simultaneously advancing the economic, environmental and social conditions of the societies in which we operate.

Excellent track-record on vocational training
Our long-term plan to develop vocational training schools for mechanics, drivers and operators of trucks, buses and construction equipment, mainly in Africa and South East Asia continues.

At year-end 2016, 289 students were participating in vocational training programs in Ethiopia, Zambia and Morocco. In Zambia and Morocco, the first students will graduate early 2017. Of the 43 students that have graduated in Ethiopia, all have jobs. Late 2016, a decision was taken by the Volvo Group to also establish a vocational driver school in Ethiopia.

In total, training will be provided for around 4,500 young people enabling them to be employed within the transport industry and facilitate Volvo Group customers in finding skilled drivers, operators and aftermarket personnel.

Industrial production training
In Sweden, Volvo Group's initiative, the Volvo Step, continues as part of our business operations. It aims to secure long-term access to skilled employees and improve young peoples' chances in the labor market. The one-year program is offered to 100 young people and takes place at 11 Volvo sites in Sweden. A survey from 2016 shows that 80% of participants certified between 2012 and 2015 have a job and 12% have continued onto further studies.

Stop, Look, Wave
Volvo Group runs a variety of traffic safety programs in a majority of the countries where we operate. Our traffic safety campaign Stop, Look, Wave focuses on professional drivers, school children and local communities. The program promotes safety awareness for children in their immediate environment, with the help of specific training kits. Since the launch in 2015 we have reached out to more than 60,000 children.

CREATING JOBS

The track-record of our vocational school in Ethiopia is excellent. At year-end 2016, 100% of its graduates had a job.

See and Be Seen
Similar to Stop Look Wave, the Volvo Truck's See and Be Seen programme aims to improve understanding of how unprotected road users and trucks can interact in traffic. The initiative was launched in 2016 and focuses specifically on cyclists and schoolchildren from the age of 12 years, but it is also suitable for traffic-safety organizations working with adults. With the fast pace of today's traffic, it is vital that as many people as possible are aware of the risks in order to avoid accidents.

Educating the public on highway safety
In 2016, Mack Trucks and Volvo Trucks announced their continued support for the American Trucking Associations' Share the Road and America's Road Team outreach programs. Share the Road, sponsored by Mack, is a safety program that sends million-mile accident free professional truck drivers across the US to teach the public how to share the road with large trucks. America's Road Team, sponsored by Volvo Trucks, represents 3.1 million professional truck drivers in the US and promotes the trucking industry's message of safety, essentiality and professionalism to audiences around the country.

Partnering with the UN World Food Programme
As a partner of the United Nations World Food Programme (WFP), Renault Trucks uses a mobile unit to train local WFP teams in Africa on truck maintenance and fleet and workshop management. After the success of the first partnership in 2012 and growing demand from WFP for additional training, Renault Trucks extended its commitment to 2017. Over five years, program volunteers have trained 190 WFP staff in ten countries.

Environment prize
Since 1990, the Volvo Group Environment Prize has rewarded scientists for outstanding innovations or scientific discoveries, within the broad environmental field. 2016's laureate was professor Carlos Nobre, a pioneer in efforts to understand and protect the Amazon, one of Earth's most important ecosystems.

Disaster relief and donations
Volvo Group has a disaster relief fund that is approved by AB Volvo Board of Directors. This fund is used to support efforts in response to global natural disasters or catastrophes by providing products or funds to assist the responding relief organizations. During 2016 for example, Volvo Group made donations to Japan and Ecuador to support in the immediate aftermath of earthquakes. Volvo Group's seasonal charitable gift of SEK 10 M was distributed on behalf of our employees to 14 local social projects in different countries. ■

Volvo Group delivers recommendations on sustainable transport solutions

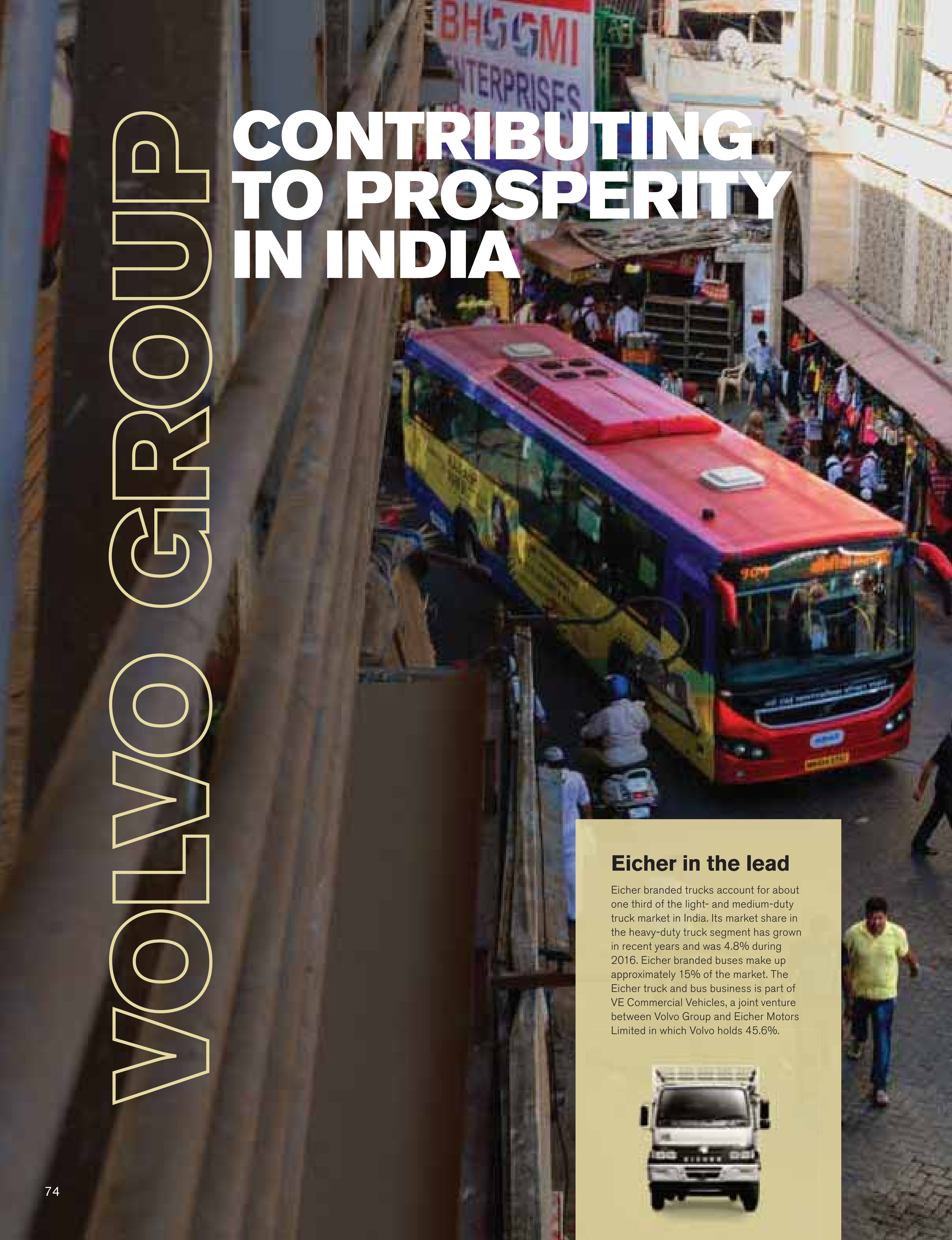
In October 2016, Volvo Group CEO Martin Lundstedt, in his role as chair of the High-Level Advisory Group on Sustainable Transport, submitted a report to United Nations Secretary-General Ban Ki-Moon. The **Mobilizing Sustainable Transport for Development report** contains ten recommendations on how sustainable transport can advance sustainable development. It calls for increased international development funding, supportive legislation and incentives to promote new transport technologies.

The transport sector is large, diverse and complex, and infrastructure decisions and investments have an especially long lifespan. This makes the choices today critically important for tomorrow. Therefore bold choices are needed to seize the moment, engage the public and private sectors and take advantage of new approaches in planning and policy development, new technology, and the drive to fulfil the 2030 Agenda for Sustainable Development and the Paris Climate Agreement.

As one of two chairs, the Volvo Group led the work of the advisory group, which included leaders from the public and private sectors representing all modes of transport.

Technology to drive progress

The report concludes that technology will drive progress and that all types of transport should be made as efficient as possible in the areas where they are most effective. The report highlights a number of sustainable transport solutions, including ElectriCity, the Volvo Group's full-electric bus route in the city of Gothenburg, Sweden. It is described as an innovative collaboration in the field of new, clean public transport.

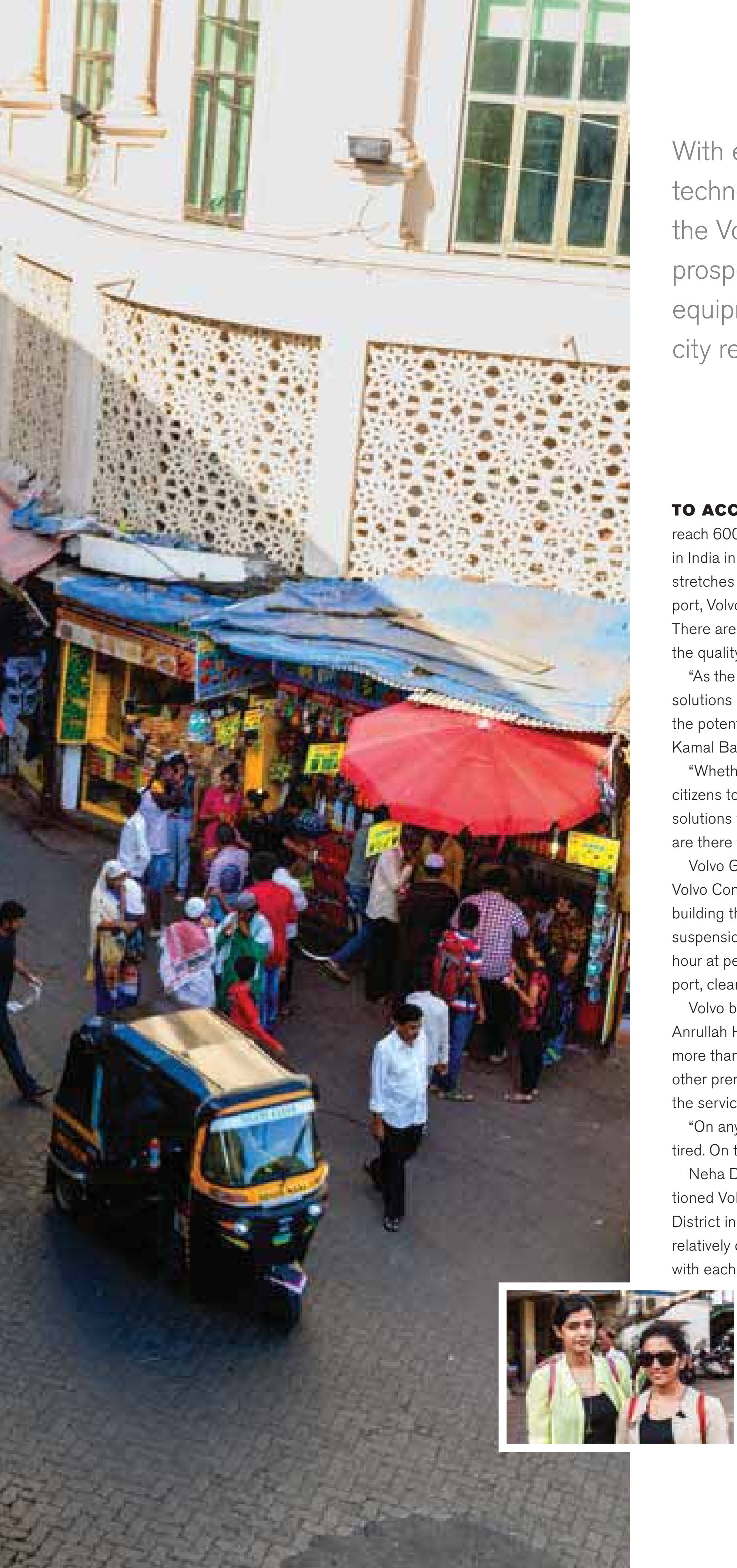


VOLVO GROUP

CONTRIBUTING TO PROSPERITY IN INDIA

Eicher in the lead

Eicher branded trucks account for about one third of the light- and medium-duty truck market in India. Its market share in the heavy-duty truck segment has grown in recent years and was 4.8% during 2016. Eicher branded buses make up approximately 15% of the market. The Eicher truck and bus business is part of VE Commercial Vehicles, a joint venture between Volvo Group and Eicher Motors Limited in which Volvo holds 45.6%.



With effective transport and new technology to meet future challenges, the Volvo Group wants to help raise prosperity. In Mumbai Volvo buses and equipment are making life easier for city residents.

TO ACCOMMODATE an urban population that is expected to reach 600 million by around 2030, billions of dollars will be invested in India in the coming decades. With its broad portfolio that stretches from solutions for infrastructure development to transport, Volvo Group is well placed to participate in this historic shift. There are profits at stake as well as an opportunity to help improve the quality of life in a country of more than 1.2 billion people.

"As the pace of urbanization in India increases, finding sustainable solutions has become a national priority. At Volvo Group we have the potential to create real value on this road to progress," says Kamal Bali, Managing Director of Volvo Group India.

"Whether that is about developing infrastructure or motivating citizens to leave their cars behind and take public transport, our solutions with buses, construction equipment, trucks or engines are there to help create change for the better."

Volvo Group is already making its mark on cities like Mumbai. Volvo Construction Equipment (Volvo CE) loaders were used in building the approach to Mumbai's Bandra-Worli Sea Link, a suspension bridge that reduces the north-south commute by an hour at peak times. Volvo CE equipment demolished the old airport, clearing the way for a new facility.

Volvo buses are becoming the preferred choice for commuters. Anrullah Husaini travels by bus to Navi Mumbai, a newer city of more than 1 million people to the east of Mumbai. There are some other premium bus brands on the route as well, but locals know the service only as the 'Volvo bus'.

"On any other transport, when you reach the destination you are tired. On the Volvo bus, you don't feel tired," he says.

Neha Dulera and Prajakta Diwan travel regularly on air-conditioned Volvo buses from Mumbai to Belapur, the Central Business District in Navi Mumbai. They prefer travelling by bus. Since it is relatively quiet, they can spend their time relaxing and chatting with each other. ■

GLOBAL STRENGTH
In a changing world

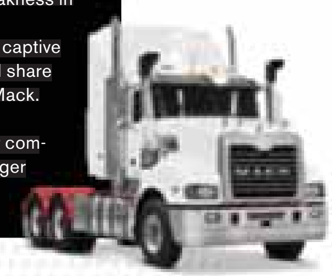
Since the streamlining towards commercial vehicles was initiated more than twenty years ago, the Volvo Group has grown into the world's second largest manufacturer of heavy-duty trucks and one of the largest manufacturers of buses, coaches and construction equipment and is today also a leading manufacturer of heavy-duty diesel engines and marine and industrial engines. In 2016, market conditions varied around the world.

THE GROUP'S 5 LARGEST MARKETS
- **UNITED STATES**
- **FRANCE**
- **UNITED KINGDOM**
- **JAPAN**
- **GERMANY**

NORTH AMERICA

- Net sales: SEK 80,701 M (101,952)
- Share of net sales: 27% (33)
- Number of employees: 14,245 (15,534)
- Share of Group employees: 17% (18)
- Largest markets: The US, Canada and Mexico.

- The heavy-duty truck market declined by 19% impacted by reduced replacement demand and large inventories of new and used trucks.
- Mack Trucks gained market share while Volvo Trucks lost some share due to a weakness in demand in the highway segment.
- Continued success for the Group's captive engines and gearboxes, with record share of both for Volvo Trucks as well as Mack.
- The construction equipment market declined somewhat, with growth for compact machines while demand for larger machines declined.



AFRICA AND OCEANIA

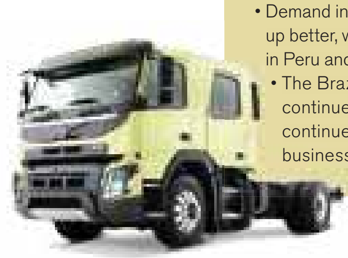
- Net sales: 19,137 M (19,955)
- Share of net sales: 6% (6)
- Number of employees: 2,373 (2,430)
- Share of Group employees: 3% (3)
- Largest markets: Australia, South Africa, Algeria, Morocco and New Zealand.

- Demand for trucks in Australia increased.
- Northern Africa saw some stabilization in demand, particularly in Algeria and Morocco.
- Demand in South Africa declined as a consequence of a weak economic development.

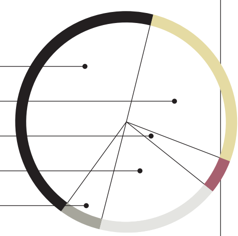
SOUTH AMERICA

- Net sales: SEK 14,863 M (16,725)
- Share of net sales: 5% (5)
- Number of employees: 4,762 (5,380)
- Share of Group employees: 6% (6)
- Largest markets: Brazil, Peru, Chile and Argentina.

- Demand in the important Brazilian truck market declined, mainly as a consequence of the weak economy.
- Demand in other South American markets held up better, with a slight decline in Chile but growth in Peru and Argentina.
- The Brazilian construction equipment market continued to be negatively affected by continued economic uncertainty and low business confidence.



Distribution of net sales by market 2016



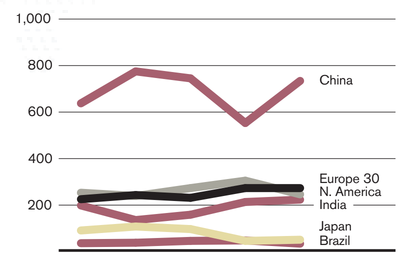
Europe, 44%
North America, 27%
South America, 5%
Asia, 18%
Africa and Oceania, 6%

EUROPE

- Net sales: SEK 131,712 M (120,413)
- Share of net sales: 44% (39)
- Number of employees: 46,190 (48,074)
- Share of Group employees: 55% (54)
- Largest markets: France, the UK, Germany, Sweden and Spain.

- Registrations of heavy-duty trucks in Europe 28 (EU minus the UK and Bulgaria plus Norway and Switzerland) increased by 14%.
- Market share slightly up for Volvo Trucks and down for Renault Trucks.
- The construction equipment market grew, mainly driven by a strong recovery in the French market and considerable growth in Germany and Italy.

Market development, heavy-duty trucks, Thousands



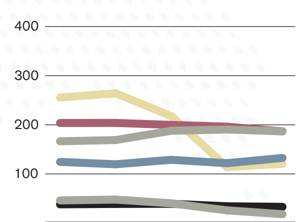
12	13	14	15	16	
222	240	228	270	300	Europe 30
250	236	270	302	243	N. America
87	104	93	42	30	Brazil
32	34	42	44	47	Japan
195	132	155	210	220	India
636	774	744	551	733	China

ASIA

- Net sales: SEK 55,501 M (53,470)
- Share of net sales: 18% (17)
- Number of employees: 16,469 (17,046)
- Share of Group employees: 19% (19)
- Largest markets: Japan, China, South Korea, India and Turkey.

- The Chinese market for construction equipment grew by 6% after a weak start to the year and recovery in demand in the second half.
- The Group's main truck markets in Japan, China and India all grew.
- Good development in VECV in India and turnaround in profitability for DFCV in China.

Market development, construction equipment, Thousands



12	13	14	15	16	
123	118	127	120	131	Europe
164	167	186	188	185	N. America
45	47	39	25	17	S. America
201	202	198	194	184	Asia (excl. China)
253	261	215	112	119	China
37	38	38	33	32	Africa & Oceania

SIGNIFICANT EVENTS PUBLISHED IN QUARTERLY REPORTS
During 2016

2016 was characterized by mixed market conditions, a further streamlining of the Group with a focus on the core business and improved profitability as an effect of lower costs and improved efficiency.

New truck organization
On January 27, it was announced that the Volvo Group had decided to introduce a brand-based organization with clearer commercial accountability for the Group's various truck brands. Five separate units were to be created: Volvo Trucks, UD Trucks, Renault Trucks, Mack Trucks, and Group Trucks Asia & JVs, each with profit and loss responsibility for their respective business. The new organization came into effect on March 1, 2016. Thereafter, the Volvo Group comprises ten business areas: Volvo Trucks, UD Trucks, Mack Trucks, Renault Trucks, Group Trucks Asia & JVs, Volvo Construction Equipment, Volvo Buses, Volvo Penta, Governmental Sales and Volvo Financial Services.

Volvo completed sale of IT operation
On March 31, the Volvo Group completed the sale of its external IT operation and related assets and the outsourcing of its IT infrastructure to HCL Technologies. The transaction gave a capital gain of SEK 885 M, which had a positive impact on the operating income in the first quarter of 2016.

Annual General Meeting of AB Volvo
The Annual General Meeting of AB Volvo held on April 6, 2016, approved the Board of Directors' motions that a dividend of SEK 3.00 per share be paid to the company's shareholders.

Matti Alahuhta, Eckhard Cordes, James W. Griffith, Kathryn V. Marinello, Martina Merz, Hanne de Mora, Carl-Henric Svanberg and Lars Westerberg were reelected as members of the Board. Martin Lundstedt, Håkan Samuelsson and Helena Stjernholm were elected as new members of the Board. Carl-Henric Svanberg was reelected as Chairman of the Board.

Bengt Kjell, representing AB Industrivärden, Lars Förberg, representing Cevian Capital, Yngve Slyngstad, representing Norges Bank Investment Management, Pär Boman, representing 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.

> “VOLVO GROUP INTRODUCED A BRAND-BASED TRUCK ORGANIZATION WITH CLEARER COMMERCIAL ACCOUNTABILITY.

VOLVO GROUP PRESS RELEASES 2016

THE FIRST QUARTER

1/22/2016 Invitation to press and analyst conference in Stockholm **1/27/2016** Changes to Volvo's Group Executive Board and truck organization with clearer commercial accountability **2/1/2016** Volvo Penta Action Service goes global **2/5/2016** Volvo Group – the fourth quarter and full year 2015 **2/16/2016** Volvo has signed final agreement for sale of IT operation **2/26/2016** Volvo scholarship for the people behind the crash test dummy **2/29/2016** AB Volvo publishes 2015 Annual and Sustainability Report **3/2/2016** Annual General Meeting of AB Volvo **3/17/2016** Johanna Flanke awarded with a Special Employer Branding prize **3/18/2016** Trucks on a European tour for platooning **3/30/2016** Save the date for Volvo Group management update

THE SECOND QUARTER

4/1/2016 Volvo has completed sale of IT operation **4/6/2016** Lars Stenqvist joins Volvo Group management **4/6/2016** Electric bus wins Volvo Technology Award **4/6/2016** Annual General Meeting of AB Volvo **4/8/2016** Invitation to press and analyst conference in Stockholm **4/8/2016** Successful journey for Volvo's truck convoy through Europe **4/20/2016** Two young researchers will share the Assar Gabrielsson Award for their research into leukaemia and screening for prostate cancer **4/22/2016** Volvo Group – the first quarter 2016 **4/26/2016** Small worlds demonstrate the greatness of Volvo in a new film **4/28/2016** Annual Report of Volvo Treasury AB (publ) **5/4/2016** The future of automation is happening now at Volvo **5/16/2016** Invitation to Volvo Group Investor Update **5/20/2016** Jan Ohlsson appointed member of Volvo's Group Executive Board **5/27/2016** 100,000 children all over the world have done the Volvo Trucks traffic safety course **5/31/2016** Volvo Trucks' new concept truck cuts fuel consumption by more than 30% **6/1/2016** Andrea Fuder appointed new member of Volvo's Group Executive Board **6/25/2016** Volvo makes additional provision in connection with EU competition investigation

See and Be Seen

Volvo Trucks' "See and be seen" initiative focuses on awareness in traffic. Most accidents are due to human factors such as lack of attention, poor understanding and misjudgement. "See and be seen" features activities that demonstrate how to improve safety in the interaction between cyclists and truck drivers.

Additional provision for EU competition investigation
On June 25, 2016 the Volvo Group announced an additional provision of EUR 250 M (SEK 2.3 billion) in connection with the investigation in which the EU Commission's preliminary standpoint was that Volvo and other companies in the truck industry may have violated EU antitrust laws prior to January 18, 2011. The provision impacted operating income in the second quarter 2016.

Volvo reached settlement with the European Commission
On July 19, 2016 the Volvo Group announced that it had reached a settlement with the European Commission putting an end to a long-running EU antitrust investigation. As part of the settlement Volvo in October paid a fine of EUR 670 M corresponding to SEK 6.5 billion. The amount was mainly covered by provisions made in 2014 and 2016, in total EUR 650 M (SEK 6.1 billion). An additional provision had a negative impact of EUR 20 M (SEK 190 M) on the operating income in the third quarter of 2016.

Volvo divested properties in Gothenburg
On October 21, 2016 the Volvo Group signed an agreement with Platzer Fastigheter regarding the sale of properties in Arendal, Torslanda and Säve in Gothenburg, Sweden. The transaction was completed on December 15. The sales price amounted to SEK 2.7 billion on a debt free basis and the divestment resulted in a capital gain of SEK 1,371 M, which impacted operating income in the fourth quarter 2016. Operating cash flow and financial net debt was positively impacted in the amounts of SEK 2.6 billion and SEK 2.3 billion, respectively.

Initiation of process to divest Governmental Sales
On November 4, 2016 the Volvo Group announced its intent to initiate a process in order to divest its Governmental Sales business area, which sales correspond to approximately 1.5% of the Group's total sales. The business, which has about 1,300 employees, most of whom are in France, manufactures and sells specially designed vehicles to governments, the defense industry, peacekeeping forces and aid organizations.

EVENTS AFTER BALANCE SHEET DATE

Volvo CE to move headquarters to Gothenburg, Sweden
On January 12, 2017 Volvo Construction Equipment announced that its global headquarters will move from Brussels, Belgium to Gothenburg, Sweden. The relocation will facilitate closer cooperation with the Group's other business areas and allow for better usage of competence and resources of the whole Group. ■

THE THIRD QUARTER

7/5/2016 Invitation to press and analyst conference in Stockholm **7/19/2016** Volvo Group – the second quarter 2016 **7/19/2016** Volvo reaches settlement with the European Commission **7/29/2016** New number of votes in AB Volvo **8/31/2016** New number of votes in AB Volvo **8/31/2016** Volvo Group Selected to Participate in DOE's SuperTruck II Program **9/5/2016** Volvo Dynamic Steering reduces the risk of work-related injuries for bus drivers **9/7/2016** Volvo first in the world with self-driving truck in underground mine **9/30/2016** New number of votes in AB Volvo

THE FOURTH QUARTER

10/7/2016 Invitation to press and analyst conference in Stockholm **10/14/2016** Volvo Group wins the Gold Dolphin at Cannes **10/21/2016** Volvo Group – the third quarter 2016 **10/21/2016** Volvo divests properties in Gothenburg **10/24/2016** Guardian of the Amazon receives the Volvo Environment Prize **10/31/2016** New number of votes in AB Volvo **10/31/2016** Volvo Group delivers recommendations on sustainable transport to UN Secretary-General **11/4/2016** Volvo Group intends to initiate a process to divest Governmental Sales **11/11/2016** Save the date for Volvo Group Capital Market Day 2017 **11/30/2016** New number of votes in AB Volvo **12/15/2016** Volvo's divestment of properties in Gothenburg completed **12/30/2015** New number of votes in AB Volvo

FINANCIAL PERFORMANCE

Improved underlying profitability

For the Volvo Group 2016 was a year with improved underlying profitability despite lower volumes.

INCOME STATEMENTS VOLVO GROUP

		Industrial Operations		Financial Services		Eliminations		Volvo Group	
SEK M		**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net sales	Note 6, 7	**291,459**	**303,582**	**11,242**	**11,199**	**-787**	**-2,265**	**301,914**	**312,515**
Cost of sales		–225,797	–236,311	–6,591	–6,607	787	2,265	–231,602	–240,653
Gross income		**65,662**	**67,271**	**4,651**	**4,591**	**-**	**-**	**70,312**	**71,862**
Research and development expenses		–14,631	–15,368	–	–	–	–	–14,631	–15,368
Selling expenses		–24,946	–25,857	–1,920	–1,837	–	–	–26,867	–27,694
Administrative expenses		–5,081	–5,728	–40	–41	–	–	–5,121	–5,769
Other operating income and expenses	Note 8	–2,531	–3,473	–605	–706	–	–	–3,135	–4,179
Income from investments in joint ventures and associated companies	Note 5, 6	156	–143	–	–	–	–	156	–143
Income/loss from other investments	Note 5	112	4,610	–	–2	–	–	112	4,609
Operating income		**18,740**	**21,312**	**2,086**	**2,006**	**-**	**-**	**20,826**	**23,318**
Interest income and similar credits		240	257	–	–	–	–	240	257
Interest expenses and similar charges		–1,847	–2,366	–	–	–	–	–1,847	–2,366
Other financial income and expenses	Note 9	11	–792	–	–	–	–	11	–792
Income after financial items		**17,144**	**18,411**	**2,086**	**2,006**	**-**	**-**	**19,230**	**20,418**
Income taxes	Note 10	–5,377	–4,687	–631	–633	–	–	–6,008	–5,320
Income for the period		**11,767**	**13,725**	**1,455**	**1,373**	**-**	**-**	**13,223**	**15,099**
Attributable to:									
Equity holders of the parent company								13,147	15,058
Minority interests	Note 11							75	41
								13,223	**15,099**
Basic earnings per share, SEK	Note 19							6.47	7.42
Diluted earnings per share, SEK	Note 19							6.47	7.41

OTHER COMPREHENSIVE INCOME

SEK M		**2016**	2015
Income for the period		**13,223**	**15,099**
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit pension plans		–304	2,783
Items that may be reclassified subsequently to income statement:			
Exchange differences on translation of foreign operations		5,585	–2,481
Share of OCI related to joint ventures and associated companies		–97	24
Accumulated translation difference reversed to income		–48	45
Available-for-sale investments		–57	–3,837
Change in cash flow hedge reserve	Note 19	68	–32
Other comprehensive income, net of income taxes		**5,147**	**–3,498**
Total comprehensive income for the period		**18,370**	**11,601**
Attributable to:			
Equity holders of the parent company		18,249	11,527
Minority interests		121	74
		18,370	**11,601**

VOLVO GROUP

Net sales

Net sales decreased by 3% to SEK 302 billion. Adjusted for currency movements and acquired and divested operations, the decrease was still 3%. The decrease is primarily an effect of lower demand for vehicles in North America partly offset by increased service sales.

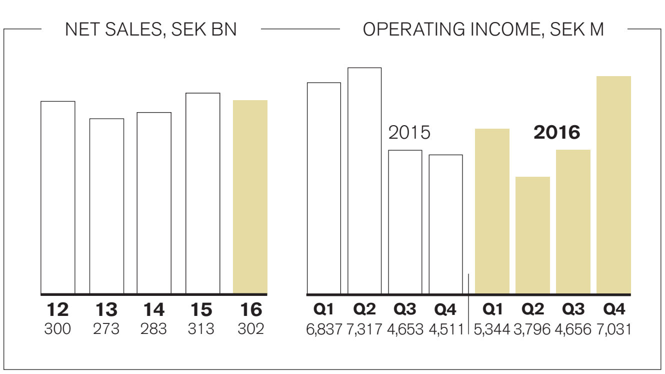
Sales of heavy-duty trucks were affected by lower demand and dealers focusing on reducing their inventory of new trucks in North America and for South America market reflected the economic recession in Brazil with reduced volumes. This was partly offset by increased sales in Europe where high capacity utilization for truck fleets and good customer profitability due to good demand for transportation, gave increasing volumes. Sales in Construction Equipment were almost flat due to a decrease in the Middle East as well as North and South America being partly offset by increased sales in Europe. Both Buses and Volvo Penta increased their sales due to increased volumes for Buses and improved volumes and product mix for Volvo Penta.

Total service sales were slightly positive, of 2%, with increases in all regions except for Africa and Oceania.

Net sales by operating segment, SEK M	**2016**	2015	%
Trucks	200,650	213,978	–6
Construction Equipment	50,731	51,008	–1
Buses	25,386	23,580	8
Volvo Penta	9,893	9,406	5
Group Functions & Other	7,754	8,346	–7
Eliminations	–2,955	–2,736	–
Industrial Operations[1]	**291,459**	**303,582**	**–4**
Financial Services	11,242	11,199	0
Reclassifications and eliminations	–787	–2,265	–
Volvo Group	**301,914**	**312,515**	**–3**

1 Adjusted for changes in currency rates and acquired and divested units, net sales decreased by 3%.

Operating income/loss by operating segment, SEK M	**2016**	2015
Trucks	15,020	19,517
Construction Equipment	2,246	2,044
Buses	911	860
Volvo Penta	1,269	1,086
Group Functions & Other	–679	–2,189
Eliminations	–28	–6
Industrial Operations	**18,740**	**21,312**
Financial Services	2,086	2,006
Volvo Group	**20,826**	**23,318**



Operating income

Despite lower volumes and a negative currency effect of SEK 0.4 billion, the adjusted operating income increased by SEK 0.9 billion to SEK 21 billion (20). The profitability improved with an adjusted operating margin of 7.0% (6.5) for the full year 2016, which reflects the Group's ability to manage volume changes in different regions as well as continued cost reductions and productivity improvements.

The Volvo Group gross income was negatively impacted by the overall volume drop, which had a negative impact on the industrial system whereas decreased material and lower logistic cost had a positive impact. The positive geographical mix within Trucks, better volumes in Buses and a positive product mix in Volvo Penta were partly offset by the lower volumes in Trucks and Construction Equipment. The lower research and development expenses, as a result of higher capitalization on truck projects as well as lower expense levels, had a positive impact on the operating income of SEK 0.7 billion. The underlying reduction in selling and administrative expenses managed to offset the negative currency impact leading to a net cost reduction of SEK 1.4 billion.

Operating margin, %	**2016**	2015
Trucks	7.5	9.1
Construction Equipment	4.4	4.0
Buses	3.6	3.6
Volvo Penta	12.8	11.5
Industrial Operations	**6.4**	**7.0**
Volvo Group	**6.9**	**7.5**

Change in operating income, SEK bn	**Change (excluding currency)**	**Currency impact**	**Total**
Operating income 2015			**23.3**
Change in gross income Industrial Operations	–1.3	–0.3	–1.6
Change in gross income Financial Services	0.1		0.1
Lower credit losses	0.3		0.3
Change in Group structure	0.1		0.1
Higher capitalization of development cost	0.5	0.1	0.6
Lower research and development expenditures	0.2	–0.1	0.1
Lower selling and administrative expenses	1.5	–0.1	1.4
Sale of shares in Eicher Motors Limited 2015	–4.6		–4.6
Favorable outcome in arbitration case 2015	–0.8		–0.8
Provision related to EU antitrust investigation	–2.5		–2.5
Divestment of external IT operations	0.9		0.9
Sale of properties in Gothenburg, Sweden	1.4		1.4
Restructuring and efficiency program	1.9		1.9
Other	0.2		0.2
Operating income 2016	**–2.1**	**–0.4**	**20.8**

Reported operating income amounted to SEK 20.8 billion. The difference compared to the adjusted operating income is a net of: divestment of external IT operation, SEK +0.9 billion, provision related to EU antitrust investigation, SEK −2.5 billion and sales of properties in Gothenburg, SEK +1.4 billion. Significant amounts effecting 2015 were sales of shares in Eicher Motors Ltd. SEK +4.6 billion, favorable outcome in arbitration case SEK +0.8 billion and restructuring cost SEK −1,9 billion.

Net financial items

Compared to previous year, net interest expense decreased due to lower outstanding debt. Net interest expense for the Volvo Group amounted to SEK 1.6 billion (2.1).

Other financial income and expense were positively impacted by an amount of SEK 0.4 billion from realized result and unrealized revaluation of derivatives related to hedging compared to a negative impact of SEK 0.5 billion in the previous year.

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

Income taxes

The tax expense for the year amounted to SEK 6.0 billion (5.3) corresponding to an effective tax rate of 31% (26). The tax rate was mainly impacted by an additional non-deductible cost of SEK 2.5 billion related to the EU antitrust investigation.

Key operating ratios, % **Industrial Operations**	**2016**	2015
Gross margin	22.5	22.2
Research and development expenses as percentage of net sales	5.0	5.1
Selling expenses as percentage of net sales	8.6	8.5
Administrative expenses as percentage of net sales	1.7	1.9
Operating margin	**6.4**	**7.0**

Net sales by market area, SEK M	**2016**	2015	%
Europe	127,352	117,346	9
North America	76,500	97,971	−22
South America	13,628	15,611	−13
Asia	55,056	52,923	4
Africa and Oceania	18,924	19,731	−4
Total Industrial Operations	**291,459**	**303,582**	**−4**
Of which:			
Vehicles	223,996	237,430	−6
Services	67,463	66,152	2

Impact of exchange rates on operating income Compared with preceding year, SEK M Industrial Operations	
Net sales[1]	−91
Cost of sales	−169
Research and development expenses	−30
Selling and administrative expenses	−107
Other	−45
Total effect of changes in exchange rates on operating income	**−443**

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

Income for the period and earnings per share

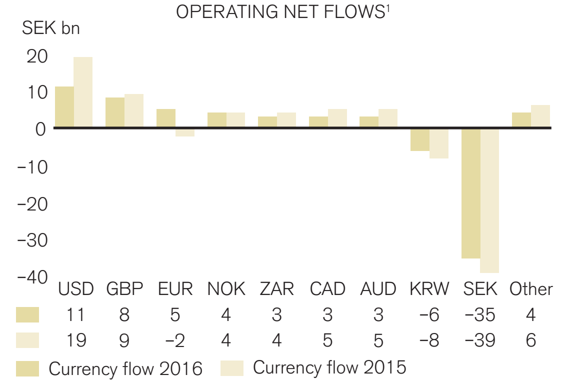
In 2016 the income for the period amounted to SEK 13,223 M (15,099), corresponding to diluted earnings per share of SEK 6.47 (7.41). The return on shareholders' equity was 14.9% (18.4%).

Impact of exchange rates on operating income

Operating income for 2016 in the Industrial Operations was negatively impacted by approximately SEK 0.4 billion from changes in exchange rates in foreign currency. The negative impact was mainly related to net flows in foreign currency by SEK 1.2 billion, offset by a positive impact from revaluation of receivables and liabilities in foreign currency of SEK 0.5 billion.

The net flows in foreign currency were negatively impacted by the depreciation of GBP and ZAR offset by positive impact from the appreciation of EUR and USD.

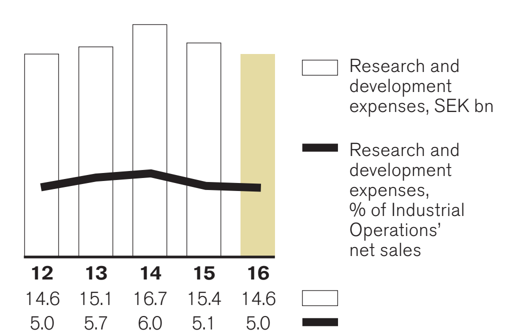
TRANSACTION EXPOSURE FROM OPERATING NET FLOWS[1]



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 surplus in USD is mainly generated from external sales to 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.

RESEARCH AND DEVELOPMENT EXPENSES



FINANCIAL POSITION

Maintained financial position

Net financial debt in the Volvo Group's Industrial Operations increased by SEK 2.4 billion during 2016 and equals to 18.1% of shareholders' equity at December 31, 2016.

At the end of 2016 **net financial debt**, excluding provisions for post-employment benefits in the Industrial Operations amounted to SEK 1.2 billion, an increase of SEK 1.5 billion and equal to 1.3% of shareholders' equity. Including provisions for post-employment benefits, the Industrial Operations net financial debt amounted to SEK 15.7 billion which was equal to 18.1% of shareholders' equity. The change during the year was mainly driven by a positive operating cash flow of SEK 3.5 billion, disposal of external IT operations by SEK 1.1 billion, reduced by dividend paid to the AB Volvo shareholders by SEK 6.1 billion and remeasurements of defined benefit pensions obligations by SEK 0.4 billion. During 2016 currency fluctuations increased net financial debt by SEK 2.7 billion.

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

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

The Volvo Group's **Marketable securities and Liquid funds** amounted to SEK 25.2 billion at December 31, 2016. In addition, granted but unutilized credit facilities amounted to SEK 42.5 billion. Cash and cash equivalents as of December 31, 2016 include SEK 0.8 (0.8) billion that is not available to use by the Volvo Group and SEK 6.0 (5.4) billion where other limitations exist.

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

» **Read more in Note 22** Liabilities regarding the maturity structure on Volvo Group's credit facilities.

Total assets in the Volvo Group amounted to SEK 398.9 billion as of December 31, 2016, an increase of SEK 24.8 billion since December 31, 2015, whereof SEK 23.9 billion was related to currency effects from revaluation of assets in foreign subsidiaries.

The Volvo Group's **Intangible assets** amounted to SEK 37.9 billion as of December 31, 2016. Investments in research and development amounted to SEK 2.9 billion (2.3), resulting in a net value of capitalized development cost of SEK 12.2 billion at the end of the year. Compared to prior year capitalization increased, while the amortization corresponded to 2015 years' level. The Volvo Group's total goodwill amounted to SEK 23.4 billion as of December 31, 2016. This was an increase of SEK 1.3 billion compared to the previous year, mainly related to currency effects from revaluation of assets. The goodwill is tested for impairment on an annual basis.

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

The Volvo Group's **Tangible assets** increased by SEK 4.4 billion during 2016. This was to a large extent due to currency translation effects from revaluation of assets. The increase was partly offset by divestment of properties in Gothenburg, Sweden. The value of inventories increased by SEK 3.9 billion mainly related to finished products in Trucks and Construction Equipment. During the year the Volvo Group completed the sale of the external IT operations and outsourced the IT infrastructure. The discontinued sales process of Arrow Trucks Sales, together with sale of IT operations, reduced the assets and liabilities held for sale.

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

The net value of assets and liabilities related to **pensions and similar obligations** amounted to SEK 14.6 billion as of December 31, 2016, an increase of SEK 1.0 billion compared to year-end 2015. In 2016 the Volvo Group recognized a negative remeasurement effect impacting the pension obligation amounting to SEK 2.4 billion, mainly driven by lower discount rates in Sweden and in Great Britain. On the asset side a positive remeasurement effect amounting to SEK 2.0 billion was recognized. In total the remeasurement amounted to SEK 0.4 billion mainly recognized through other comprehensive income.

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

As of December 31, 2016 the **shareholders' equity** for the Volvo Group amounted to SEK 97.8 billion compared to SEK 85.6 billion at year-end 2015. The equity ratio was 24.5% compared to 22.9% on December 31, 2015. At the same date the equity ratio in the Industrial operations amounted to 30.9% (28.6). ■

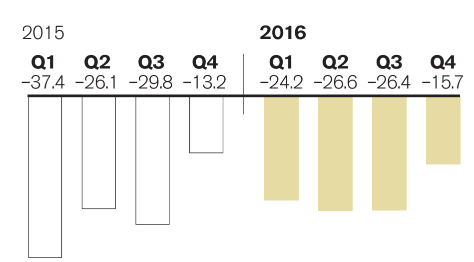
BALANCE SHEET VOLVO GROUP – ASSETS

SEK M		Industrial Operations		Financial Services		Eliminations		Volvo Group	
		Dec 31 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015	**Dec 31 2016**	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Assets									
Non-current assets									
Intangible assets	Note 12	37,768	36,314	149	102	–	–	37,916	36,416
Tangible assets	Note 13								
Property, plant and equipment		55,778	53,271	64	64	–	–	55,841	53,335
Investment property		34	283	–	–	–	–	34	283
Assets under operating leases		22,752	20,616	19,556	18,253	–7,615	–6,338	34,693	32,531
Financial assets									
Investments in joint ventures and associated companies	Note 5	11,643	11,148	–	–	–	–	11,643	11,148
Other shares and participations	Note 5	766	893	11	8	–	–	776	902
Non-current customer-financing receivables	Note 15	965	3	57,830	52,163	–968	–1,204	57,827	50,962
Prepaid pensions	Note 20	79	34	–	–	–	–	79	34
Non-current interest-bearing receivables	Note 16	2,481	1,138	–	500	–1,222	–487	1,258	1,150
Other non-current receivables	Note 16	4,083	3,271	211	140	–147	–143	4,148	3,268
Deferred tax assets	Note 10	13,332	12,582	1,068	868	–	–	14,399	13,450
Total non-current assets		**149,679**	**139,552**	**78,888**	**72,098**	**–9,953**	**–8,172**	**218,615**	**203,478**
Current assets									
Inventories	Note 17	48,080	44,194	206	196	–	–	48,287	44,390
Current receivables									
Customer-financing receivables	Note 15	733	9	53,082	52,404	–821	–792	52,994	51,621
Tax assets		1,166	1,537	193	624	–	–	1,359	2,161
Interest-bearing receivables	Note 16	1,935	2,600	191	14	–991	–827	1,135	1,788
Internal funding[1]		7,503	7,963	–	–	–7,503	–7,963	–	–
Accounts receivable	Note 16	33,593	28,577	826	525	–	–	34,419	29,101
Other receivables	Note 16	16,003	14,259	1,348	1,327	–940	–1,667	16,410	13,920
Non interest-bearing assets held for sale	Note 3	525	3,314	–	–	–	–	525	3,314
Marketable securities	Note 18	1,223	3,344	–	–	–	–	1,223	3,344
Cash and cash equivalents	Note 18	19,653	17,866	5,175	3,651	–879	–469	23,949	21,048
Total current assets		**130,414**	**123,664**	**61,021**	**58,741**	**–11,134**	**–11,717**	**180,301**	**170,687**
Total assets		**280,093**	**263,216**	**139,910**	**130,839**	**–21,087**	**–19,890**	**398,916**	**374,165**

1 Internal funding is internal lending from Industrial Operations to Financial Services

Change in net financial position, Industrial Operations, SEK bn	**2016**	2015
Net financial position at beginning of period	**-13,2**	**-26.4**
Cash flow from operating activities	9,9	26.7
Investments in fixed assets	–9,6	–9.1
Disposals	3,2	0.7
Operating cash flow	**3,5**	**18.3**
Investments and divestments of shares, net	0,2	–2.0
Acquired and divested operations, net	1,4	0.4
Capital injections to/from Financial Services	2,1	0.1
Currency effect	–2,7	0.4
Dividend paid to AB Volvo shareholders	–6,1	–6.1
Dividend paid to minority shareholders	–0,2	0,0
Remeasurements of defined benefit pension plans	–0,4	3.5
Pension payments and costs, net	0,3	–0.6
Other changes	–0,6	–0.9
Total change	**-2,4**	**13.1**
Net financial position at end of period	**-15,7**	**-13.2**

NET FINANCIAL POSITION, INDUSTRIAL OPERATIONS, SEK BN



BALANCE SHEET VOLVO GROUP – SHAREHOLDERS' EQUITY AND LIABILITIES

SEK M		Industrial Operations Dec 31 2016	Industrial Operations Dec 31 2015	Financial Services Dec 31 2016	Financial Services Dec 31 2015	Eliminations Dec 31 2016	Eliminations Dec 31 2015	Volvo Group Dec 31 2016	Volvo Group Dec 31 2015
Equity and liabilities									
Equity attributable to the equity holder of the Parent Company	Note 19	84,876	73,350	11,185	10,460	–	–	96,061	83,810
Minority interests	Note 11	1,703	1,801	–	–	–	–	1,703	1,801
Total equity		**86,579**	**75,151**	**11,185**	**10,460**	–	**-**	**97,764**	**85,610**
Non-current provisions									
Provisions for post-employment benefits	Note 20	14,608	13,621	61	53	–	–	14,669	13,673
Provisions for deferred taxes	Note 10	1,842	546	3,429	2,949	–	–	5,270	3,495
Other provisions	Note 21	9,540	9,286	252	214	13	35	9,804	9,536
Total non-current provisions		**25,989**	**23,453**	**3,742**	**3,216**	**13**	**35**	**29,744**	**26,704**
Non-current liabilities	Note 22								
Bond loans		60,653	47,776	–	–	–	–	60,653	47,776
Other loans		13,578	17,123	11,287	11,581	–968	–1,204	23,898	27,500
Internal funding[1]		–52,487	–42,442	48,071	42,712	4,415	–270	–	–
Other liabilities		24,631	20,359	934	733	–5,243	–4,554	20,322	16,538
Total non-current liabilities		**46,376**	**42,816**	**60,293**	**55,026**	**–1,795**	**–6,028**	**104,873**	**91,814**
Current provisions	Note 21	**11,164**	**14,104**	**82**	**67**	**87**	**6**	**11,333**	**14,176**
Current liabilities	Note 22								
Loans		47,976	50,339	10,165	8,480	–1,644	–1,488	56,497	57,331
Internal funding[1]		–35,777	–40,234	49,964	49,013	–14,187	–8,780	–	–
Non interest-bearing liabilities held for sale	Note 3	148	573	–	–	–	–	148	573
Trade payables		54,790	55,250	474	398	–	–	55,264	55,648
Tax liabilities		544	1,113	141	209	–	–	685	1,322
Other liabilities	Note 22	42,305	40,652	3,864	3,970	–3,560	–3,635	42,608	40,986
Total current liabilities		**109,985**	**107,693**	**64,609**	**62,071**	**–19,391**	**–13,902**	**155,202**	**155,860**
Total equity and liabilities		**280,093**	**263,216**	**139,910**	**130,839**	**–21,087**	**–19,890**	**398,916**	**374,165**

1 Internal funding is internal lending from Industrial Operations to Financial Services.

Net financial position, SEK M	Industrial Operations Dec 31 2016	Industrial Operations Dec 31 2015	Volvo Group Dec 31 2016	Volvo Group Dec 31 2015
Non-current interest-bearing assets				
Non-current customer-financing receivables	–	–	57,827	50,962
Non-current interest-bearing receivables	2,481	1,138	1,258	1,150
Current interest-bearing assets				
Customer-financing receivables	–	–	52,994	51,621
Interest-bearing receivables	1,935	2,600	1,135	1,788
Internal funding	7,503	7,963	–	–
Marketable securities	1,223	3,344	1,223	3,344
Cash and cash equivalents	19,653	17,866	23,949	21,048
Total interest-bearing financial assets	**32,793**	**32,911**	**138,386**	**129,913**
Non-current interest-bearing liabilities				
Bond loans	–60,653	–47,776	–60,653	–47,776
Other loans	–13,578	–17,123	–23,898	–27,500
Internal funding	52,487	42,442	–	–
Current interest-bearing liabilities				
Loans	–47,976	–50,339	–56,497	–57,331
Internal funding	35,777	40,234	–	–
Total interest-bearing financial liabilities	**–33,944**	**–32,562**	**–141,048**	**–132,607**
Net financial position excl. post-employment benefits	**–1,151**	**349**	**–2,662**	**–2,693**
Provision for post-employment benefits, net	–14,529	–13,586	–14,590	–13,639
Net financial position incl. post-employment benefits	**–15,679**	**–13,237**	**–17,252**	**–16,332**

CASH FLOW STATEMENT

The operating cash flow affected by an increase in working capital

During 2016 operating cash flow in the Industrial Operations amounted to a positive SEK 3.5 billion (18.3).

The cash flow was negatively impacted by the payment of SEK 6.5 billion related to the EU antitrust investigation. This was partly offset by the sale of real estate impacting cash flow positively by SEK 2.6 billion. Adjusted for these items, operating cash flow amounted to SEK 7.4 billion. The lower cash flow is primarily an effect of an increase in working capital, mainly related to an increase in accounts receivables and other working capital. The increase in accounts receivables is due to changed geographical mix with higher sales in Europe, where payment terms are longer, and lower sales in North America, where payment terms are shorter.

Financial items and paid income taxes had a SEK 5.7 billion negative effect on the operating cash flow in Industrial Operations, mainly through payments of interests and income tax. The higher payment of income taxes is mainly related to Sweden.

Operating cash flow within Financial Services was positive in an amount of SEK 2.8 billion (neg 5.9), mainly due to that customer finance receivables were on a stable level this year, whereas last year the customer finance receivables increased.

» **Read more in Note 10** regarding Income taxes.

Investments and disposals

The disposal of properties in Gothenburg, Sweden was completed during 2016 and impacted the Industrial Operations operating cash flow positively by SEK 2.6 billion.

The Industrial Operations' investments in fixed assets and capitalized research and development during 2016 amounted to SEK 9.5 billion (8.8).

Group Trucks investments in fixed assets and capitalized research and development amounted to SEK 7.0 billion (6.3). The major investments related to industrial efficiency measures in our plants continued, with rationalizations and upgrades in our US plants as well as replacement of the E-coat process in Umeå, Sweden. Investments in Köping, Sweden have continued in order to increase capacity for the Volvo Group's automated transmission. Capital expenditures were also related to investments to comply with new emission regulations in US and Japan, with both product development activities and required adaptations in the plants.

The investments in dealer networks and workshops were mainly done in Europe and Japan but also US, primarily for upgrade and replacements.

Investments in Construction Equipment amounted to SEK 0.9 billion (1.1). The major investments in the plants were related to product renewals and required adaptation mainly in Europe and Asia. The product related investments during the year were mainly related to tooling and required adaptations in the plants for the new articulated hauler and excavator.

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

The investment level for property, plant and equipment during 2016 was in line with previous years. During 2017, investments in property, plant and equipment are expected to be on the same level as in 2016. The optimization of the industrial and logistic footprint, dealer investments and product related tooling will continue to be the main areas as well as the development of Campus Lundby, Gothenburg, Sweden.

Investments and divestments of shares

During the year the Volvo Group reduced its ownership in the joint venture Shanghai Sunwin Bus Corp., China from 50% to 19.5%, and discontinued the equity method accounting, after a unilateral capital increase by the Joint venture partner. The remaining holding of shares in Shanghai Sunwin Bus Corp., China are recognized as Other shares and participations. The share of ownership in the joint venture DONGVO Truck Co., Ltd. (DVT) China was divested during 2016.

In total, investments and divestments of shares, net in 2016 had a positive effect on cash flow of SEK 0.2 billion (neg 2.0).

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

Acquired and divested operations

The Volvo Group completed the sale of its external IT operation and related assets and the outsourcing of its IT infrastructure during 2016. The divestment resulted in a positive effect on operating income and net financial debt of SEK 885 M. The Volvo Group has not made any other acquisitions or divestments during 2016, which solely or jointly have had a significant impact on the Volvo Group's financial statements.

In total acquired and divested operations in 2016 had a positive impact on cash flow of SEK 1.4 billion (0.4).

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

Financing and dividend

Net borrowings decreased cash and cash equivalents by SEK 2.2 billion during 2016. In 2015 the corresponding item decreased cash and cash equivalents by SEK 13.2 billion.

» **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 increased by SEK 2.9 billion during the year and amounted to SEK 23.9 billion at December 31, 2016. ■

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

» **Read more in Note 18** regarding the accounting policy for Marketable securities and liquid funds.

CONSOLIDATED CASH FLOW STATEMENTS

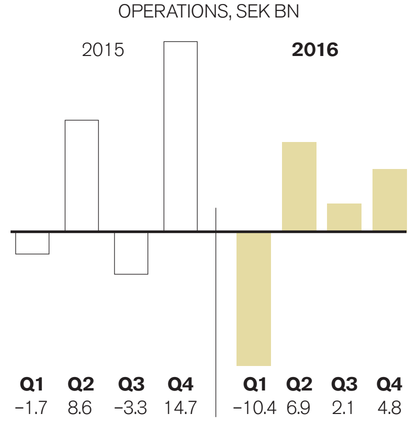
		Industrial Operations		Financial Services		Eliminations		Volvo Group Total	
SEK M		**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Operating activities									
Operating income[1]		18,740	21,313	2,086	2,006	–	2	20,826	23,321
Depreciation tangible assets	Note 13	6,327	6,431	13	13	–	–	6,339	6,443
Amortization intangible assets	Note 12	3,398	3,314	33	31	–	–	3,431	3,344
Depreciation leasing vehicles	Note 13	2,907	2,830	4,087	4,190	0	0	6,994	7,020
Other non-cash items[2,3]	Note 29	–1,116	–1,083	733	796	–47	–165	–431	–452
Total change in working capital whereof		–14,688	–1,979	892	–7,485	–97	315	–13,893	–9,149
Change in accounts receivable		*–3,747*	*642*	*–296*	*–126*	*0*	*–2*	*–4,043*	*514*
Change in customer-financing receivables		*266*	*140*	*1,003*	*–8,346*	*–207*	*–108*	*1,062*	*–8,313*
Change in inventories		*–1,601*	*–2,234*	*33*	*–90*	*0*	*0*	*–1,568*	*–2,324*
Change in trade payables		*–2,973*	*–1,210*	*50*	*114*	*0*	*–2*	*–2,923*	*–1,098*
Other changes in working capital[1]		*–6,633*	*683*	*102*	*963*	*111*	*427*	*–6,420*	*2,073*
Interest and similar items received		300	374	–	–	46	1	346	375
Interest and similar items paid		–1,586	–1,665	–	–	2	–18	–1,584	–1,683
Other financial items		–253	–252	–	–	–	–	–253	–252
Income taxes paid		–4,095	–2,573	–124	–531	0	–5	–4,219	–3,110
Cash flow from operating activities		**9,934**	**26,709**	**7,720**	**–981**	**–97**	**129**	**17,559**	**25,858**
Investing activities									
Investments in tangible assets		–6,619	–6,539	–24	–22	–	–	–6,643	–6,561
Investments in intangible assets		–2,829	–2,241	–53	–16	–	–	–2,882	–2,257
Investment in leasing vehicles		–125	–328	–10,692	–10,201	0	–	–10,817	–10,529
Disposals of fixed assets and leasing vehicles[2]		3,170	668	5,865	5,356	–	–4	9,035	6,020
Operating cash flow		**3,531**	**18,270**	**2,816**	**–5,865**	**–97**	**126**	**6,251**	**12,531**
Investments and divestments of shares, net	Note 5, 29							224	–1,984
Acquired and divested operations, net[3]	Note 29							1,425	408
Interest-bearing receivables incl marketable securities								2,531	3,552
Cash flow after net investments								**10,431**	**14,507**
Financing activities									
Change in loans, net	Note 29							–2,245	–13,247
Dividend to AB Volvo's shareholders								–6,093	–6,090
Dividend to minority shareholders								–206	0
Other								-9	14
Change in cash and cash equivalents excl. translation differences								**1,878**	**–4,815**
Translation difference on cash and cash equivalents								1,023	–378
Change in cash and cash equivalents								**2,901**	**–5,194**
Cash and cash equivalents, beginning of year	Note 18							**21,048**	**26,242**
Cash and cash equivalents, end of year	Note 18							**23,949**	**21,048**

[1] The payment of the settlement of the EU antitrust investigation has impacted Operating income by SEK 2.6 bn related to provisions recognized in 2016 and Other changes in working capital has been impacted from provisions recognized in 2014 by SEK 3.9 bn.

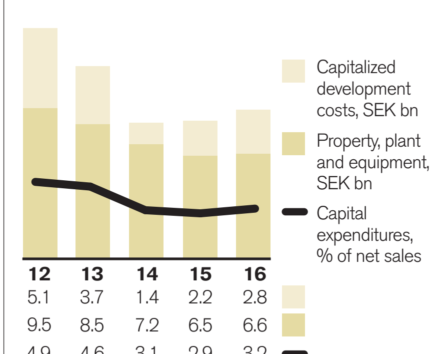
[2] The gain on sale of real estate of SEK 1.4 bn has been reclassified from Other non-cash items to Disposals of fixed assets and leasing vehicles. The total positive operating cash flow impact from the sale amounted to SEK 2.6 bn.

[3] The gain on sale of IT operations of SEK 0.9 bn has been reclassified from Other non-cash items to Acquired and divested operations, net. The total positive cash flow impact from the sale amounted to SEK 1.1 bn.

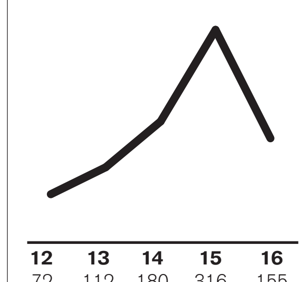
OPERATING CASH FLOW, INDUSTRIAL OPERATIONS, SEK BN



CAPITAL EXPENDITURES, INDUSTRIAL OPERATIONS



SELF-FINANCING RATIO, INDUSTRIAL OPERATIONS %



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

TRUCKS

Improved underlying profitability on lower volumes

During 2016 market conditions varied significantly between different parts of the world. Volvo Group's total deliveries of trucks decreased by 8% compared to 2015. Still the truck operations managed to continue to increase the profitability during the year.

Share of Group net sales

The truck operation's product offer stretches from heavy-duty trucks for long-haulage and construction work to light-duty trucks for distribution. 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, Renault Trucks, Mack, Eicher and Dongfeng Trucks.
Number of regular employees 52,154 (54,668).

Lower truck deliveries were mainly driven by the market correction and a reduction of elevated dealer inventories in the highway segment in North America. The European market continued at strong levels, whereas South America's largest market, Brazil, saw continuous low demand. The Chinese truck market turned and started growing after a couple of years of decline. In total, global truck deliveries declined by 8% compared with 2015.

Varied market conditions

The truck market in Europe was strong in 2016 with around 300,000 registrations of new heavy duty trucks, compared to 270,000 registrations in 2015. Demand for transport continued to be good, resulting in high capacity utilization for truck fleets and good customer profitability. Demand for new trucks was also driven by some customers renewing their fleets.

The North American heavy-duty truck industry was in a correction mode in 2016 with low production in response to reduced demand and a reduction of elevated dealer inventories of new trucks. While decent economic conditions prevailed, retail deliveries were down 19% in 2016 compared to the exceptionally strong market in 2015. Virtually the entire decline was registered in the highway tractor segment. At the end of 2016, new truck inventories had come down to much healthier levels. However, there is still a used truck overhang which is expected to continue to dampen demand for new heavy-duty trucks in 2017.

Registrations of heavy-duty trucks in Brazil declined by 29% in 2016 due to the weak economic conditions in the country. The market seems however to have bottomed out.

In India registrations of heavy-duty trucks rose by 5% in 2016, driven by good economic activity and good business confidence. The positive development was dampened towards the end of the year, primarily as a consequence of the demonetization in India.

Chinese heavy-duty truck registrations increased by 33% and medium-duty trucks registrations increased by 14% in 2016. The increase in demand for heavy-duty trucks during the second half of 2016 was partly driven by new legislation on maximum load for commercial vehicles.

In Japan demand grew from already high levels by around 5% in 2016 for both heavy-duty and medium-duty trucks.

In general the Volvo Group maintained its strong positions in the main markets even though market shares decreased somewhat in certain markets. In Europe (EU28) the combined market share for heavy-duty trucks increased to 25.0% (24.3) primarily as a result of growth for Volvo Trucks. In North America the Group's market share declined to 17.7% (19.6), with the decrease related to Volvo Trucks as a result of a bigger market decline in Volvo's core segment than in other segments. Mack gained market share somewhat due to continued healthy demand for vocational trucks. In Brazil the market share in heavy-duty trucks amounted to 18.9% (20.1) while it was 17.5% (18.9) in Japan. In India the market share for Eicher amounted to 33.0% (33.3) in the medium-duty segment and to 4.8% (3.7) in the heavy-duty segment. In China Dongfeng Trucks had a market share of 12.8% (13.8) in the heavy-duty segment and 15.2% (18.9) in the medium-duty segment.

Volvo I-Shift with crawler gears

In the spring of 2016, Volvo Trucks launched a new transmission, Volvo I-Shift with crawler gears, ideal for applications requiring a slow speed and maneuverability and with the ability to start off from standstill with up to 325 tons of cargo.

Orders and deliveries

In 2016, a total of 190,424 trucks where delivered from the Group's wholly-owned operations, a decrease of 8% compared with 207,475 trucks in 2015. Deliveries increased in Europe, but decreased in North America and South America.

Order intake to the Group's wholly-owned operations declined by 5% to 188,898 (198,057) trucks with an increase in Europe, but a decrease in North America.

Improved underlying profitability

In 2016 net sales in the truck operations decreased by 6% to SEK 200,650 M (213,978). Adjusted for currency movements, net sales decreased by 7%. Adjusted for currency movements, vehicle sales declined by 9% while service sales increased by 1%.

Adjusted operating income increased to SEK 17,472 M (16,170) corresponding to an operating margin of 8.7% (7.6). For information on adjusted operating income, please see page 202. The increase in earnings was mainly a result of lower operating expenses, lower material costs and a positive market mix with higher earnings in Europe, partly offset by lower capacity utilization in North America and negative currency movements. Operating income also had a minor positive impact from improved earnings in the Group's joint ventures and associated companies, primarily in DFCV. For more information, please see Note 5.

Reported operating income amounted to SEK 15,020 M (19,517). Currency movements had a negative impact of SEK 260 M compared with 2015.

NET SALES AND OPERATING INCOME

SEK M	**2016**	2015
Europe	91,468	83,767
North America	51,849	73,017
South America	10,613	11,624
Asia	33,464	31,589
Africa and Oceania	13,256	13,982
Total net sales	**200,650**	**213,978**
Of which		
Vehicles	150,911	165,029
Services	49,739	48,949
Adjusted operating income[1]	**17,472**	**16,170**
Adjustments[1]	–2,453	3,347
Operating income	**15,020**	**19,517**
Adjusted operating margin, %	8.7	7.6
Operating margin, %	7.5	9.1

[1] For more information on adjusted operating income, please see page 202.

DELIVERIES BY MARKET

Number of trucks	**2016**	2015
Europe	97,909	86,448
North America	39,193	64,507
South America	9,442	11,069
Asia	31,502	31,979
Africa and Oceania	12,378	13,472
Total deliveries	**190,424**	**207,475**
Heavy duty (>16 tons)	158,025	176,589
Medium duty (7–16 tons)	15,691	14,749
Light duty (<7 tons)	16,708	16,137
Total deliveries	**190,424**	**207,475**
Volvo	102,857	113,066
UD	20,738	20,025
Renault Trucks	47,983	46,973
Mack	18,846	27,411
Total deliveries	**190,424**	**207,475**
Non-consolidated operations		
VE Commercial Vehicles (Eicher)	42,929	35,751
Dongfeng Commercial Vehicle Company (Dongfeng Trucks)	128,501	113,931

Truck highlights during 2016

Among the 2016 highlights for the truck operations were the launches of several new integrated powertrain solutions in North America for both Mack and Volvo Trucks, offering increased fuel efficiency, productivity, reliability and more efficient chassis packaging. Volvo Trucks also launched a new transmission globally, Volvo I-shift with crawler gears, with the ability to start off from standstill with up to 325 tons of cargo, ideal for applications requiring a slow speed and maneuverability.

Volvo Group participated in the EU truck platooning challenge when three Volvo trucks drove closely behind one another, using wireless communication, in a platoon from Gothenburg, Sweden to Rotterdam, the Netherlands. Platooning is one way to reduce fuel consumption and emissions.

At the IAA trade fair in Hannover in September, the Volvo FH was appointed winner of the prestigious Fehrenkötter test after a more than 30 months long real-life customer operations test. The Volvo FH won the overall evaluation based on lowest cost of ownership and also had the best fuel economy.

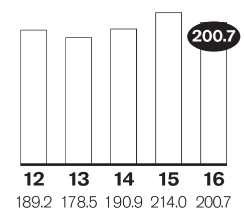
Since September 2016, a fully autonomous Volvo FMX truck has been tested in operations deep underground in the Kristineberg Mine, Sweden. The self-driving truck is part of a development project aimed at improving the transport flow and safety in the mine.

Renault Trucks started a collaboration project with BSF Souakri Industrial Group for a new assembly factory in Algeria, Renault Truck's second biggest market. The plant's capacity will gradually be built up to 2,000 trucks.

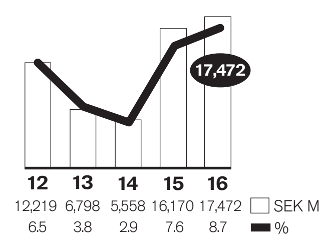
Focus on continuous improvements

In 2016 the truck operations saw the full financial effect from the activities implemented in recent years' restructuring program. The operations are now fully focused on driving efficiency through continuous improvements to further improve productivity after the period of substantial restructuring activities. The decentralized brand-driven truck organization will focus on, among other things, capturing the service potential in the markets to serve the customers even better. ■

NET SALES, SEK BN

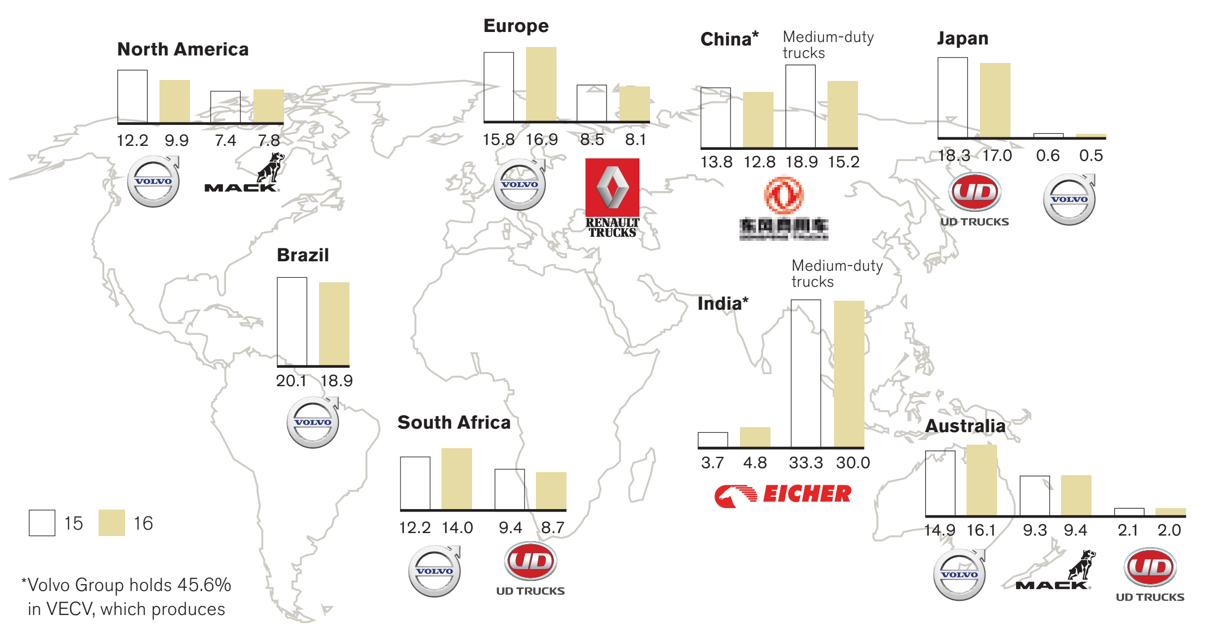


ADJUSTED OPERATING INCOME* AND ADJUSTED OPERATING MARGIN



* For more information on adjusted operating income, please see page 202.

MARKET SHARES, HEAVY-DUTY TRUCKS, %



*Volvo Group holds 45.6% in VECV, which produces Eicher trucks, and 45% in DFCV, which produces Dongfeng trucks.

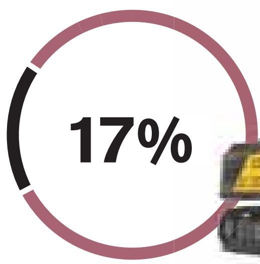
Renault Trucks 24/7 roadside assistance

At Renault Trucks 24/7, a network of experts answers customers in 16 languages to provide assistance and breakdown recovery operations and guarantee service quality. Renault Trucks 24/7 is available for immediate roadside assistance 24 hours a day, 7 days a week, 365 days a year. An operator keeps a case file continuously updated and customers can check on the status of the repairs over the internet.

CONSTRUCTION EQUIPMENT

Focus on profitable products and segments

Demand in many of Volvo Construction Equipment's (Volvo CE) markets continued to decline in 2016. Volvo CE managed to offset most of this through market share gains for the larger machines. Machine deliveries declined by 1%.



Share of Group net sales

Founded in 1832 in Eskilstuna, Sweden Volvo Construction Equipment has grown to become one of the leaders in the development of products and services for the construction, extraction, waste processing, forestry and materials handling sectors.
Position on world market Volvo CE is the world's leading manufacturer of articulated haulers and one of the world's leading manufacturers of wheel loaders, excavators, road construction machines and compact equipment.
Brands Volvo, SDLG (Lingong) and Terex Trucks.
Number of regular employees 13,397 (13,889).

Products include excavator wheel loaders and haulers, as well as road machinery and a wide range of services. Marketed under the Volvo, SDLG and Terex Trucks brands, the company's products and services are sold and supported via a global network of Volvo-owned and independent dealers.

Margins stable despite weak markets and less favorable product mix

The European market grew, mainly driven by a recovery in France and considerable growth in Germany and Italy, while the market in the UK slowed down. The Russian market started to recover from low levels in 2015. The North American market was slightly below 2015 with a decline for larger machines. However, the market for compact equipment was still positive with growth driven mainly by an increase in demand for compact excavators. The decline in South America continued throughout 2016 with the Brazilian market declining sharply. The Asian market (excluding China) was slightly lower than in 2015, mainly driven by Japan while India continued to grow strongly. The Chinese market grew somewhat in 2016 after several years of decline. The excavator market started to recover in June and the wheel loader market in October.

Supporting customers globally

Volvo CE's responsive staff is committed to keeping customers' businesses running without costly delays, because they know what a difference this makes to customer profitability. Volvo CE customers also get access to an extensive range of services for improved fuel efficiency, uptime, productivity and safety. They include everything from specialized software and advanced training to complete service agreements and financial services developed by people with knowledge of customers' business.

Developed for uptime

Volvo CE puts a strong focus on machine reliability – products are designed and built for reduced wear and long service intervals. When machines need service Volvo customers can manage service plans and wear parts via the CareTrack telematics system. An important part of Volvo CE's vision for the future is zero unplanned stops: a world without machine breakdowns, where machines predict and plan their own maintenance – making unexpected repairs a thing of the past.

In total, deliveries were on a similar level to the previous year. Higher deliveries in Europe were offset by lower volumes in Asia and the Americas.

Net sales declined by 1% to SEK 50,731 M. However, adjusted for currency movements sales increased by 1%, of which machine sales increased by 1% and service sales were flat.

Adjusted operating income amounted to SEK 2,246 M (2,090), corresponding to an operating margin of 4.4% (4.1). There were no adjustments in 2016. For information on adjustments in 2015, please see page 202. Earnings were favorably impacted by price realization, lower material costs and lower provisions for credit losses in China. Reported operating income amounted to SEK 2,246 M (2,044). Currency movements had a negative impact of SEK 44 M compared to 2015.

Important product launches in 2016

2016 saw a number of important new product introductions. At the Bauma exhibition in Germany, Volvo CE unveiled several new excavators, wheel loaders and haulers – including the A60H articulated hauler and the EC950E excavator – by far the largest machines of these types the company has ever introduced. The launch of the largest articulated hauler on the market coincided with Volvo CE celebrating 50 years of articulated hauler manufacturing, a market it created and continues to pioneer today.

Also launched were the 75 ton EC750E crawler excavator and a number of wheeled excavators and compact excavators. New wheel loaders were also introduced as were new road machinery, in the form of a series of drum rollers and a new paver. The company also introduced its revolutionary Co-Pilot secondary on-board services display, and advanced 'Assist' machine control systems – including Dig Assist, Load Assist and Compact Assist. Terex Trucks launched the first of its new 'Generation 10' articulated haulers and SDLG launched new wheel loaders for the Chinese domestic as well as other emerging markets.

Implementation of performance plan

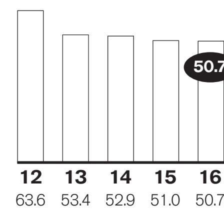
Volvo CE's strategic priorities are to focus on core products, segments and markets and an effective use of a multi brand strategy. Volvo CE has adapted its business to the overall market decline, particularly the sharp slowdown in demand in China in recent years. Elements of the performance plan include product portfolio optimization, reduced spending, headcount reduction, initiatives to focus on market share growth and improved capacity utilization in the industrial system. The company's focus remains on organic growth.

In the ongoing work to strengthen Volvo CE's competitiveness a series of measures were decided that will lower costs in the long term and improve efficiency. The technology function will be reorganized in order to bring R&D spending in line with revenues and improve customer and product focus.

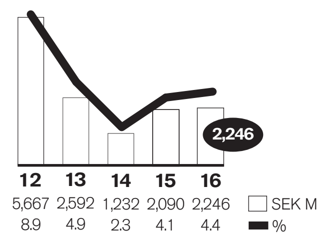
Volvo CE has also decided to move the global headquarters from its current location in Brussels, Belgium to Gothenburg, Sweden. The relocation will facilitate closer cooperation with the Group's other business areas and allow better access to the competencies and resources of the wider business.

In order to better utilize existing Volvo Group assets, it has been decided that excavators and wheel loaders currently fitted with 7 and 8 liter engines sourced from Deutz will, in the future, be fitted with the Volvo Group's in-house 8 liter engine. The transition period will begin in 2020 and be completed in 2023. ■

NET SALES, SEK BN



ADJUSTED OPERATING INCOME* AND ADJUSTED OPERATING MARGIN



* For more information on adjusted operating income, please see page 202.

NET SALES BY MARKET		
SEK M	**2016**	2015
Europe	19,739	17,732
North America	10,724	11,843
South America	1,414	2,207
Asia	15,765	16,424
Africa and Oceania	3,088	2,802
Total net sales	**50,731**	**51,008**
Of which:		
Construction Equipment	41,279	41,420
Services	9,452	9,588
Adjusted operating income[1]	**2,246**	**2,090**
Adjustments[1]	–	–46
Operating income	**2,246**	**2,044**
Adjusted operating margin, %	4.4	4.1
Operating margin, %	4.4	4.0

[1] For more information on adjusted operating income, please see page 202.

DELIVERIES BY MARKET		
Number of machines	**2016**	2015
Europe	14,700	12,539
North America	5,105	5,710
South America	1,175	2,036
Asia	21,072	22,339
Africa and Oceania	2,254	2,094
Total deliveries	**44,306**	**44,718**
Of which:		
Volvo	30,473	30,296
SDLG	13,681	14,267
Of which in China	10,744	11,311

BUSES

Higher deliveries and sales – earnings flat

Volvo Buses operates in two business segments: city buses and coaches. In city buses, Volvo Buses is one of the leaders in the technology shift to electromobility. In the coach segment, the company focus is on safe and fuel efficient vehicles.

Share of Group net sales

Volvo Buses is a leader in the development of sustainable transport solutions for public transport and is one of the world's largest manufacturers of buses, coaches and bus chassis. The product range includes city buses, intercity buses and coaches as well as complete transport systems, financial services and services for vehicle and traffic information. Volvo Buses has sales in 85 countries and a global service network, with more than 1,500 dealerships and workshops. Production facilities are found in Europe, North America, South America and Asia.

Position on world market Volvo Buses is one of the world's largest producers of buses and coaches in the premium segment.

Brands Volvo, Prevost, Nova Bus and UD Bus.

Number of regular employees 7,353 (7,270).

The strategic priorities are to focus on increased competitiveness and profitability by improving quality and reducing product cost, combined with selective profitable growth including growth of the service business through increased cooperation with Volvo Trucks.

Increased investment in electrified buses

Volvo Buses continues to invest in turnkey system solutions for electrified buses. The customer offering includes vehicles, charging infrastructure, batteries and repair and maintenance services. The product range includes hybrid buses (Volvo 7900 Hybrid), electric hybrid buses (Volvo 7900 Electric Hybrid) and fully electrified buses (Volvo 7900 Electric). In North America, the product range includes hybrid buses (Nova LFS HEV). Charging stations are being developed in cooperation with ABB and Siemens, OppCharge, which have an open interface to enable use of electric buses and charging infrastructure independent of manufacturer.

In September 2016, the first complete system with four commercially manufactured electric buses, Volvo 7900 Electric, was sold to Differdange in Luxembourg. During the year, the equivalent system with electric hybrid buses was sold to customers in Belgium, Luxembourg and Sweden. Three electric concept Volvo buses and seven electric hybrid buses have been operating a regular timetabled service in Gothenburg, Sweden since June 2015, as part of the ElectriCity partnership. Buses and charging stations have been running with very high reliability. The buses' environmental qualities, lower noise and comfort are appreciated by passengers. Pilot projects with electric hybrids are ongoing in Stockholm, Sweden and Hamburg, Germany.

Sales of hybrid buses under the Volvo brand showed a continued positive development. In total, more than 3,000 units have been sold since the start in 2010, of which 529 during 2016. In June, the first two hybrid buses from Volvo were brought into service in Mumbai, India.

Improved driver environment

In September, the Pedestrian and Cyclist Detection System was announced, which increases safety for unprotected road users at bus stops and pedestrian crossings. The system can scan the surroundings with the help of cameras and alerts the surrounding area that the bus is approaching by sending out an artificial sound. If there is a risk of an incident, the buses' horn is activated, at the same time as the driver is warned by sounds and light signals. The system will be introduced in Volvo's city buses during 2017.

Volvo's driving system, Volvo Dynamic Steering (VDS) is hugely successful. A year after the launch, over half of all Volvo's coaches sold in Europe are equipped with VDS. During autumn 2017, the system will also be introduced in Volvo's city and intercity buses. Read more about VDS on the next page.

Product introductions

Volvo 8600, a new complete bus, was introduced in France and Spain. The bus enhances Volvo's offering within intercity and school traffic.

Volvo launched the world's largest bus chassis, the Gran Artic 300, which is developed for high capacity BRT systems in Latin America. The bus is 30 m long and can carry up to 300 passengers. Read more about the Gran Artic 300 on page 44.

VOLVO DYNAMIC STEERING REDUCES THE RISK of work-related injuries for bus drivers. Spending many hours behind the wheel every day, bus drivers often suffer strain in the shoulders, neck and arms. In order to reduce the risk of work-related injuries, Volvo Buses in 2015 introduced Volvo Dynamic Steering (VDS), which makes maneuvering a bus considerably easier. In 2016 a scientific study was published that confirmed the system's positive effects. In the tests, activity in the various muscle groups was measured in left turns, right turns, while negotiating a roundabout and when driving straight ahead. The results reveal that on average, VDS cuts muscular strain by 20 to 30%, and for certain maneuvers by up to 70%.

With its complete and commercial range of buses and systems for electrified public transport, Volvo Buses has consolidated its leading position in sustainable transport solutions. Volvo Buses has grown its market shares in Europe and also has a greater presence in the Middle East and North Africa. As a result of the ongoing efficiency program, productivity has been further increased and production costs have been lowered. The service business has also shown positive results. The service offering has been enhanced in Europe and collaboration has increased with Volvo Trucks' service network.

A positive result despite unsteady market development

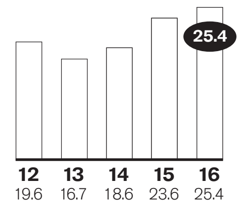
The global demand for larger buses increased during 2016. However, after a strong first six months, demand decreased in Europe, North America and many Asian markets during the second half of the year. Demand remained low in Brazil and India.

In total, Volvo Buses delivered 9,553 buses and bus chassis (8,825).

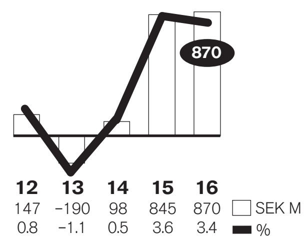
Net sales increased by 8% to SEK 25,386 M. When adjusted for currency movements the increase was 10%, of which sales of buses increased by 11% and service sales increased by 4%.

Adjusted operating income amounted to SEK 870 M (845) corresponding to an operating margin of 3.4% (3.6). For information on adjustments please see page 202. Earnings were positively impacted by higher sales volumes, higher service sales and further improvements within the internal efficiency program. At the same time, earnings were negatively impacted by unfavorable currency movements and a negative market mix. Reported operating income amounted to SEK 911 M (860). Currency movements had a negative impact of SEK 257 M compared to 2015. ■

NET SALES, SEK BN



ADJUSTED OPERATING INCOME* AND OPERATING MARGIN



* For more information on adjusted operating income, please see page 202.

NET SALES AND OPERATING INCOME		
SEK M	**2016**	2015
Europe	7,861	7,284
North America	11,345	10,635
South America	1,363	1,425
Asia	3.067	2,557
Africa and Oceania	1,749	1,678
Total net sales	**25,386**	**23,580**
Of which:		
Vehicles	21,295	19,569
Services	4,091	4,011
Adjusted operating income [1]	**870**	**845**
Adjustments [1]	41	15
Operating income	**911**	**860**
Adjusted operating margin, %	3.4	3.6
Operating margin, %	3.6	3.6

1 For more information on adjusted operating income, please see page 202.

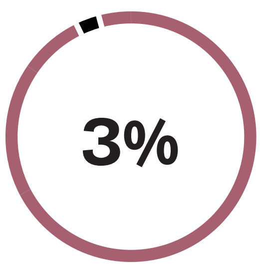
DELIVERIES BY MARKET		
Number of buses	**2016**	2015
Europe	2,676	2,431
North America	2,659	2,398
South America	1,149	1,415
Asia	1,849	1,656
Other markets	1,220	925
Total deliveries	**9,553**	**8,825**
Non-consolidated operations		
VE Commercial Vehicles	13,883	11,717
Dongfeng Commercial Vehicle Company	4,540	4,618

During 2106 the share of ownership in the joint venture Shanghai Sunwin Bus Co decreased to less than 20% and thus there deliveries are no longer reported.

VOLVO PENTA

Increased sales and good profitability

Volvo Penta's engine deliveries declined by 2% in 2016, however net sales improved due to a favorable product mix and growth in the service business.



Share of Group net sales

Volvo Penta aims to be the most forward thinking and customer focused supplier of sustainable power solutions. 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 1,530 (1,470).

Volvo Penta operates in two businesses: Marine (leisure and commercial) and Industrial (off-road and power generation). In the marine segments, Volvo Penta aims to lead the industry, continuing to develop its own innovative products and solutions. In the Industrial segments, Volvo Penta will seek maximum leverage of Volvo Group assets in its total offer, and add value for customers in its application and integration expertise.

Volvo Penta strategy

The challenge is to grow profitably, while further increasing the capability of the business to consistently deliver an excellent total customer experience. To succeed overall, it is essential to excel at the following aspects of business, all of which work together. 1. Customers: Volvo Penta's business is all about its customers and how well their needs are served, including the ability to deliver in line with the company's brand promise and core values. 2. Total Solutions: Providing total solutions is about what Volvo Penta offers its customers, including products, but also delivering end-to-end solutions to enhance the entire customer experience. 3. People: Engaged, motivated, and high-performing employees working together are keys to success. Volvo Penta aims to increase diversity and inclusiveness and nurture an environment of work with continuous improvements. 4. Growth: Secure growth ambitions, through new business opportunities, plans by both segments and parts & service sales. 5. Profitability: Ensure the business is run in an efficient and effective manner, minimizing wasted resources, while maintaining the ability to deliver innovative and competitive products and services.

Market development and engine shipments

The overall marine leisure market remained flat, with signs of a slight increase. The gasoline segment continued on low levels, but Volvo Penta gained market share.

The marine commercial market was impacted by low demand from customers in the oil and gas industry, while demand for industrial off-road engines increased somewhat due to an improvement in demand in the construction segment.

The market for industrial power generation engines showed a slight increase in Asia, the Middle East, Africa, and the export-oriented European market. The domestic European and North American markets were stable on low levels.

In total, Volvo Penta's engine deliveries declined by 2% to 37,267 engines.

Positive sales trend

Volvo Penta's net sales increased by 5% to SEK 9,893 M compared with SEK 9,406 M in 2015. Adjusted for currency movements, net sales still increased by 5%, of which engine sales increased by 3% and service sales increased by 10%.

Adjusted operating income amounted to SEK 1,269 M (1,102), corresponding to an operating margin of 12.8% (11.7). No adjustments were made during 2016. For information on adjustments in 2015 please see page 202.

Earnings were positively impacted by strong service sales, favorable currency and a good product mix partly off-set by higher costs for research and development. Reported operating income amounted to SEK 1,269 M (1,086). Changes in currency movements had a positive impact in an amount of SEK 51 M.

VOLVO PENTA collaborated with global equipment manufacturer Sandvik Mining & Construction to develop a new engine suitable for heavy-duty mining applications. The engine was launched in April 2016 at the Bauma construction & mining exhibition in Munich, Germany. In May 2016, Sandvik revealed that the latest 16-liter engine from Volvo Penta is being used in its TH663 underground mining trucks.

Further strengthened customer offer

During the year, Volvo Penta acquired the innovative marine technology company Humphree, as a step towards becoming a full marine system supplier. New marine products were also successfully launched, including a 8-liter engine and IPS drive, a joystick for inboard shaft applications, an updated Glass Cockpit System and a new Battery Management System.

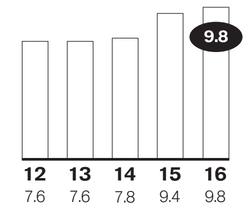
During 2016 Volvo Penta secured increased business with new and existing customers in the industrial off-road and power generation segments. New industrial off-road products were launched, including a 16-liter, Stage II diesel engine, a Stage IV open power unit solution and an upgraded start/stop feature. Volvo Penta's engines were also approved for use of hydrogenated vegetable oil (HVO).

In the parts and services area, work continued with the development of a competitive offer per segment, as well as to increase penetration of service agreements.

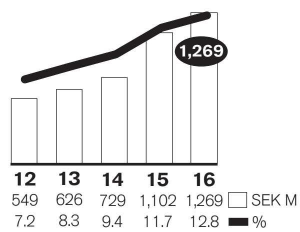
In September, Volvo Penta was awarded engine & propulsion system of the year by Yachts France Magazine at the World Yachts Trophies 2016 ceremony, highlighting Volvo Penta IPS as an innovation for the yacht segment.

In October, Volvo Penta received an IBEX innovation award for the patent-pending Easy Drain, which is the first gasoline sterndrive raw water engine-draining system that can be activated with a single knob, whether the boat is in or out of the water. ■

NET SALES, SEK BN



ADJUSTED OPERATING INCOME* AND OPERATING MARGIN



* For more information on adjusted operating income, please see page 202.

NET SALES AND OPERATING INCOME		
SEK M	**2016**	2015
Europe	4,973	4,462
North America	2,191	2,161
South America	291	365
Asia	1,891	1,855
Africa and Oceania	546	562
Total net sales	**9,893**	**9,406**
Of which:		
Engines	7,078	6,836
Services	2,815	2,570
Adjusted operating income[1]	**1,269**	**1,102**
Adjustments[1]	–	–16
Operating income	**1,269**	**1,086**
Adjusted operating margin, %	12.8	11.7
Operating margin, %	12.8	11.5

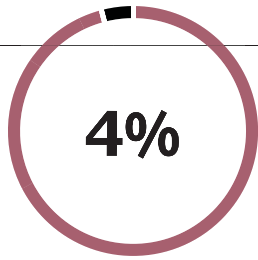
1 For more information on adjusted operating income, please see page 202

DELIVERIES PER SEGMENT		
Number of units	**2016**	2015
Marine engines[1]	18,016	19,503
Industrial engines	19,251	18,635
Total deliveries	**37,267**	**38,138**

1 Excluding outboard engines.

FINANCIAL SERVICES

Continued profitability improvement



Share of Group net sales

In 2016, Volvo Financial Services (VFS) continued to grow the credit portfolio and improve profitability. Return on equity reached 13.7%.

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 delivers value to customers and builds loyalty to the Group brands through ease of doing business, speed to market, and knowledge and expertise of the industry. VFS conducts customer financing in 44 countries around the world.

Position on world market VFS 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 1,328 (1,340).

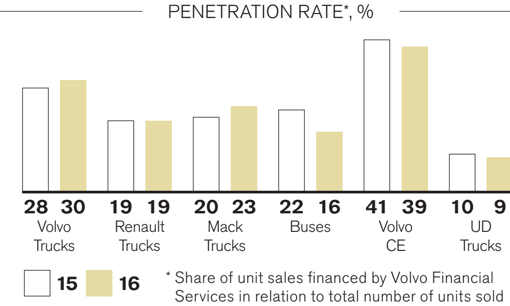
VFS financial solutions are offered with the sales of Volvo Group vehicles and equipment, and are available with other services such as repair and maintenance contracts and insurance, etc. through seamless integration at the point-of-sale with Volvo Group dealers. This approach delivers a convenient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

Five focus areas

VFS' mission is to be the best captive in the industry. To ensure successful business execution and achievement of the mission, VFS executed on activities in five focus areas: 1. Employee Engagement, 2. Customer Focus, 3. Operational Excellence, 4. Sustainable Profitability, and 5. Business Cycle Management.

Employee Engagement activities drove a productive and innovative workforce, enabling VFS to achieve high employee engagement while managing a global organization. One example is a talent development program that was rolled out in all VFS markets in order to support career development for VFS employees and to prepare for future business needs. Customer Focus activities continued with the aim of increasing integration with the Volvo Group product companies in order to optimize the total offer at the point of sale, develop and expand products to drive services revenues for the Volvo Group, and expand VFS' market coverage. In the UK and Brazil for example, VFS achieved strong penetration through its joint sales programs, insurance offers and total delivery approach with the product companies. Best practices from both markets were rolled out to other markets during the year, in coordination with the other Volvo Group business areas. VFS also devoted resources to large market opportunities such as South Africa.

PENETRATION RATE*, %



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

Operational Excellence activities and investments focused on driving ease of doing business and speed for customers and dealers by closing operational gaps while also introducing new technologies. Europe for example, made strong productivity and operating leverage gains in 2016, while introducing new technologies to support customers and dealers with fast and easy to use mobile applications.

Sustainable profitability was achieved through activities aimed at balancing price realization, risk appetite and volume in every market where VFS does business. In an unusually competitive environment, VFS was able to maintain its margins, credit discipline and market share.

Business Cycle Management activities focused on upcycle and downcycle management. Brazil, China and Russia, were strong examples of successful downturn management. Each of these markets, for different reasons, experienced extraordinary downturns which continued into 2016. Risk mitigation, commercial support and customer care were all success factors that enabled each market to continue to mitigate the impact of incredibly difficult circumstances.

Strong portfolio performance

During 2016, overall customer overdues, repossessions, inventories and write off levels remained low and supported good profitability. North America continued to produce good profitability and commercial results, despite signs that the market is softening somewhat to a more "normalized" level. Brazil remained in recession. However, downturn management activities have mitigated the impact on the business. India began to yield benefits as operations moved from start up to execution mode. Europe as a whole performed well, with good growth and portfolio performance. China continued to decline but showed improvements in customer overdues towards the end of the year.

Good profitability

Financial Services recorded strong levels of new business volume during the year despite continued weak demand in Brazil, Russia and China and increased competition in many mature markets. Total new financing volume in 2016 amounted to SEK 54.6 billion (54.8), which was an increase of 0.5% compared to 2015, when adjusted for currency movements.

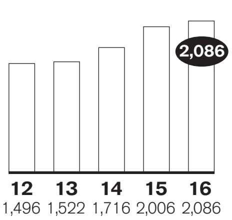
Financing penetration was also stable in served markets. In total, 49,809 new Volvo Group vehicles and machines (49,038) were financed during the year. In the markets where financing is offered, the average penetration rate was 26% (25).

The net credit portfolio of SEK 130,241 M (122,606) was relatively stable on a currency adjusted basis when compared to 2015. 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.

Operating income amounted to SEK 2,086 M compared to SEK 2,006 M in the previous year and the return on shareholders' equity was 13.7% (13.4). The equity ratio at the end of the year was 8.0% (8.0). Profitable growth and good portfolio performance were the drivers of the overall increase in profitability.

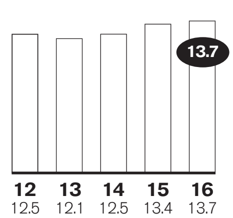
During the year, credit provision expenses amounted to SEK 677 M (817) while write-offs of SEK 627 M (491) were recorded. The write-off ratio for 2016 was 0.49% (0.39). At the end of December 31, 2016, credit reserves were 1.43% (1.41) of the credit portfolio. ■

ADJUSTED OPERATING INCOME*, SEK M

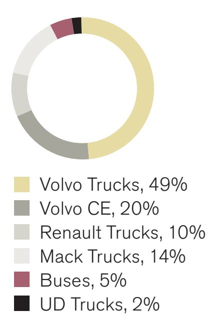


* For more information on adjusted operating income, please see page 202.

RETURN ON SHAREHOLDERS' EQUITY, %



DISTRIBUTION OF CREDIT PORTFOLIO



KEY RATIOS, FINANCIAL SERVICES	2016	2015
Number of financed units	49,809	49,038
Total penetration rate[1], %	26	25
New financing volume, SEK billion	54.6	54.8
Credit portfolio net, SEK billion	130	123
Credit provision expenses, SEK M	677	817
Operating income, SEK M	2,086	2,006
Credit reserves, % of credit portfolio	1.43	1.41
Return on shareholders' equity, rolling 12 months, %	13.7	13.4

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

INCOME STATEMENT FINANCIAL SERVICES, SEK M	2016	2015
Finance and lease income	11,242	11,199
Finance and lease expenses	–6,591	–6,607
Gross income	**4,651**	**4,591**
Selling and administrative expenses	–1,960	–1,878
Credit provision expenses	–677	–817
Other operating income and expenses	72	109
Operating income	**2,086**	**2,006**
Income taxes	–631	–633
Income for the period	**1,455**	**1,373**
Return on Equity, %	13.7	13.4

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. Financial management ensures 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 in Financial Services. The objectives on net sales growth and operating margins for the Industrial Operations and return on equity for Financial Services are intended to secure the return requirements from shareholders. The restrictions on net debt to equity for the Industrial Operations and the equity ratio for Financial Services are there 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 Financial Services 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 Financial Services, to correspond to the needs of the different operations.

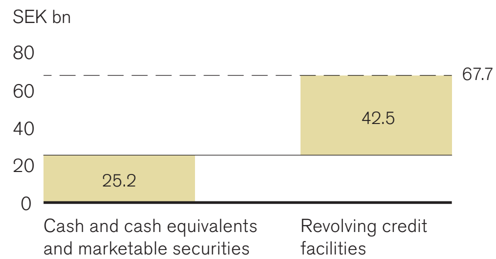
Volvo Treasury is increasing the possibility to access capital markets at all times through diversified funding sources. Furthermore, the Volvo Group's global presence is supported by bond programs on all major debt capital markets in the world. Besides the access to capital markets around the world, 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 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

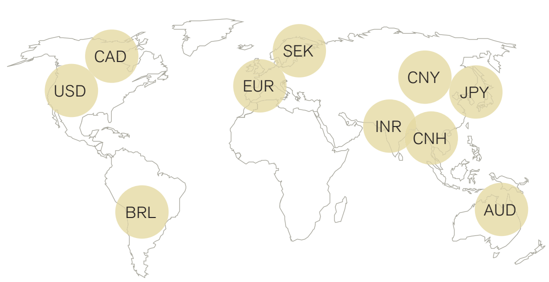
Being a large issuer with a growing customer financing business, it is critical to have a strong and stable credit rating. The level of the credit rating is not only important for debt investors but also for a number of other stakeholders when it comes to creating long-term relationships. A strong credit 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). S&P changed its outlook from stable to positive during 2016. S&P's long-term credit rating is BBB, positive and Moody's rating is Baa2, stable. ■

VOLVO GROUP LIQUIDITY POSITION, DECEMBER 31, 2016



GEOGRAPHICALLY DIVERSIFIED MARKET PROGRAMS



CREDIT RATING, MARCH 6, 2017

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

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

		Shareholders' equity attributable to equity holders of the Parent Company						
SEK M		Share capital	Other reserves[1]	Translation reserve	Retained earnings	Total	Minority interests	Total equity
Balance at December 31, 2014		**2,554**	**4,128**	**1,537**	**70,106**	**78,325**	**1,723**	**80,048**
Income for the period		–	–	–	15,058	15,058	41	15,099
Other comprehensive income								
Translation differences on foreign operations		–	–	−2,515	–	−2,515	33	−2,481
Share of Other comprehensive income related to Joint Ventures and associated companies		–	–	–	24	24	–	24
Accumulated translation differences reversed to income		–	–	45	–	45	–	45
Available-for-sale investments:	Note 5, 19							
Gains/losses at valuation to fair value		–	−3,837	–	–	−3,837	–	−3,837
Change in cash flow hedge reserve	Note 19	–	−32	–	–	−32	–	−32
Remeasurements of defined benefit plans	Note 20	–	–	–	2,783	2,783	–	2,783
Other comprehensive income for the period		–	−3,869	−2,470	2,807	−3,533	33	−3,498
Total income for the period		**-**	**-3,869**	**-2,470**	**17,865**	**11,527**	**74**	**11,601**
Transactions with shareholders								
Dividends to shareholders		–	–	–	−6,090	−6,090	–	−6,090
Transactions with minority interests		–	–	–	–	–	–	–
Share based payments	Note 27	–	–	–	65	65	–	65
Changes in minority interests		–	–	–	–	–	–	–
Other changes		–	–	–	−17	−17	4	−14
Transactions with shareholders		–	–	–	−6,041	−6,041	4	−6,037
Balance at December 31, 2015		**2,554**	**259**	**-933**	**81,930**	**83,810**	**1,801**	**85,610**
Income for the period		–	–	–	13,147	13,147	75	13,223
Other comprehensive income								
Translation differences on foreign operations		–	–	5,540	–	5,540	45	5,585
Share of Other comprehensive income related to Joint Ventures and associated companies		–	–	–	−97	−97	–	−97
Accumulated translation differences reversed to income		–	–	−48	–	−48	–	−48
Available-for-sale investments:	Note 5, 19							
Gains/losses at valuation to fair value		–	−57	–	–	−57	–	−57
Change in cash flow hedge reserve	Note 19	–	68	–	–	68	–	68
Remeasurements of defined benefit plans	Note 20	–	–	–	−304	−304	–	−304
Other comprehensive income for the period		–	11	5,492	−401	5,102	45	5,147
Total income for the period		**-**	**11**	**5,492**	**12,746**	**18,250**	**120**	**18,370**
Transactions with shareholders								
Dividends to shareholders		–	–	–	−6,093	−6,093	−206	−6,299
Transactions with minority interests		–	–	–			–	
Share based payments	Note 27	–	–	–	58	58	–	58
Changes in minority interests		–	–	–			–	
Other changes		–	–	–	37	37	−12	25
Transactions with shareholders		–	–	–	−5,998	−5,998	-218	−6,216
Balance at December 31, 2016		**2,554**	**270**	**4,559**	**88,678**	**96,061**	**1,703**	**97,764**

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

THE SHARE
Sharp rise in the share price in 2016

After a weak start to the year many of the world's leading stock markets had a positive development in the second half and ended the year higher than they started. The price of the Volvo B share increased by 35% during the year.

The Volvo share is listed on the stock exchange 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 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 price increased

In general, the leading stock exchanges rose during 2016. On Nasdaq Stockholm, the broad OMXSPI index rose by 9% (7).

On Nasdaq Stockholm the share price for the Volvo A share rose by 32%, and at year-end the price for the Volvo A share was SEK 107.20 (80.95). The lowest price paid was SEK 72.50 on January 20, and the highest price paid was SEK 109.70 on December 23.

The share price for the Volvo B share rose by 35% and at year-end the price was SEK 106.40 (79.10). The lowest price paid was SEK 71.30 on January 7 and the highest price paid was SEK 109.90 on December 15.

In 2016, a total of 1.7 billion (2.1) Volvo shares at a value of SEK 158 billion (203) were traded on Nasdaq Stockholm, corresponding to a daily average of 6.9 million shares (8.4). The Volvo share was the sixth most traded share on Nasdaq Stockholm in 2016. At year-end, Volvo's market capitalization totalled SEK 227 billion (169).

According to Fidessa, the trading on Nasdaq Stockholm accounted for 38% of all the trading in the Volvo B share. Bats Europe accounted for 22%, LSE Group for 15%, BOTC for 11% and BOAT for 8%.

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 2016 a total of 12,956,739 A shares were converted to B shares, representing 2.6% of the A shares that were outstanding at the end of 2015.

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

Ownership changes

During the year Industrivärden decreased its holding of B shares and increased the holding of A shares. Cevian Capital increased its holding of both A and B shares. 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.

WHY INVEST IN VOLVO?

- Competitive products and services
- Strong market positions globally
- Well-invested industrial system
- Lowered structural cost-level after restructuring program
- Improved profitability and cash flow in recent years
- Improved financial position
- Good dividend yield

Dividend

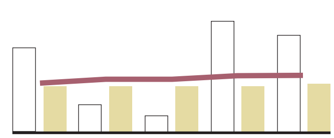
The Board proposes a dividend of SEK 3.25 per share for the financial year of 2016, which would mean that a total of SEK 6,603 M would be transferred to AB Volvo's shareholders. For the preceding year a dividend of SEK 3.00 per share was paid out.

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

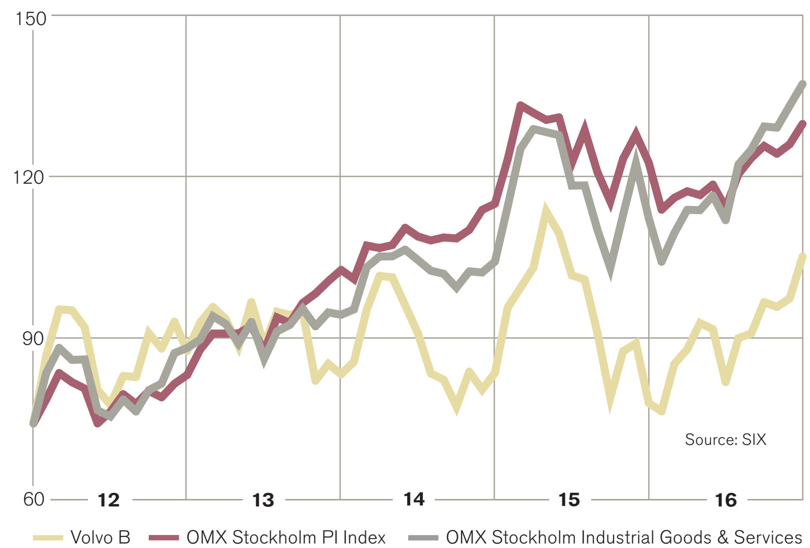
EARNINGS AND DIVIDEND PER SHARE, DIVIDEND YIELD



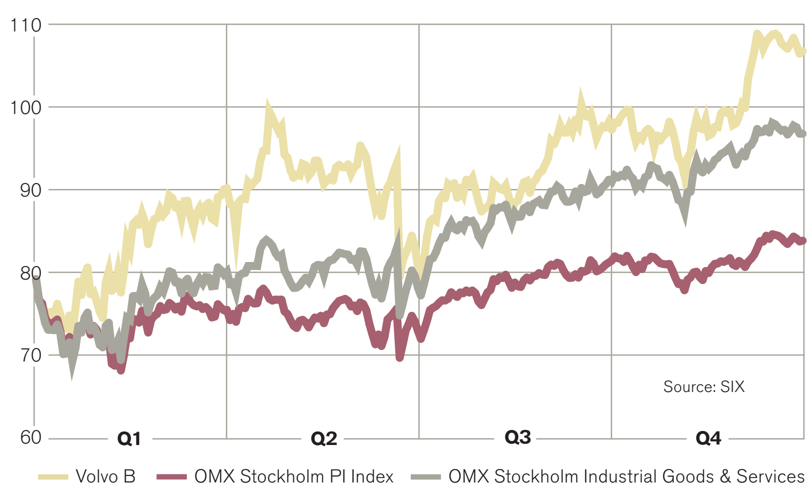
1 Proposed by the Board of Directors

	12	13	14	15	16
Diluted earnings per share, SEK	5.61	1.76	1.03	7.41	6.47
Dividend per share, SEK	3.00	3.00	3.00	3.00	3.25[1]
Dividend yield, %	3.4	3.6	3.5	3.8	3.1

PRICE TREND, VOLVO SERIES B SHARES, 2012–2016, SEK



PRICE TREND, VOLVO SERIES B SHARES, 2016, SEK



The largest shareholders in AB Volvo, December 31, 2016[1]

	Voting rights, %	Capital, %
Industrivärden	22.6	7.0
Cevian Capital	15.3	8.4
Norges Bank Investment Management	6.1	4.8
SHB	5.1	1.6
Alecta	4.6	4.1

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 76,250,400 class B shares comprising in total 4.6% of the number of registered shares on December 31, 2016.

Share capital, December 31, 2016

Registered number of shares[1]	2,128,420,220
of which, Series A shares[2]	492,525,221
of which, Series B shares[3]	1,635,894,999
Quota value, SEK	1.20
Share capital, SEK M	2,554
Number of shareholders	237,654
Private persons	223,445
Legal entities	14,209

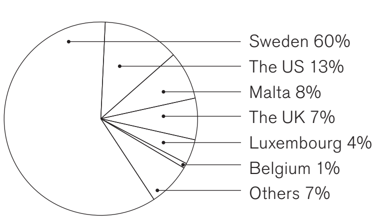
For further details on the Volvo share, see Note 19.

1 The number of outstanding shares was 2,031,441,685 on December 31, 2016.

2 Series A shares carry one vote each.

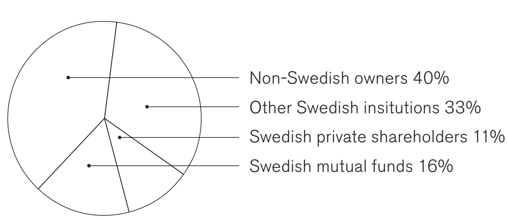
3 Series B shares carry one tenth of a vote each.

OWNERSHIP BY COUNTRY[1]



1 Share of capital, registered shares.

OWNERSHIP CATEGORIES[1]



1 Share of capital, registered shares.

The employees' ownership of shares in Volvo through pension foundations is insignificant.

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

FTSE4Good

FTSE GROUP CONFIRMS that Volvo Group has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalise on the benefits of responsible business practice.

Volvo Group did not qualify for the Dow Jones Sustainability Index in 2016. One of the main reasons was the competition investigation made by the European Commission of Volvo Group and a number of other companies in the truck industry.

SHAREHOLDER VALUE – LONG-TERM VALUE CREATION

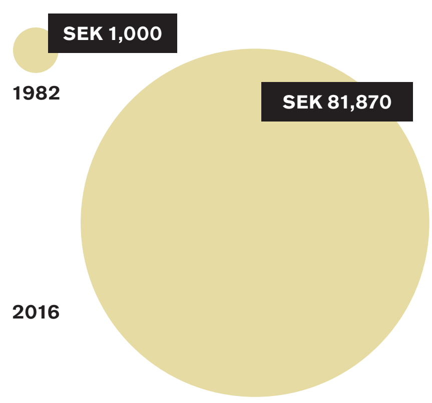
The Volvo Group strives to create long-term value for its shareholders.

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.

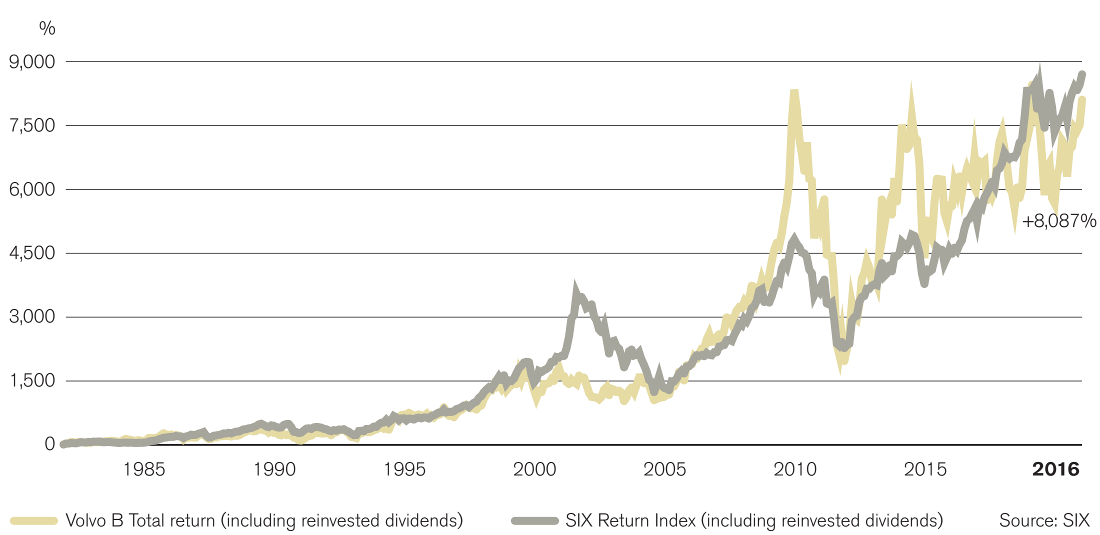
The graph shows the total return for the Volvo B share, measured as the share price development with all dividends re-invested, since December 30, 1982, which is as far back as the comparison index, SIX Return Index, stretches. SIX Return Index measures the total return for the Stockholm Stock Exchange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

The graph shows that SEK 1,000 invested in the Volvo B-share in 1982 had grown to SEK 81,870 at the end of 2016, 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 81,870 at the end of 2016.



ACCUMULATED TOTAL RETURN OF THE VOLVO B SHARE



RISKS AND UNCERTAINTIES
Managed risk-taking

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

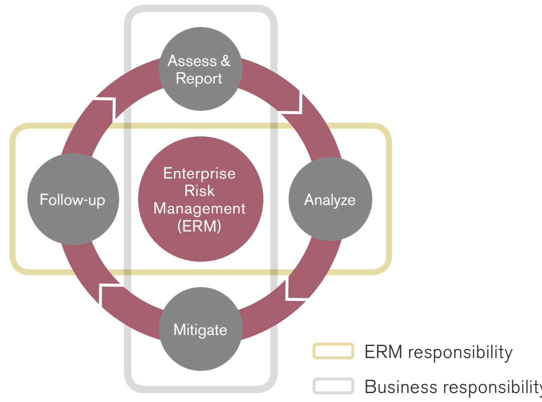
Uncertainties may be due to events in the world and can affect industries and markets and thus have an impact on the Volvo Group's aspirations, vision and mission. These uncertainties may provide opportunities that the Volvo Group tries to capture in its strategy. In some cases, the Group can influence the likelihood and impact that a risk-related event will occur. In other cases, when such events are beyond the Group's control, the Group strives to minimize the impact. A number of the risks that the Volvo Group is facing are presented on the following pages.

The Volvo Group's risk management

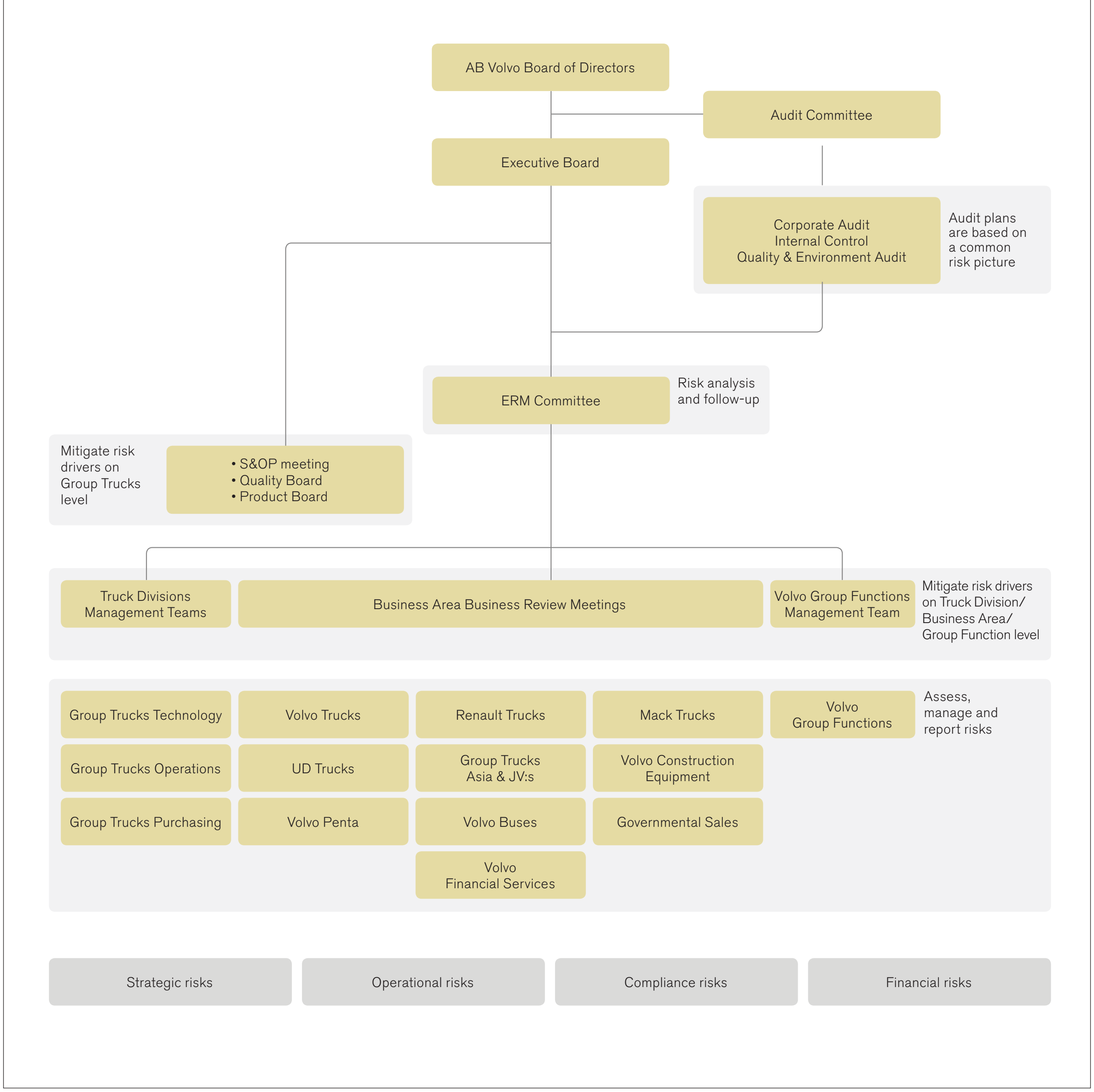
Volvo Group is working with enterprise risk management (ERM), which is a systematic and structured process to assess, report, analyze, mitigate and follow-up the risks that might impact the Group's values, aspirations, vision and mission. The objective of ERM is to improve business performance and optimize the cost of managing risks; i.e. creating, enhancing and protecting the Group's enterprise value as well as enhancing and protecting the Group's assets.

		DEFINITIONS	MANAGEMENT	RISK DRIVERS
Long-term	**STRATEGIC RISKS** Create value	Strategic risks may affect our ability to create value, the long-term development of the business and our possibility to reach our vision and aspirations.	Strategic risks are managed through strategic business decisions by executive management teams throughout Volvo Group.	• Governance • Strategy & Strategic plans, including Product plans • Mergers, Acquisitions & Divestments • Communication & Investor Relations
Short- and medium-term	**OPERATIONAL RISKS** Enhance value	Operational risks may affect our ability to enhance value and are important for the daily business while delivering our mission and living up to our aspirations.	Operational risks are managed through tactical and operational businesses decisions as well as in operations in all businesses throughout Volvo Group on all levels, by all employees.	• Product Development • Service Development • End Customer Finance Development • Sales & Marketing • Production • Procurement • HR & Culture • Information Technology • Force Majeure • Property assets
	COMPLIANCE RISKS Protect value	Compliance risks may affect our ability to protect value through threats posed to our organization's financial, organizational, or reputational standing. They may affect Volvo Group's ability to live by our values.	Compliance risks are managed through tactical and operational business decisions and operations regarding compliance to rules and regulations in all business throughout Volvo Group on all levels, by all employees.	• Laws & Regulations • Steering documents • Business ethics
	FINANCIAL RISKS Enhance & protect value	Financial risks may affect our ability to enhance and protect values from potential effects on the Group's financial position. They may affect the Volvo Group's ability to live by our values or to fulfill our aspirations.	Financial risks are managed through tactical and operational business decisions in all business throughout Volvo Group on all levels, by all employees.	• Financial markets • Liquidity and Credit • Accounting & Reporting • Tax • Capital Structure • Estimate

Integrated in ERM there are several risk management processes active within Volvo Group to cover specific topics such as projects, suppliers, environment and Business Continuity. These processes report on a materiality level to ERM via the Business Areas, Truck Divisions and Group Functions. ERM compiles all relevant data and analyzes where there are systematic risks or gaps in risk mitigation. Ownership of risk mitigation resides within the business while ERM follow-up on the progress.



RISK MANAGEMENT IN VOLVO GROUP GOVERNANCE MODEL



STRATEGIC RISKS

For a large global company such as Volvo Group, navigating through the political, economic and societal trends is important and crucial to define our place in the global context of markets and competitors. 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.

Strategic risks may affect our ability to create value, long-term development of the business and our possibility to reach our vision and aspirations.

Cyclical commercial vehicles industry

The Volvo Group's customers operate all over the world, some within a single state, and others across borders. A multitude of global and regional economic, regulatory, digital, technological and environmental factors create strategic as well as operational challenges for the industry. Like many capital industries, the commercial vehicle industry generally has been cyclical, with a strong correlation to GDP, aging of vehicles and machines, and laws and regulations. Given the continued shift in focus in the commercial vehicle industry from product to service, the cyclicality remains while the volatility in sales and profitability may become more difficult to predict. The changing business landscape as well as the divergence between emerging and developed markets, influences demand for our customers' services and our customers' success. The fluctuating demand for the Group's products and services makes the financial result of the operations dependent on the Group's ability to react quickly to market changes. In particular, the Volvo Group strives to continually balance production levels and operating expenses, as well as enhance business agility in fulfilling demands for new services.

Geopolitical instability

The Volvo Group 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.

Intense competition

Continued consolidation in the industry is expected to create fewer but stronger competitors. The major global competitors are Daimler, Volkswagen (Scania and MAN), Paccar (Kenworth, DAF and Peterbuilt), Caterpillar and Komatsu. There are also strong local brands, for example in China, India and Russia, active in their domestic markets, which are expected to increase their presence in other parts of the world.

Further, overcapacity within the industry can occur if there is a lack of demand, potentially leading to increased price pressure. Proactive risk management is important to anticipate and protect Volvo Group's brands' market positions. Together across the Group, bundling attractive market offers directed to our customers creates long-term customer success.

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 known and the product development strategy is tuned to the introduction of new regulations.

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 investments not necessary from an operational point of view.

Change in technology

As part of the global automotive and logistics industry the Volvo Group is driving prosperity for society and for our customers. While shaping offerings to improve our customers' productivity and profitability we are taking changes which emerge through new technological breakthroughs and legislatory changes into account. As any company the Volvo Group has limited resources and we must at all times select and invest into such new technologies we believe provide the best prosperity for the society and for our customers. The Volvo Group approach to prevent the associated risks is to continuously scan and assess new technologies and only bring those new technologies to product development and commercialization that have proven levels of desired customer benefit, quality, safety and environmental impact.

OPERATIONAL RISKS

For Volvo Group, steering the tactical and operational work is crucial to reach our aspirations in terms of customer satisfaction, admired employer and leading profitability.

To enhance business value, all decisions and operations are based on knowledge regarding short and medium term operational risks. These risks are actively managed throughout the Volvo Group in accordance with our governance model.

Operational risks may affect our ability to create value, which means that knowledge of these are important for the daily business.

Customer satisfaction

Top priority for Volvo Group is to support the customers' businesses and profitability in order for them to succeed, regardless of segment, brand, product or service. Customer satisfaction is reliant on the total offer of products, services or features on new or used vehicles. The satisfaction is at risk if the quality of a product or service is not at the expected level and price point. An aspect is also how the customer is met in all interactions with the brands in the Volvo Group, from person to person interactions at retailer or workshop level, to searching for information on a web page or in calling an assistance service. To prevent possible risks, all staff at retailers and workshops are continuously trained and provided with instructions or guidelines on how to interact with their customers. Also web pages are aligned, positioned and developed towards the brand's targeted customers.

Product development

For Volvo Group our products are a key part of the total offer to our customers. The Group could be at risk of losing customers and market shares if not developing products to new legislations on time or not providing products fulfilling customer expectations. Each development project monitors risks regarding project and product quality and cost, project lead time and product features. To ensure that product development is executed in an efficient way the Group has implemented a project gate model, governance model as well as global processes and instructions to monitor project execution and balance project and product portfolio.

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. An increase in demand could potentially result in delivery disturbances due to suppliers' financial instability or shortage of resources. Uncertainty regarding customers' access to financing of products in emerging markets might have a negative impact on demand.

Operation of plants

For Volvo Group the industrial system is crucial in providing customers with the right products at the right time. It is a large operation with machines and human beings having to interact in an efficient and timely manner in relation to volatility in production volumes. Interruptions or inefficiencies in the system can have a negative impact. Here risk management is crucial to foresee and prevent possible stops in production, injuries on personnel as well as ensuring the correct handling of materials and chemicals, etc. There is a large number of instructions on how to perform different tasks to avoid implications, as well as audits and assessments performed to ensure that the instructions are followed.

Risk related to human capital

Employees and other stakeholder expectations are changing quickly, which requires a stronger focus on several different aspects: leadership, empowerment, engagement, and human rights and company values. Our failure in doing the right things according to basic human rights and company values can negatively impact our image as an employer, Volvo Group's reputation, and the ability of our employees to develop the knowledge and skills necessary to satisfy market demands. Risk management incorporates the monitoring of changing legislation and securing the availability of properly skilled and engaged employees. Our diversity is the basis upon which our strength depends to be a successful multinational company. By executing the Volvo Group Attitude Survey and driving employee dialogues, we build an inclusive leadership. The human resource strategy embraces a flexible workforce and agile organization in order to constantly adapt to an increasingly dynamic, complex and uncertain environment.

Residual value commitments

When selling products the Volvo Group at times enters into residual value commitments. Predicting future development of used truck prices can be challenging, for example when introducing new models or when large swings in demand occur. At the time of the sale the future evolution of the used commercial vehicle market and equipment market may be uncertain, potentially leading to too high commitments, impacting the future profitability. Diligent analysis is performed prior to entering into residual value commitments.

COMPLIANCE RISKS

In its operations the Volvo Group is obliged to follow a number of laws and regulations and has made the conscious decision to comply with global standards. Additionally, the reputation for being a company that has legal compliance, business ethics, integrity and corporate social responsibility is high on the agenda and set internal demands on the business. These requirements are implemented by Group-wide policies.

Compliance risks may affect our ability to protect value through threats posed to the Group's reputation or financial position.

Intangible assets

The Volvo Group owns or otherwise has rights to patents, trademarks, designs and copyrights that relate to the products and services that the Group manufactures and markets. These rights have been developed or acquired over a number of years and are valuable to the operations of the Volvo Group. Further, in order to safeguard investments in R&D, the Volvo Group has an intellectual property plan defining the creation and use of its intellectual property rights.

AB Volvo and Volvo Car Corporation jointly own the Volvo brand and trademarks through Volvo Trademark Holding AB. 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 and trademarks are related to the truck operations only and are regulated by a license from Renault s.a.s., which owns the Renault brand and trademarks. In addition, the Volvo Group owns several other trademarks relating to its business.

Use in conflict with intellectual property rights may have significant business impact on the Group. Therefore, the Volvo Group is continually assessing intellectual property rights of third parties as well as possible infringements by third parties of the Group's intellectual property rights.

Contractual conditions related to takeover bids

Provisions stipulating that an agreement can be changed or terminated if the control of the company is changed are 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.

Complaints and legal actions

The Volvo Group may 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 consequences financially or on our values, they could negatively impact the Group's reputation and take up resources that could be used for other purposes.

Environmental

The Volvo Group could be at risk for complaints and legal actions initiated by customers, employees and other third parties alleging environmental related issues. Environmental legislation is fast changing and there are increased demands in many areas, for instance chemical management as well as on emission standards for the vehicles themselves. The Group invests a great deal of resources to adhere to different legislation throughout the entire value chain. Recent developments in international standards in environmental and quality management are further emphasizing the need for risk management in these areas. Even if potential problems in these areas are resolved and handled without adverse impact financially or on our values, they could have a negative impact on Group reputation and divert resources that would have been brought to better use in the Group's development.

FINANCIAL RISKS

For the Volvo Group steering and monitoring the operational and compliance aspects of financial risk is important. Group-wide policies, which are updated and decided upon annually, form the basis of each Group company's management of these operational and compliance financial risks.

Financial risks may affect our ability to enhance and protect value from potential effects on the Group's financial position. They may affect the Volvo Group's ability to live by our values or to fulfill our aspirations.

Interest rate risk

Volvo Group's debt structure is connected to the aspiration to have industry-leading profitability. Movements in interest-rate levels may impact the Group's net income and cash flow or the value of financial assets and liabilities. Financial Services funding and lending shall be matched to mitigate undesired volatility in profitability due to interest-rate risk. The Industrial Operations' interest-rate fixing is kept short, to leverage on the countercyclical relationship of interest-rate movements.

Currency risk

The Volvo Group's global presence means that business is conducted in many different regions. More than 95% of the net sales of the Volvo Group are generated in countries other than Sweden. A majority of the Group's costs also stem from countries other than Sweden. As such the Volvo Group's cash flow and profitability is impacted by uncertainties in foreign exchange rates which impact the Volvo Group's operating income, balance sheet and cash flow, as well as an indirect impact over time on Volvo's competitiveness. The Volvo Group strives to have manufacturing located in the major markets which offsets structural currency exposures, and actively manages currency flows and translation risk to reduce the impact on profitability and cash flow.

Liquidity risk

The Volvo Group needs to ensure that it has adequate payment capabilities over time, in order to capture both business opportunities and expectations from external stakeholders. Sudden changes in the business cycle, or unforeseen events within the financial markets can affect the Volvo Group both in a direct or indirect way. Our customers can experience difficulties in financing products bought from the Volvo Group, our suppliers can face challenges in assuring their delivery of components to the Volvo Group production, and the Volvo Group can face challenges in delivering accordning to expectations from other external stakeholders.

The Volvo Group ensures sound financial preparedness by always keeping a certain percent of its sales in liquid assets. A sound balance between short and long term debt maturities as well as long-term committed credit facilities and cash, are intended to secure liquidity preparedness and thus the Volvo Group's payment capability.

Credit risk

There are three main areas of credit risk 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-financing activity in Volvo Financial Services manages a significant credit portfolio, equivalent to SEK 130 billion at year-end 2016. 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 banks the Group is working with.

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 relates to the investments in Deutz AG and Inner Mongolia North Hauler Joint Stock Co., Ltd. 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.

Impairment

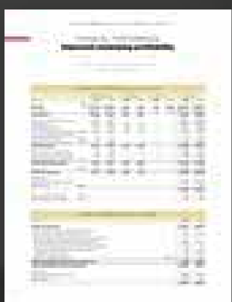
The Volvo Group verifies annually, or more frequently if necessary, the goodwill value and other intangible assets upon indication for possible impairment. The size of the surplus value differs between the business areas and they are, to a varying degree, sensitive to changes in the business environment. 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.

Change of control clauses

Some of Volvo Group'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. These clauses are not unusual in loan agreements. In AB Volvo's opinion it has been necessary to accept those conditions in order to receive financing on otherwise acceptable terms. ■

Note

FINANCIAL STATEMENTS



Income statements
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Balance sheet
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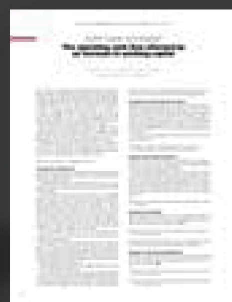

Cash flow statement
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Changes in consolidated shareholders' equity » Page 102

NOTES

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2015.

Notes to Financial Statements

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2015.

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 European Union, EU. 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, IFRS 12
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, IAS 23
Goodwill	12, Intangible assets	IAS 36, IAS 38
Tangible assets	13, Tangible assets	IAS 16, IAS 36, IAS 40, IFRS 13, IAS 23
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 comprise the parent company, subsidiaries, joint ventures and associated companies. Intra-group transactions as well as gains on transactions with joint ventures and associated companies are eliminated in the consolidated financial statements.

» **Read more in Note 5** about definitions of subsidiaries, joint ventures, and associated companies.

Translation to Swedish kronor when consolidating companies have other functional currencies

The functional currency of each Volvo Group company is determined based on the currency in which the company primarily generates and expends cash, normally 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 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 of the reporting entity (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). 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.

» **Read more in Note 4** about currency exposure and currency risk management.

The most 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	2016	2015	2016	2015
Australia	AUD	6.3743	6.3377	6.5688	6.0861
Brazil	BRL	2.4777	2.5643	2.7950	2.1596
Euro Zone	EUR	9.4801	9.3638	9.5762	9.1443
Japan	JPY	0.0791	0.0697	0.0778	0.0694
Canada	CAD	6.4697	6.6054	6.7472	6.0293
China	CNY	1.2878	1.3424	1.3091	1.2868
Norway	NOK	1.0212	1.0469	1.0550	0.9567
Great Britain	GBP	11.5680	12.9042	11.1850	12.3848
South Africa	ZAR	0.5859	0.6641	0.6675	0.5433
South Korea	KRW	0.0074	0.0075	0.0076	0.0071
United States	USD	8.5630	8.4370	9.0984	8.3537

New accounting policies for 2016

There are no new accounting principles and interpretations that came into effect as of January 1, 2016 that significantly effects the Volvo Group's financial statements.

New accounting policies for 2017 and later

A number of accounting standards and interpretations have been published, but have 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. The major impact from the transition is related to the new expected credit loss model. The new requirements are designed to result in earlier recognition of credit losses and is more forward looking than the now applied incurred loss model. Although the model is forward looking, historical data is an important base from which to measure expected credit losses. However, historical data should be adjusted based on current data to reflect current conditions and forecasts on future conditions. A preliminary assessment indicates a negative impact on shareholders' equity at the transition date. Volvo Group will apply the simplified approach when measuring the loss allowance at an amount equal to lifetime expected credit loss on financial assets within Financial Services and accounts receivables within Industrial Operations. The mandatory effective date is January 1, 2018, with earlier application allowed. IFRS 9 Financial instruments is endorsed by the EU.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 represents a new framework for recognizing revenue from external customers with additional disclosure requirements. The framework establish principles about the nature, amount, timing and uncertainty for revenue and cash flow arising from an entity's contracts with customer. IFRS 15 will replace current IAS 11 Construction contracts, IAS 18 Revenue and the related interpretations IFRIC 13, 15, 18 and SIC-31.

The Volvo Group has assessed the impact of IFRS 15 and the major change to the current revenue recognition model is for sales transactions of vehicles with residual value commitments, e.g. buy-backs and trade-backs, and the assessment if control has been transferred from Volvo to the customer. The criteria of transferring control is based on if the customer has a significant economic incentive to exercise the residual value commitment or not.

If the customer is considered to have a significant economic incentive to exercise the residual value commitment to return the vehicle, revenue will be recognized over the contract period in accordance with the operating lease model. Various factors will be assessed when considering if significant economic incentives exists, such as repurchase price in relation to the expected market value at the date of the repurchase and historical return rates. This is new criterias compared with the current revenue recognition model, were the residual value is compared with the sales price. The accounting model will not change, however the criterias for when to apply the operating lease model will be different.

If the customer is not considered to have a significant economic incentive to exercise the residual value commitment to return the vehicle, the revenue will be recognized in accordance with the right of return model. Hence, a major portion of revenue and margin will be recognized at inception of the contract. A refund liability and an asset related to the right to recover the vehicle from the customer on settling the refund liability will be recognized in the balance sheet. This is a change under IFRS 15 compared to the current model, where full revenues are recognized at the inception of the contract with an off balance sheet commitment.

The consequence for Volvo Group with the two models related to residual value commitments is a later recognition of revenue when the customer does not have significant economic incentive to exercise the repurchase option (right of return model).

The Volvo Group recognizes revenue from service contract over time based on incurred costs. The revenue recognition model for service contracts will not change based on the implementation of IFRS 15.

The additional disclosure requirements will as from 2018 be presented in the note for Segment reporting and the note for Revenue in accordance with the new standard. The disclosures will focus mainly on describing the performance obligations and the timing for recognizing revenue for different revenue streams.

The standard is effective from January 1, 2018. The new standard will be applied retrospectively, and hence the closing balance for 2016 will be adjusted in accordance with the new standard and the reported numbers for 2017 will be restated accordingly for comparison reasons.

IFRS 15 Revenue from contracts with customers is endorsed by the EU.

IFRS 16 Leases

IFRS 16 Leases was published in January 2016 and is replacing the former IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. IFRS 16 will not imply any significant changes to lessor accounting but lessee accounting will change. For a lessee, lease contracts will be recognized on the balance sheet. For the Volvo Group this means that for example all rental contracts for real estate, company cars and other major items will be recognized on the balance sheet. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The right to use asset and the lease liability will be recognized at the present value of future rental payment. Future focus will be on separating service components from the lease contract, as services will continuously be recognized as an expense.

The standard is effective for annual periods beginning on or after January 1, 2019. Applying the new lease accounting for lessees will increase the balance sheet but will also have a positive impact on operating income compared to today, as a part of the lease payments will be recognized as interest expense. Implementing IFRS 16 will also lead to an increase in interest-bearing liabilities.

IFRS 16 Leases have not yet been endorsed by the EU when this Annual Report is published.

Other new or revised accounting standards are not considered to have a material impact on the Volvo Groups's financial statements.

NOTE 2 KEY SOURCES OF ESTIMATION UNCERTAINTY

The Volvo Group's most significant accounting policies are 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 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, 16,	Customer-financing receivables 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
Provision for externally issued credit guarantees for Construction Equipment in China	21,	Other provisions
Provisions for extended coverage and service contracts	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
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
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, both current and non-current, and the related liabilities are recognized on a separate line in the balance sheet. The asset or group of assets are measured at the lower of it's carrying amount and fair value after deductions for selling expenses. The balance sheet items and the potential income effect resulting from the revaluation to fair value less selling expenses are normally recognized in the segment Group functions & Other, until the sale is completed and the result is distributed to the relevant segments.

AB Volvo's holding of shares in subsidiaries as of December 31, 2016 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
The Volvo Group has not made any acquisitions of subsidiaries during 2016, which solely or jointly have had a significant impact on the Volvo Group's financial statements.

For the comparative year 2015 the Volvo Group has not made any acquisitions of subsidiaries.

Divestments

External IT operation

Volvo Group completed the sale of the external IT operation and outsourced the IT infrastructure during 2016. The divestment resulted in a positive effect on operating income and net financial debt of SEK 885 M.

The Volvo Group has not made any other divestments during 2016, which solely or jointly have had a significant impact on the Volvo Group's financial statements. As of January 2016, divestment of operations with the main purpose to dispose fixed assets is treated as disposal of fixed assets. For clarification of effect in the cash flow read more in Note 29 Cash flow.

For the comparative year 2015 the Volvo Group has not made any divestments, which solely or jointly have had a significant impact on the Volvo Group's financial statements. Comparative figures for 2015 include the divestment of activities within the efficiency program and of operations with the main purpose to dispose fixed assets.

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	2016	2015
Intangible assets	–8	–
Property, plant and equipment	–353	–219
Assets under operating lease	–180	–
Inventories	–115	–209
Other receivables	–143	–156
Cash and cash equivalents	–3	–187
Other provisions	4	13
Other liabilities	262	479
Divested net assets	–536	–279
Goodwill	–9	–23
Total	**–545**	**–302**
Additional purchase price	**–**	**–**
Cash and cash equivalents received	1,483	595
Cash and cash equivalents, divested companies	–3	–187
Effect on Volvo Group cash and cash equivalents	**1,480**	**408**
Effect on Volvo Group net financial position	**1,557**	**498**

Assets and liabilities held for sale

As of December 31, 2016, the Volvo Group recognized assets amounting to SEK 525 M and liabilities amounting to SEK 148 M as assets and liabilities held for sale, mainly pertaining to planned dealer divestments.

For the comparative year 2015, the Volvo Group recognized assets amounting to SEK 3,314 M and liabilities amounting to SEK 573 M as assets and liabilities held for sale. Those mainly pertained to the planned divestment of the North American used truck business, Arrow Truck Sales. The assets and liabilities held for sale also included the planned divestment of the external IT business and outsourcing of Volvo Group's own IT infrastructure which has been completed during 2016. Translation differences on foreign operations of SEK 11 M were also recognized in other comprehensive income.

Assets and liabilities held for sale	Dec 31, 2016	Dec 31, 2015
Tangible assets	300	815
Inventories	98	519
Other current receivables	76	778
Other assets	51	1,202
B/S **Total assets**	**525**	**3,314**
Trade payables	0	86
Provisions	0	14
Other current liabilities	148	391
Other liabilities	–	82
B/S **Total liabilities**	**148**	**573**

Acquisitions and divestments after the end of the period

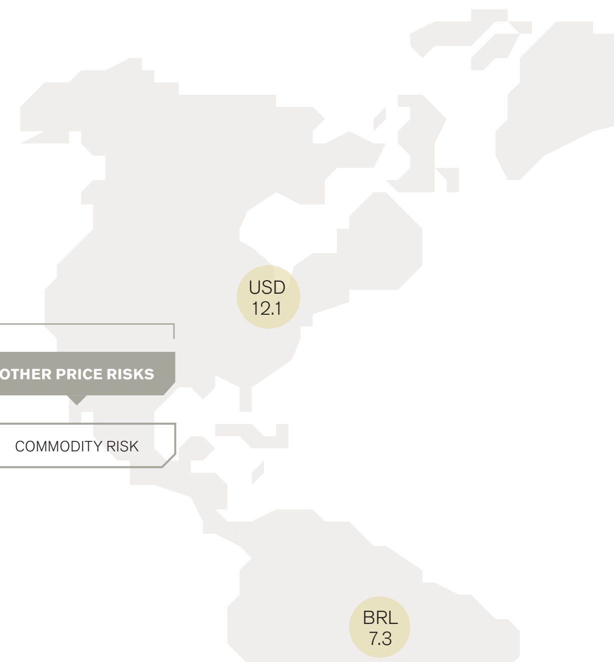
Volvo Group has not made any acquisitions or divestments after the end of the period that have had any significant impact on the Volvo Group.

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 minimize 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 Financial management on **page 101** and **102.**



FINANCIAL RISKS

- **INTEREST RATE RISKS**
  - CASH FLOW RISKS
  - PRICE RISKS
- **CURRENCY RISKS**
  - COMMERCIAL CURRENCY EXPOSURE
  - FINANCIAL CURRENCY EXPOSURE
  - CURRENCY EXPOSURE OF EQUITY
- **CREDIT RISKS**
  - COMMERCIAL CREDIT RISK
  - FINANCIAL CREDIT RISK
  - FINANCIAL COUNTERPARTY RISK
- **LIQUIDITY RISKS**
- **OTHER PRICE RISKS**
  - COMMODITY RISK

INTEREST RATE RISKS

INTEREST RATE RISKS A

Interest rate risk refers to the risk that changed interest rate 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 Financial Services and Industrial Operations net financial items. Financial Services measure the degree of matching interest rate fixing on borrowing and lending. The calculation of the matching degree excludes equity, which amounted to 8% in Financial Services. At year end 2016, the degree of such matching was 98% (99) for the segment Financial Services, which was in line with the Volvo Group's policy. Treasury Group has, for practical as well as business reasons, the mandate to mismatch the portfolio for Financial Services down to a matching ratio of 80%. At year end 2016, the matching ratio was 92% (91). Any gains or losses from the mismatch impact the segment Group functions & Other within Industrial Operations. At year end 2016, in addition to the financial assets in Financial Services, the Volvo Group's interest-bearing assets consisted primarily of cash and cash equivalents. On December 31, 2016, the average interest on Industrial Operations financial assets was 0.6% (0.6). When taking derivatives into account, outstanding loans had interest terms corresponding to an interest rate fixing of between one to three months. The average interest on Industrial Operations financial liabilities at year end amounted to 4.2% (4.3), including the Volvo Group's credit costs.

Price risks C

Exposure to price risks as a result of changed interest rate 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 on the liability side.* The impact on equity is earnings after tax.

* The sensitivity analysis on interest rate risks is based on simplified assumptions. It is not unlikely 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.

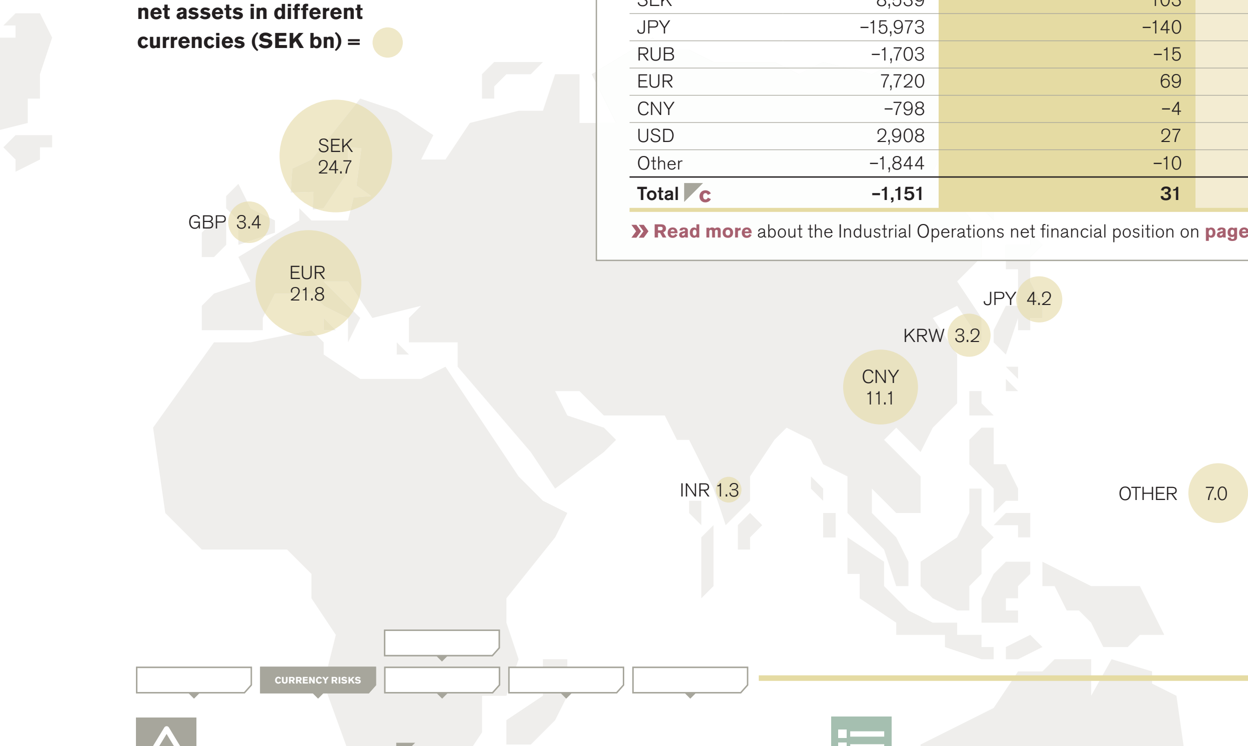
» **Read more in Note 20** Provisions for post-employment benefits regarding sensitivity analysis on the defined benefit obligations when changes in the applied assumptions for discount rate and inflations are made.

Risk net financial position Dec 31, 2016 SEK M	Net financial position excl. pensions	Impact on Income after financial items 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	8,539	103	–
JPY	–15,973	–140	1,597
RUB	–1,703	–15	170
EUR	7,720	69	–772
CNY	–798	–4	80
USD	2,908	27	–291
Other	–1,844	–10	184
Total C	**–1,151**	**31**	**969**

» **Read more** about the Industrial Operations net financial position on **page 83.**

4:1

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



CURRENCY RISKS

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, 2016

Millions	USD/SEK	USD/KRW	AUD/SEK	GBP/SEK	
Due date 2017	256	79	9	101	
Due date 2018	–	–	–	–	
Total local currency	**256**	**79**	**9**	**101**	
Average contract rate	9.05	1104	5.77	11.29	
Market value of outstanding forward contracts, SEK M	**–1**	**–58**	**–6**	**10**	**–55**

4:2

Goals and policies in financial risk management (cont.)

Sensitivity analysis*

Risk currency exposure 2016 SEK bn	Transaction exposure from operating net flows	Impact on operating income if currency rate appreciates against all other currencies by 10% B (Currency risks)
SEK	–35	–3.5
KRW	–6	–0.6
EUR	5	0.5
GBP	8	0.8
USD	11	1.1

4:3

Commercial currency exposure

Transaction exposure from commercial flows

The Volvo Group conducts manufacturing in 18 countries around the globe and more than 95% 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 manufacturing costs in the plants in Sweden and Korea, but limited external revenues in those currencies. The surplus in EUR 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 in 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 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. 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. Table 4:7 shows the translation effect in key currencies when consolidating operating income for 2016 in foreign subsidiaries in Industrial Operations.

» **Read more** in section currency exposure of equity.

*Sensitivity analysis for transaction exposure**

The table 4:3 illustrates the impact on operating income if key currencies for Industrial Operations appreciate by 10% against all other currencies. Hedge accounting is not applied on derivatives hedging cash flows in foreign currency. As a consequence the impact on equity equals the impact on operating income before tax.

The deficit in transaction exposure in SEK is mainly generated from flows in USD, GBP, EUR, NOK and ZAR 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 transaction 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 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 2016 to SEK 71 billion (68). 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 118–119 the Volvo Group's net assets in different currencies (SEK bn) are displayed.

» **Read more in Note 30** Financial Instruments about Volvo Group's policy choice on hedge accounting.

* The sensitivity analysis on currency rate risks is based on simplified assumptions. It is not unlikely for a currency to appreciate by 10% in relation to other currencies. In reality however, all 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

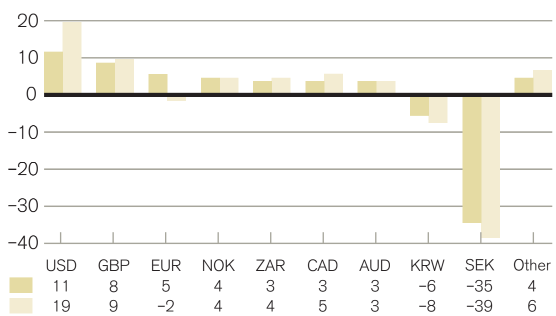
When the Volvo Group communicates the currency impact on operating income for Industrial Operations, the following factors are included:

Currency impact on operating income, Industrial Operations, SEK billion	2016	2015	Change
Net flows in foreign currency			–1.2
Realized and unrealized gains and losses on hedging contracts	0.0	–0.1	0.1
Unrealized gains and losses on receivables and liabilities in foreign currency	0.0	–0.4	0.5
Translation effect on operating income in foreign subsidiaries			0.1
Total currency impact on operating income Industrial Operations			**–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 2016 and 2015

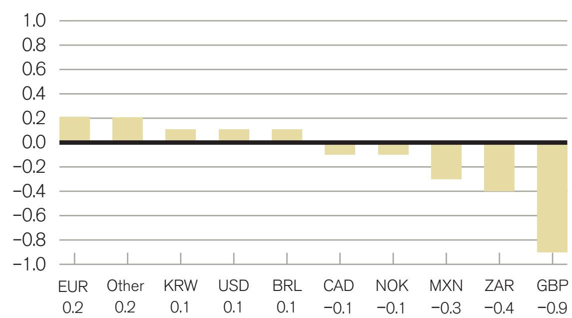


Currency flow 2016 Currency flow 2015

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 from Net flows in foreign currency 2016 versus 2015

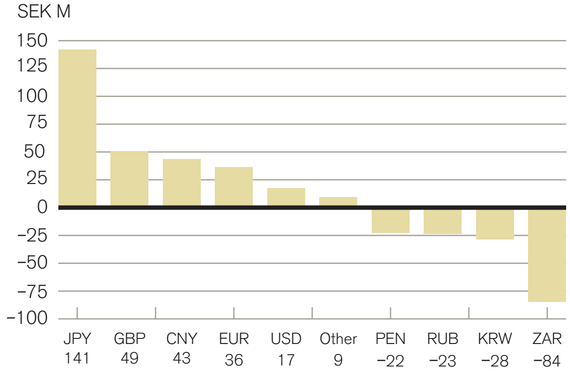


Changes in currency rates compared to 2015 (Total SEK –1.2 bn).

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 2016 versus 2015

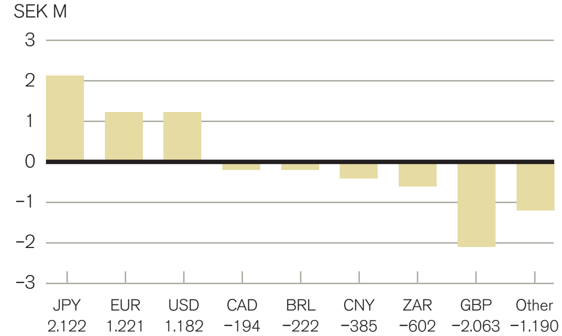


Changes in currency rates compared to 2015 (Total SEK 137 M).

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 2016 versus 2015



Changes in currency rates compared to 2015 (Total SEK –91 M).

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

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's credit risk management 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 finance activities within Financial Services.

Commercial credit risk

The Volvo Group's credit granting is steered by group 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 Financial Services amounted at December 31, 2016 to approximately net SEK 111 billion (103). 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, 2016 to approximately net SEK 34 billion (29).

Financial credit risk

The Volvo Group's financial assets are to large extent managed by Treasury Group 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 financial risk 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, 2016 to approximately SEK 25 billion (24).

» **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 loss may not be possible to offset (in full or in part) against a potential gain if the counterparty fails to fulfil its part of the contract. To reduce the exposure, the Volvo Group enters into master netting agreements, 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 counterpart's insolvency. A Credit Support Annex (CSA) often accompanies the ISDA agreement. The CSA stipulates the terms and conditions under which the two parties are required to make cash transfers to each other to further reduce the exposure from the net open positions. The 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, The Volvo Group's gross exposure from positive derivatives, amounting to SEK 3,026 M (3,238) is reduced by 65% (53) to SEK 1,049 M (1,531) by netting agreements and cash deposits. 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 keeping a certain percentage of its sales in liquid assets. A sound balance between short and long-term debt maturities as well as long-term committed credit facilities, are intended to secure liquidity preparedness.

The Volvo Group's liquid funds, i.e. cash and cash equivalents and marketable securities combined, amounted to SEK 25.2 billion on December 31, 2016. In addition to this, granted but unutilized credit facilities amounted to SEK 42.5 billion. 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.

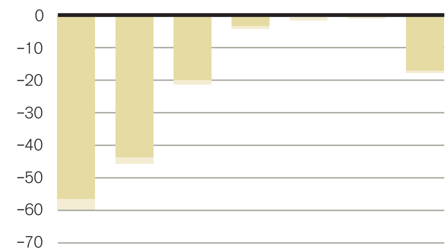
In addition to derivatives included in capital flow in the adjacent graph 4:9 there are also derivatives related to financial liabilities recognized as assets, which are expected to give a future capital flow of SEK 1.3 billion and a future interest flow of SEK 1.5 billion.

The predominant part of expected future cash flows that expires within 2017 and 2018 is an effect of the Volvo Group's normal business cycle, with shorter duration in the portfolio within Financial Services compared to Industrial Operations.

The hybrid bond in Volvo Treasury amounting to EUR 1.5 billion was issued 2014 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.

» **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



	2017	2018	2019	2020	2021	2022	2023 or later
Capital flow, SEK bn	–56.5	–43.7	–19.7	–3.0	–0.9	–0.1	–17.1
Interest flow, SEK bn	–3.6	–2.0	–1.4	–1.0	–0.4	–0.4	–0.5

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 POLICY

Subsidiaries

The Volvo Group has production facilities in 18 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** in **Note 18** Marketable securities and liquid funds about cash that is not available for use, or where other limitations exists, in **Note 11** Minority interests. Also read in Parent company **Note 13** Investments in shares and participations.

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. 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. VECV is included in the Trucks segment.

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 an important supplier to the Volvo Group of medium-duty engines. The investment in Deutz AG is of a business related nature. Deutz AG is included in the segment Group functions & Other.

The ownership in the Chinese automotive manufacturer Dongfeng Commercial Vehicles Co., Ltd (DFCV) is classified as an associated company and consolidated with the equity method. The ownership is included in the Trucks segment.

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. Investments in joint ventures and associated companies are also affected by Volvo Group's share of the company's other comprehensive income and by the translation difference from translating the company's equity in the Volvo Group.

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. Additional losses are provided for to the extent that the Volvo Group has incurred legal or constructive obligations or made payments on behalf of the joint venture or of the associated company.

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 the income statement. 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, 2016	Dec 31, 2015
	Holding percentage	Holding percentage
Shanghai Sunwin Bus Corp., China[1]	–	50.0
DONGVO Truck Co., Ltd. (DVT) China[2]	–	50.0
VE Commercial Vehicles, Ltd., India[3]	45.6	45.6

1 During the year the Volvo Group reduced its ownership in Shanghai Sunwin Bus Corp., China from 50% to 19,5%, and discontinued the equity method accounting. The remaining holding of shares in Shanghai Sunwin Bus Corp., China are recognized as Other shares and participations.
2 During the year the Volvo Group liquidated the share of ownership in the joint venture DONGVO Truck Co., Ltd. (DVT) China.
3 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 for important matters related to the governance of VECV.

The following tables present summarized financial information for the Volvo Group's joint ventures:

Summarized income statements	2016			2015		
	VE Commercial Vehicles, Ltd.	Other joint ventures	Total	VE Commercial Vehicles, Ltd.	Other joint ventures	Total
Net sales	10,204	77	10,281	9,212	1,586	10,798
Operating income[1]	424	–97	327	311	–577	–266
Interest income and similar credits	43	0	43	22	3	25
Interest expense and similar charges	–18	–22	–40	–13	–88	–101
Other financial income and expenses	5	0	5	6	–2	4
Income taxes	–131	0	–131	–81	–34	–116
Income for the period[2]	**323**	**–118**	**205**	**243**	**–698**	**–454**
Other comprehensive income[3]	**4**	**–**	**4**	**–**	**–**	**–**
Total comprehensive income	**327**	**–118**	**209**	**243**	**–698**	**–454**

1 Depreciation and amortization of SEK 356 M (372) are included within operating income whereof SEK 337 M (338) is related to VECV.
2 Income for the period in joint ventures includes depreciation of surplus values.
3 Including the Volvo Group's share of OCI related to joint ventures. Translation differences from translating joint ventures equity in the Volvo Group are excluded.

Summarized balance sheets	Dec 31, 2016			Dec 31, 2015		
	VE Commercial Vehicles, Ltd.	Other joint ventures	Total	VE Commercial Vehicles, Ltd.	Other joint ventures	Total
Non-current assets	4,980	114	5,094	4,556	483	5,039
Marketable securities, cash and cash equivalents	749	40	789	727	382	1,108
Other current assets	3,432	28	3,460	2,842	1,898	4,740
Total assets	**9,161**	**182**	**9,343**	**8,124**	**2,762**	**10,887**
Equity[1]	5,358	–115	5,243	4,848	–402	4,446
Non-current financial liabilities	8	0	8	8	2	10
Other non-current liabilities	320	7	327	272	128	400
Current financial liabilities	1,853	284	2,137	1,695	2,845	4,540
Other current liabilities	1,622	6	1,628	1,302	189	1,491
Total equity and liabilities	**9,161**	**182**	**9,343**	**8,124**	**2,762**	**10,887**

1 Including the translation differences from translating joint ventures equity in the Volvo Group.

Investments in joint ventures	Percentage holding	Dec 31, 2016 Carrying value	Dec 31, 2015 Carrying value
VE Commercial Vehicles, Ltd., India	45.6	2,389	2,211
Other holdings in joint ventures	–	0	0
B/S **Investments in joint ventures**		**2,389**	**2,211**

Net financial position for the joint ventures (excluding post-employment benefits) amounted to SEK 73 M (negative 514) as of December 31, 2016.

As of December 31, 2016, Volvo Group's share of contingent liabilities in its joint ventures amounted to SEK 152 M (157). Dividend received from VE Commercial Vehicles., Ltd, amounted to SEK 67 M (46).

Associated companies

The following tables present summarized financial information for the Volvo Group's associated companies:

Summarized income statements	2016				2015			
	DFCV	Deutz AG	Other associated companies	Total	DFCV	Deutz AG	Other associated companies	Total
Net sales	37,086	11,888	4,551	53,525	33,606	12,089	5,630	51,324
Operating income	–248	76	–108	–280	–930	84	181	–664
Income for the period[1]	**–64**	**106**	**–267**	**–226**	**–613**	**179**	**97**	**–338**
Other comprehensive income[2]	**62**	**31**	**–**	**93**	**–**	**24**	**–**	**24**
Total comprehensive income	**–2**	**137**	**–267**	**–133**	**–613**	**203**	**97**	**–313**

1 Income for the period in associated companies include depreciation of surplus values and internal transactions.
2 Including the Volvo Group's share of Other comprehensive income related to associated companies. Translation differences from translating associated companies' equity in the Volvo Group are excluded.

Summarized balance sheets	Dec 31, 2016				Dec 31, 2015			
	DFCV[1]	Deutz AG[2]	Other associated companies	Total	DFCV[1]	Deutz AG[2]	Other associated companies	Total
Non-current assets	18,216	7,055	2,095	27,366	18,107	7,002	2,264	27,373
Current assets	29,414	4,695	3,525	37,634	20,131	4,435	4,960	29,527
Total assets	**47,630**	**11,750**	**5,620**	**65,000**	**38,238**	**11,437**	**7,225**	**56,900**
Equity	15,363	6,062	2,359	23,784	15,265	5,902	2,767	23,934
Non-current liabilities	2,601	2,834	584	6,019	2,264	2,865	738	5,867
Current liabilities	29,666	2,854	2,677	35,197	20,709	2,670	3,720	27,099
Total equity and liabilities	**47,630**	**11,750**	**5,620**	**65,000**	**38,238**	**11,437**	**7,225**	**56,900**

1 No dividend was received during financial year 2016 from DFCV (–).
2 Deutz AG's equity share is recognized in the Volvo Group with a time lag of one quarter. Dividends of SEK 19 M (20) was received from Deutz AG.

Investments in associated companies	Percentage holding	Dec 31, 2016 Carrying value	Dec 31, 2015 Carrying value
Dongfeng Commercial Vehicles Co., Ltd (DFCV) China	45.0	6,946	6,581
Deutz AG, Germany[1]	25.0	1,515	1,475
Other holdings in associated companies[2]		793	883
B/S **Investments in associated companies**		**9,254**	**8,939**

1 The market value of investments in Deutz AG amounted to SEK 1,548 M (1,021) as of December 31, 2016. The market value has fluctuated throughout the year, even above carrying value. There was no significant or prolonged decline in market value and therefore no indication of impairment during 2016 according to the accounting principle applied.
2 Other holdings include the investment of Inner Mongolia North Hauler Jont Stock Co, Ltd., China., two dealers in Japan and Blue Chip Jet.

Income/loss from investments in joint ventures and associated companies	2016	2015
Income/loss joint ventures		
VECV	147	115
Other joint ventures	0	–87
Subtotal	**147**	**28**
Income/loss associated companies		
DFCV[1]	–29	–276
Deutz AG	27	45
Other companies	–41	48
Subtotal	**–43**	**–183**
Revaluation, write-down and gain on divestment of shares associated companies		
Other companies	52	12
Subtotal	**52**	**12**
I/S **Income/loss from investments in joint ventures and associated companies[2]**	**156**	**–143**

1 Income/loss includes an internal profit elimination of net SEK 195 M (–). Corresponding revenue amounts to SEK 472 M (56) and is recognized in Other operating income and expense for Volvo Group.
2 Income/loss from investments in joint ventures include Volvo Group's share of depreciation of surplus values of SEK 24 M (35) and associated companies include depreciation of surplus values of SEK 48 M (71).

Other shares and participations

The carrying amount of the Volvo Group's holding of shares and participations in other companies as of December 31, 2016, is disclosed in the table below.

» **Read more in Note 30** Financial Instruments regarding financial assets classified as available for sale.

Holding of shares in listed companies	Dec 31, 2016 Carrying value	Dec 31, 2015 Carrying value
Holdings in Japanese companies	409	348
Holdings in other listed companies	82	160
Holding of shares in listed companies	**491**	**507**
Holding of shares in non-listed companies	285	394
B/S **Other shares and participations**	**777**	**902**

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 Board that makes strategic decisions.

As from March 1, 2016 the Volvo Group has introduced a brand-based organization with clearer commercial accountability for the Volvo Group's various truck brands. Four separate units have been created: Volvo Trucks, UD Trucks, Renault Trucks and Mack Trucks. Since then, the Volvo Group comprises ten business areas: Volvo Trucks, UD Trucks, Mack Trucks, Renault Trucks, Group Trucks Asia & JVs, Volvo Construction Equipment, Volvo Buses, Volvo Penta, Governmental Sales and Volvo Financial Services.

The business is reported in six segments, as the truck brands are seen as one segment since they have similar characteristics and are managed together, and Governmental Sales is part of the Group functions & Other incl. eliminations segment.

The Volvo Group has shared operations in both the Trucks segment and in the segment Group functions & 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 are included in Group functions & 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.

As from March 31, 2016 the divestment of the external IT business and the outsourcing of IT infrastructure operations was done to HCL Technologies.

2016	Trucks	Construction Equipment	Buses	Volvo Penta	Group functions & Other incl. elim.	Industrial Operations	Financial Services	Elimina-tions	Volvo Group
Net sales, external customers	200,118	50,490	24,397	9,575	6,567	291,147	10,767	–	301,914
Net sales, internal	532	241	989	318	–1,769	312	475	–787	–
I/S **Net sales**	**200,650**	**50,731**	**25,386**	**9,893**	**4,799**	**291,459**	**11,242**	**–787**	**301,914**
Expenses	–185,764	–48,447	–24,543	–8,623	–5,499	–272,875	–9,155	787	–281,243
I/S Income from investments in joint ventures and associated companies	134	–38	68	–1	–8	156	–	–	156
I/S **Operating income**	**15,020**	**2,246**	**911**	**1,269**	**–707**	**18,740**	**2,086**	**–**	**20,826**
I/S Interest income and similar credits						240	–	–	240
I/S Interest expense and similar charges						–1,847	–	–	–1,847
I/S Other financial income and expense						11	–	–	11
I/S **Income after financial items**						**17,144**	**2,086**	**–**	**19,230**
Other segment information									
Depreciation, amortization and impairment	–10,769	–2,162	–398	–218	915	–12,633	–4,133	–	–16,766
Restructuring costs	–19	–18	1	–4	–	–40	–	–	–40
Gains/losses from divestments	40	18	–	–	877	936	–	–	936
Investments in fixed assets	7,270	981	302	232	1,243	10,026	10,770	–	20,796
B/S Investments in joint ventures and associated companies (the equity method)	9,595	254	74	29	1,691	11,643	–	–	11,643
B/S Assets held for sale						525	–	–	525
B/S Liabilities held for sale						–148	–	–	–148

2015	Trucks	Construction Equipment	Buses	Volvo Penta	Group functions & Other incl. elim.	Industrial Operations	Financial Services	Elimina-tions	Volvo Group
Net sales, external customers	212,060	50,717	22,818	9,137	7,145	301,878	10,636	–	312,515
Net sales, internal	1,918	291	762	269	–1,535	1,704	562	–2,265	–
I/S Net sales	**213,978**	**51,008**	**23,580**	**9,406**	**5,610**	**303,582**	**11,199**	**–2,265**	**312,515**
Expenses	–194,320	–48,957	–22,643	–8,320	–7,886	–282,127	–9,193	2,265	–289,054
I/S Income from investments in joint ventures and associated companies	–141	–7	–77	–	82	–143	–	–	–143
I/S Operating income	**19,517**	**2,044**	**860**	**1,086**	**–2,194**	**21,312**	**2,006**	**–**	**23,318**
I/S Interest income and similar credits						257	–	–	257
I/S Interest expense and similar charges						–2,366	–	–	–2,366
I/S Other financial income and expense						–792	–	–	–792
I/S Income after financial items						**18,411**	**2,006**	**–**	**20,418**
Other segment information									
Depreciation, amortization and impairment	–10,441	–1,986	–360	–281	494	–12,574	–4,233	–	–16,807
Restructuring costs	–2,034	–52	–23	–21	–216	–2,346	–	–	–2,346
Gains/losses from divestments	61	2	–	–	278	341	–	–	341
Investments in fixed assets	6,707	1,112	259	277	817	9,173	10,239	–	19,412
B/S Investments in joint ventures and associated companies (the equity method)	9,024	277	122	30	1,695	11,148	–	–	11,148
B/S Assets held for sale						3,314	–	–	3,314
B/S Liabilities held for sale						–573	–	–	–573

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]	
	2016	2015	2016	2015
Europe	131,712	120,413	60,672	60,836
of which Sweden	*9,177*	*9,142*	*14,499*	*17,920*
of which France	*24,887*	*23,114*	*14,856*	*15,404*
North America	80,701	101,952	20,452	18,533
of which USA	*65,738*	*84,035*	*18,829*	*16,846*
South America	14,863	16,725	2,837	2,209
of which Brazil	*7,471*	*8,608*	*2,440*	*1,896*
Asia	55,501	53,470	19,902	17,950
of which China	*9,346*	*8,574*	*1,999*	*2,136*
of which Japan	*17,159*	*15,119*	*12,835*	*10,875*
Other markets	19,137	19,955	1,255	948
I/S B/S Total	**301,914**	**312,515**	**105,118**	**100,477**

1 Non-current assets include tangible and intangible assets excluding goodwill.

The reporting of net sales by market is based on where the delivery of the goods or services 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 rebates 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.

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 credit contracts are recognized as net sales within Financial Services 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.

» **Read more in Note 21,** Other provisions, for a description of residual value risks.

Vehicles and Services

The Volvo Group's product range is divided into Vehicles and Services. The sale of new vehicles, machinery and engines comprise Vehicles as well as the sale of used vehicles and machines, trailers, superstructures and special vehicles. Services are defined as the sale of spare parts, maintenance service and other aftermarket products.

During 2016, Services represented approximately 26% (25) of the Volvo Group's net sales.

» **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 receivables and customer-financing receivables are among other things recognized in Other operating income and expenses.

Other operating income and expense	2016	2015
Gains/losses on divestment of Group companies[1]	936	341
Change in allowances and write-offs for doubtful customer-financing receivables	–677	–817
Change in allowances and write-offs for other doubtful receivables	–397	–549
Damages and litigations[2]	–2,912	471
Restructuring costs[3]	–460	–2,346
Volvo profit sharing program	–498	–455
Other income and expenses[4, 5]	873	–824
I/S **Total**	**–3,135**	**–4,179**

1 Including capital gain from the sale of external IT-operations of SEK 885 M.
2 Including additional cost of SEK 2,524 M related to the EU antitrust investigation. 2015 including SEK 809 M from the favorable outcome in an arbitration case.
3 Restructuring costs 2016 mainly related to outsourcing of IT infrastructure operations. Restructuring costs 2015 related mainly to the Volvo Group wide efficiency program which impacted the Group with an amount of SEK 2,333 M.
4 Including SEK 72 M (376) of the provision for expected credit losses for Construction Equipment in China of in total SEK 319 M (747). SEK 247 M (349) was recognized as change in allowance for doubtful receivables, and SEK – M (22) was recognized within gross income.
5 Including gain on sale of properties in Gothenburg, Sweden of SEK 1,371 M.

» **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 credit losses in China in **Note 9**, Other financial income and expenses.

NOTE 9 OTHER FINANCIAL INCOME AND EXPENSES

ACCOUNTING POLICY

Unrealized revaluation on derivatives used to hedge interest rate exposure and realized result and unrealized revaluation on derivatives 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 1** about the accounting policy for receivables and liabilities in foreign currency.

» **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	2016	2015
Unrealized revaluation on derivatives used to hedge interest rate exposure	386	–28
Realized result and unrealized revaluation on derivatives used to hedge future cash flow exposure in foreign currency	11	–426
Financial instruments at fair value through income statement	**397**	**–454**
Exchange rate gains and losses on financial assets and liabilities	–5	–89
Financial income and expenses related to taxes	–23	1
Costs for Treasury function, credit facilities, etc[1]	–357	–250
I/S **Total**[2]	**11**	**–792**

The unrealized revaluation on derivatives used to hedge interest rate exposure were mainly related to the debt portfolio within Industrial Operations and customer-financing portfolio within Financial Services. The realized result and unrealized revaluation on derivatives used to hedge future cash flow exposure in foreign currency were mainly related to hedging future firm cash flows of SEK 11 M (–426).

1 Including neg SEK 97 M (–) write-down of an entrustment loan related to credit losses in China.
2 Other financial income and expense attributable to financial instruments amounted to neg SEK 392 M (–543) and is included in the table presenting gains, losses interest income and expenses related to financial instruments in note 30 Financial Instruments.

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 where the Group companies have operations.

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 tax assets are recognized to the extent it is probable that they will be utilized against future taxable income.

Deferred tax liabilities on temporary differences on participations in subsidiaries, joint ventures and associated companies are recognized in the balance sheet except when the Volvo Group control the timing of the reversal of the temporary difference related to accumulated undistributed earnings and it is probable that a reversal will not be done in the foreseeable future.

Tax laws in Sweden and certain other countries allow companies to defer payment of taxes through allocations to untaxed reserves. In the consolidated financial statements untaxed reserves are recognized as temporary differences, that are partly recognized as deferred tax liability and partly as equity. In the consolidated income statements changes of untaxed reserves are split between deferred taxes and net income for the year.

Provisions have been made for estimated tax charges that are probable as a result of identified tax risks. Tax processes are evaluated on a regular basis and provisions are made for the estimated outcome when a reasonable assessment can be made. Tax claims, for which no provision is considered required, are generally recognized as contingent liabilities.

» **Read more** about contingent liabilities in **Note 24.**

SOURCES OF ESTIMATION UNCERTAINTY

Deferred taxes

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. In order to ensure the likelihood of utilization, business plans are used when relevant.

Distribution of Income taxes	2016	2015
Current taxes relating to the period	–3,831	–3,207
Adjustment of current taxes for prior periods	–113	197
Deferred taxes originated or reversed during the period	–1,749	–965
Remeasurements of deferred tax assets	–315	–1,345
I/S **Total income taxes**	**–6,008**	**–5,320**

The Swedish corporate income tax rate amounted to 22% in 2016. Next table explains the major reasons for the difference between the Swedish corporate income tax rate and the Volvo Group's effective tax rate, based on income after financial items.

Reconciliation of effective tax rate	2016, %	2015, %
Swedish corporate income tax rate	**22**	**22**
Difference between coporate tax rate in Sweden and other countries	3	3
Non-taxable income	–5	–6
Non-deductible expenses	5	1
Current taxes related to prior years	0	–1
Remeasurement of deferred tax assets	5	6
Other differences	2	1
Effective tax rate for the Volvo Group	**31**	**26**

The effective tax rate for the Volvo Group, as of December 31 2016, was mainly impacted by the additional cost for the EU antitrust investigation of SEK 2.5 billion. The cost was not tax deductible and impacted the effective tax rate by 3.6%.

Specification of deferred tax assets and liabilities	Dec 31, 2016	Dec 31, 2015
Deferred tax assets:		
Unused tax-loss carryforwards	3,596	3,724
Other unused tax credits	167	192
Intercompany profit in inventories	1,302	1,339
Allowance for inventory obsolescence	740	639
Valuation allowance for doubtful receivables	1,329	1,211
Provisions for warranties	4,317	4,111
Provisions for residual value risks	250	247
Provisions for post-employment benefits	4,535	4,408
Provisions for restructuring measures	130	262
Market value of derivative instruments	–	25
Land	1,218	1,160
Other deductible temporary differences	5,442	4,930
Deferred tax assets before deduction for valuation allowance	**23,025**	**22,248**
Valuation allowance	–1,348	–1,181
Deferred tax assets after deduction for valuation allowance	**21,677**	**21,067**
Netting of deferred tax assets and liabilities	–7,277	–7,617
B/S **Deferred tax assets, net**	**14,399**	**13,450**
Deferred tax liabilities:		
Accelerated depreciation on property, plant and equipment	2,496	2,163
Accelerated depreciation on leasing assets	3,547	3,174
LIFO valuation of inventories	591	557
Capitalized product and software development	2,576	2,384
Adjustment to fair value at corporate acquisitions/divestments	35	30
Untaxed reserves	643	87
Provisions for post-employment benefits	66	69
Other taxable temporary differences	2,593	2,648
Deferred tax liabilities	**12,547**	**11,112**
Netting of deferred tax assets and liabilities	–7,277	–7,617
B/S **Deferred tax liabilities, net**	**5,270**	**3,495**
Deferred tax assets and liabilities, net[1]	**9,129**	**9,955**

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.

The total valuation allowance amounted to SEK 1,348 M (1,181). Most of the reserve, SEK 1,224 M (1,051) consisted of valuation allowance for unused tax-loss carryforwards, mainly related to Japan.

As of December 31, 2016, the Volvo Group's gross unused tax-loss carryforwards amounted to SEK 12,394 M (11,979) pertaining to deferred tax assets of SEK 3,596 M (3,724) recognized in the balance sheet. After deduction for valuation allowance, deferred tax assets attributable to unused tax-loss carryforwards amounted to SEK 2,372 M (2,673) of which SEK 1,122 M (1,346) pertains to France and SEK 448 M (405) to Japan.

The gross unused tax-loss carryforwards expire according to the following table:

Due date, unused tax-loss carryforwards gross	Dec 31, 2016	Dec 31, 2015
after 1 year	534	68
after 2 years	931	584
after 3 years	375	857
after 4 years	1,621	335
after 5 years	1,469	2,206
after 6 years or more[1]	7,463	7,929
Total	**12,394**	**11,979**

1 Tax-loss carryforwards with long or indefinite periods of utilization were mainly related to Japan and France. Tax-loss carryforwards with indefinite periods of utilization amounted to SEK 6,169 M (4,994) which corresponds to 50% (42) of the total unused tax-losses carryforward.

Changes in deferred tax assets and liabilities, net	2016	2015
Deferred tax assets and liabilities, net, opening balance	**9,955**	**13,035**
Recognized in Income statement	–2,064	–2,310
Recognized in Other comprehensive income, whereof:		
Remeasurements of defined-benefit pension plans	76	–725
Cash flow hedge reserve	–19	9
Available-for-sale reserve	–5	–17
Translation differences and other changes	1,186	–37
Deferred tax assets and liabilities, net, as of December 31	**9,129**	**9,955**

The cumulative amount of undistributed earnings in foreign subsidiaries, which the Volvo Group currently intends to indefinitely reinvest outside of Sweden and which no deferred income tax have been accounted for, amounted to SEK 23 billion (23) at year end. Undistributed earnings pertaining to countries where the dividends are not taxable are excluded.

» **Read more in Note 4** for Goals and policies in financial risk management about 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 equity, separately from 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 is 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 61 (34) and the accumulated minority interest at the end of December 31, 2016, amounted to 1,648 (1,752).

The following table presents summarized financial information for Shandong Lingong Construction Machinery Co., Lingong:

Summarized income statement	2016	2015
Net sales	5,384	5,297
Operating income	160	116
Income for the period	**202**	**113**
Other comprehensive income[1]	117	115
Total comprehensive income[1]	319	229
Dividends paid to minority interest	200	–

Summarized balance sheet	Dec 31, 2016	Dec 31, 2015
Non-current assets	1,734	1,693
Marketable securities, cash and cash equivalents	2,116	2,236
Current assets	5,646	5,636
Total assets	**9,496**	**9,565**
Non-current liabilities	188	167
Current liabilities	3,815	3,558
Total liabilities	**4,003**	**3,725**
Equity attributable to the Volvo Group's shareholders	3,845	4,088
Minority interests[1]	1,648	1,752

1 Includes translation differences from translating equity in foreign subsidiaries in the Volvo Group.

NOTE 12 INTANGIBLE ASSETS

ACCOUNTING POLICY

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

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 DVP Project Handbook (DVP-PH). The DVP-PH has six phases focused on separate parts of the project. Every phase starts and ends with a reconciliation point, known as a gate, for which the criteria 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. A corresponding software development process named the Process & IT Project Handbook was implemented during 2016.

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 operating segments. Each operating segment 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 discount rate at 12% (12) before tax for 2016.

In 2016, the value of Volvo Group's operations exceeded the carrying amount of goodwill for all operating segments, thus no impairment was recognized. The Volvo Group has also analyzed whether a negative adjustment of one percentage point to the aforementioned parameters would result in impairment for any goodwill value, however none of the operating segments would be impaired as a result of this test. The operating parameters applied in the valuation are based on management's strategy and could indicate higher value than historical performance for each operating segment. Furthermore the Volvo Group is operating in a cyclical industry where performance could vary over time.

The surplus values differ between the operating segments and are to a varying degree sensitive to changes in the assumptions described above. Therefore, the Volvo Group continuously follows the performance of the operating segments 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 operating segment 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 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 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 operating segments 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 impairment was recognized for the period 2002 until 2016. The goodwill related to planned divestments was revaluated in accordance with IFRS 5.

» **Read more in Note 3**, Acquisitions and divestments of shares in subsidiaries, for further information.

Intangible assets, acquisition costs	Goodwill	Capitalized product and software development	Other intangible assets[1]	Total intangible assets
Opening balance 2015	21,494	37,708	6,368	**65,570**
Investments	–	2,247	10	**2,257**
Sales/scrapping	–	–47	–89	**–136**
Acquired and divested operations	–24	–3	0	**–27**
Translation differences	170	266	105	**541**
Reclassification at divestment	–	–	–47	**–47**
Reclassifications and other	448	–38	1,184	**1,594**
Acquisition cost as of Dec 31, 2015	**22,088**	**40,133**	**7,531**	**69,752**
Investments[2]	–	2,937	11	**2,947**
Sales/scrapping	–	–545	–49	**–594**
Acquired and divested operations	28	–2	44	**69**
Translation differences	1,338	1,829	409	**3,576**
Reclassification at divestment	–	–	47	**47**
Reclassifications and other	–16	29	188	**202**
Acquisition cost as of Dec 31, 2016	**23,438**	**44,382**	**8,180**	**75,999**

Intangible assets, accumulated amortization and impairment	Goodwill	Capitalized product and software development	Other intangible assets[1]	Total intangible assets
Opening balance 2015	–	25,181	3,274	**28,455**
Amortization	–	2,954	366	**3,320**
Impairment	–	24	0	**24**
Sales/scrapping	–	–48	–86	**–134**
Acquired and divested operations	–	–2	–	**–2**
Translation differences	–	362	31	**393**
Reclassification at divestment	–	–	–46	**–46**
Reclassifications and other	–	–40	1,366	**1,326**
Accumulated amortization and impairment as of Dec 31, 2015	**–**	**28,431**	**4,905**	**33,336**
Amortization	–	2,836	372	**3,208**
Impairment	–	20	132	**152**
Revaluation	71	–	–	**71**
Sales/scrapping	–	–503	–49	**–552**
Acquired and divested operations	–	–2	–7	**–10**
Translation differences	–	1,426	208	**1,634**
Reclassification at divestment	–	–	46	**46**
Reclassifications and other	–	8	189	**198**
Accumulated amortization and impairment as of Dec 31, 2016	**71**	**32,217**	**5,794**	**38,083**
B/S **Net value in balance sheet as of December 31, 2015[3]**	**22,088**	**11,702**	**2,626**	**36,416**
B/S **Net value in balance sheet as of December 31, 2016[3]**	**23,366**	**12,164**	**2,386**	**37,916**

1 Other intangible assets mainly consist of entrance fees, trademarks and distribution networks.
2 Including capitalized borrowing costs of SEK 65 M (0).
3 Costs less accumulated amortization and impairments.

» **Read more in Note 3**, Acquisitions and divestments of shares in subsidiaries, for a description of acquired and divested operations.

Goodwill per Operating Segment	Dec 31, 2016	Dec 31, 2015
Trucks	12,865	12,101
Construction Equipment	8,873	8,475
Buses	1,059	992
Other operating segments	570	519
Total goodwill value	**23,366**	**22,088**

NOTE 13 TANGIBLE ASSETS

ACCOUNTING POLICY

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 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.

Investment properties are classified as buildings. Land contain land and land improvements. Machinery is machinery, type-bound tools and other equipment. Ongoing projects are assets under construction and advanced payments. Operating leases are assets under operating leases that do not occur from rental business or sales with residual value commitments. Rental fleet is assets under operating lease used in a fleet for rental business. Sales with residual value commitment are sales where the operating lease model is applied.

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. Land is not depreciated.

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
Operating leases, Rental fleet	3 to 5 years
Sales with residual value commitments	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	Machinery[3]	Ongoing projects	Operating leases	Rental fleet	Sales w. residual value commitments[5]	Total tangible assets
Opening balance 2015	33,953	11,682	76,031	4,190	27,031	1,562	14,789	**169,238**
Investments	764	57	2,057	3,746	10,435	–	–	**17,060**
Sales/scrapping	–532	–182	–3,699	–20	–9,023	–	–	**–13,456**
Acquired and divested operations	–281	–66	–64	–10	–	–4	–	**–424**
Translation differences	–142	199	–343	31	30	–146	–238	**–608**
Reclassified at divestment	–176	–202	–967	–37	–	–290	18	**–1,653**
Reclassifications and other	1,248	34	1,779	–3,598	–1,897	2,424	347	**337**
Acquisition costs as of Dec 31, 2015	**34,835**	**11,522**	**74,795**	**4,303**	**26,578**	**3,545**	**14,917**	**170,494**
Investments[1]	944	152	1,803	4,134	10,720	–	–	**17,752**
Sales/scrapping	–2,539	–866	–2,621	–61	–9,998	–	–	**–16,085**
Acquired and divested operations	–163	–53	–979	–	–	–315	–	**–1,510**
Translation differences	2,095	905	3,583	350	953	121	721	**8,729**
Reclassified at divestment	365	306	976	36	–	–52	–	**1,632**
Reclassifications and other	1,115	95	2,511	–3,859	–126	900	398	**1,035**
Acquisition costs as of Dec 31, 2016	**36,652**	**12,062**	**80,068**	**4,902**	**28,127**	**4,198**	**16,036**	**182,046**

Tangible assets, Accumulated depreciation and impairments	Buildings	Land	Machinery[3]	Ongoing projects	Operating leases	Rental fleet	Sales w. residual value commitments[5]	**Total tangible assets**
Opening balance 2015	16,822	1,147	52,694	11	7,803	409	3,952	**82,839**
Depreciation	1,310	85	5,008	–	4,386	470	2,289	**13,548**
Impairment	25	26	–10	–	–	–	–124	**–84**
Sales/scrapping	–391	–26	–3,523	–	–3,536	–	0	**–7,476**
Acquired and divested operations	–147	–	–56	–	–	–1	–	**–203**
Translation differences	103	6	99	–	–41	–37	–121	**10**
Reclassified at divestment	–133	–21	–717	–	–	–132	10	**–994**
Reclassifications and other	–243	–20	–214	–	–727	113	–2,203	**–3,294**
Accumulated depreciation and impairments as of Dec 31, 2015	**17,347**	**1,198**	**53,281**	**11**	**7,884**	**821**	**3,802**	**84,345**
Depreciation	1,325	85	4,888	–	4,164	657	2,016	**13,135**
Impairment	22	22	–3	–	–	–88	245	**199**
Sales/scrapping	–1,558	–176	–2,367	–	–4,091	–	–	**–8,192**
Acquired and divested operations	–113	–7	–721	–	–	–138	–	**–979**
Translation differences	1,023	72	2,609	–	256	28	213	**4,201**
Reclassified at divestment	256	29	728	–	–	51	–	**1,065**
Reclassifications and other	–76	–2	–64	–	4	–247	–1,911	**–2,296**
Accumulated depreciation and impairments as of Dec 31, 2016	**18,227**	**1,221**	**58,351**	**11**	**8,217**	**1,085**	**4,366**	**91,477**
B/S **Net value in balance sheet as of Dec 31, 2015[2,4]**	**17,488**	**10,324**	**21,514**	**4,292**	**18,693**	**2,724**	**11,114**	**86,149**
B/S **Net value in balance sheet as of Dec 31, 2016[2,4]**	**18,425**	**10,842**	**21,717**	**4,891**	**19,910**	**3,113**	**11,670**	**90,568**

1 Including capitalized borrowing costs of SEK 33 M (0).
2 Acquisition costs less accumulated depreciation and impairments.
3 Machinery and equipment pertains mainly to production related assets.
4 Of which investment property SEK 34 M (283) and property, plant and equipment as well as ongoing projects SEK 55,841 M (53,335).
5 » **Read more in Note 7**, Revenue about sales with residual value commitments.
» **Read more in Note 3**, Acquisitions and divestments of shares in subsidiaries, for a description of acquired and divested operations.

Reclassifications and other presented in the table above mainly consist of assets within sales with residual value commitments 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 sales with residual value commitments, when the legal sales transaction occurs. If the product is returned after the lease period, there will be a reclassification from sales with residual value commitments 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 sales with residual value commitments. Most reclassifications within tangible assets relate to construction in progress, which are reclassified to the respective category within property, plant and equipment. Most reclassifications within rental fleet relate to assets moved from inventory to rental fleet during the time the product is used in the rental business. When the product is de-fleeted it is reclassified back to inventory from rental fleet.

Investment properties

During 2016, Volvo divested properties in Gothenburg, which affected both acquisition value and accumulated depreciation. The acquisition value of investment properties at year-end amounted to SEK 73 M (692). Capital expenditures during 2016 amounted to SEK 1 M (6). Accumulated depreciation amounted to SEK 38 M (409) at year-end, of which SEK 24 M (26) refers to 2016. The estimated fair value of investment properties amounted to SEK 61 M (1,0 billion) at year-end. 98% (97) of the area available for lease was leased out during the year. Operating income for the year was affected by SEK 88 M (97) in rental income from investment properties and of SEK 22 M (19) in direct costs.

NOTE 14 LEASING

ACCOUNTING POLICY

Volvo Group as the lessor

Leasing contracts are defined in two categories, operating and finance leases, depending on the contract's financial implications. Operating lease contracts are recognized as non-current assets in Assets under operating leases. Income from operating lease 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.

Finance lease contracts are recognized as either non-current or current receivables in Financial Services. Payments from finance lease contracts are distributed between interest income and amortization of the receivable in Financial Services.

Volvo Group as the lessee

As for lessors, leases are divided into operating and finance lease. Finance lease are those cases when risks and rewards related to ownership are substantially held by the Volvo Group. 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 lease 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 made are allocated between amortization and interest expenses. If the lease contract is considered to be an operating lease, lease payments are charged to profit or loss over the lease contract period.

Volvo Group as the lessor

As of December 31, 2016, future rental income from non-cancellable finance and operating leases (minimum lease fees excluding sales with residual value commitments) amounted to SEK 61,517 M (56,226).

Future rental income	Finance leases	Operating leases
2017	15,276	7,817
2018–2021	24,444	12,466
2022 or later	1,085	429
Total	**40,805**	**20,712**
Allowance for uncollectible future rental income	–618	
Unearned rental income	–2,527	
Present value of future rental income related to non-cancellable leases	37,660	

» Read more about finance lease, in Note 15 Customer-financing receivables.

Volvo Group as a lessee

As of December 31, 2016, future rental payments (minimum leasing fees) related to non-cancellable leases amounted to SEK 6,534 M (5,140).

Future rental payments	Finance leases	Operating leases
2017	207	1,444
2018–2021	631	2,622
2022 or later	444	1,186
Total	**1,282**	**5,252**

Rental expenses	2016	2015
Finance leases:		
Contingent rents	–6	–5
Operating leases:		
Contingent rents	–37	–34
Rental payments	–1,638	–1,447
Sublease payments	7	5
Total	**–1,674**	**–1,481**

Carrying amount of assets subject to financial leases	Dec 31, 2016	Dec 31, 2015
Acquisition value:		
Buildings	670	413
Land	80	78
Machinery	661	689
Assets under operating lease and rental fleet[1]	538	545
Total	**1,948**	**1,725**
Accumulated depreciation:		
Buildings	–117	–96
Land	–5	–3
Machinery	–340	–353
Assets under operating lease and rental fleet[1]	–177	–213
Total	**–640**	**–666**
Carrying amount in the balance sheet:		
Buildings	552	317
Land	74	75
Machinery	321	336
Assets under operating lease and rental fleet[1]	361	332
Total	**1,309**	**1,059**

1 Refer to assets leased by the Volvo Group as finance lease which are later leased to customers as operating lease.

NOTE 15 CUSTOMER-FINANCING RECEIVABLES

ACCOUNTING POLICY

Interest income on the customer-financing receivables is recognized within Net sales, mainly within Financial Services. 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, 2016, the total credit loss reserves in Financial Services amounted to 1.43% (1.41) of the total credit portfolio in Financial Services. This reserve ratio, which is used as an important measure for Financial Services, 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	Dec 31, 2016	Dec 31, 2015
Installment credits	32,752	29,580
Financial leasing	24,011	21,325
Other receivables	1,064	57
B/S Non-current customer-financing receivables	**57,827**	**50,962**

The effective interest rate for non-current customer-financing receivables amounted to 4.80% (4.65) as of December 31, 2016.

15:1

Non-current customer-financing receivables maturities

SEK M

15:2

Current customer-financing receivables	Dec 31, 2016	Dec 31, 2015
Installment credits	18,926	16,053
Financial leasing	13,649	12,948
Dealer financing	18,996	21,989
Other receivables	1,424	631
B/S Current customer-financing receivables	**52,994**	**51,621**

The effective interest rate for current customer-financing receivables amounted to 4.83% (4.74) as of December 31, 2016.

15:3

Credit risk in customer-financing receivables	Dec 31, 2016	Dec 31, 2015
Customer-financing receivables gross	112,510	104,096
Valuation allowance for doubtful customer-financing receivables	–1,689	–1,514
Whereof specific reserve	*–413*	*–365*
Whereof other reserve	*–1,276*	*–1,149*
Customer-financing receivables, net of allowance	**110,821**	**102,583**

15:4

Change of valuation allowance for doubtful customer-financing receivables	2016	2015
Opening balance	1,514	1,450
New valuation allowance charged to income	751	745
Reversal of valuation allowance charged to income	–46	–56
Utilization of valuation allowance related to actual losses	–679	–549
Translation differences	148	–76
Valuation allowance for doubtful customer-financing receivables as of December 31	**1,689**	**1,514**

15:5

Overdues in relation to specific reserves for customer-financing receivables	Dec 31, 2016					Dec 31, 2015				
	Not due	1–30	31–90	>90	**Total**	Not due	1–30	31–90	>90	**Total**
Overdue amount	–	556	176	50	**782**	–	477	268	292	**1,037**
Valuation allowance for doubtful customer-financing receivables, specific reserve	–107	–65	–85	–155	**–412**	–94	–57	–90	–124	**–365**
Customer-financing receivables after deduction of specific reserve	**–107**	**491**	**91**	**–105**	**370**	**–94**	**420**	**178**	**168**	**672**

15:6

The table above presents overdue payments within Financial Services 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 and the higher valuation allowance compared to the overdue amount presented in the interval > 90 days, 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 1,276 (1,149), included in table **15:4.** The remaining exposure was secured by liens on the financed 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 135 M (162) as of December 31, 2016.

Customer-financing receivables total exposure	Dec 31, 2016					Dec 31, 2015				
	Not due	1–30	31–90	>90	**Total**	Not due	1–30	31–90	>90	**Total**
Customer financing receivables	101,478	9,003	1,739	290	**112,510**	94,126	7,764	1,962	245	**104,096**

15:7

Concentration of credit risk

Customer concentration

The ten largest customers within Financial Services account for 7.3% (8.5) 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.

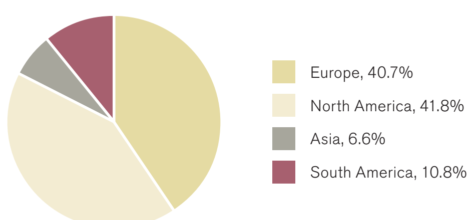
Concentration by geographical market

The adjacent table discloses the concentration of Financial Services 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** Financial Services' development during the year in the Board of Directors' Report on Financial Services.

Geographic market, percentage of customer-financing portfolio (%).



15:8

NOTE 16 RECEIVABLES

ACCOUNTING POLICY

Receivables are recognized at amortized cost. Credit quality of receivables that are neither past due nor impaired has been deemed sufficient and payments are expected to be received when receivables are due. 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** Financial Instruments in section 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, 2016, the total credit loss reserves for account receivables amounted to 4.02% (4.02) of total account receivables.

» **Refer to Note 4** regarding credit risk.

Non-current receivables	Dec 31, 2016	Dec 31, 2015
Other interest-bearing loans to external parties[1]	700	739
Other receivables	3,046	2,644
Outstanding interest and currency risk derivatives[2]	1,648	1,034
Outstanding raw materials derivatives	11	0
Non-current receivables	**5,406**	**4,418**

1 Non-current part of Other interest bearing receivables in table Carrying amounts and fair values in Note 30.
2 Non-current part of Outstanding interest and currency risk derivatives in table Carrying amounts and fair values in Note 30.

Current receivables	Dec 31, 2016	Dec 31, 2015
Other interest-bearing receivables[1]	405	743
Other interest-bearing financial receivables	27	61
Accounts receivable	34,419	29,101
Prepaid expenses and accrued income	3,120	2,906
VAT receivables	4,025	3,789
Outstanding interest and currency risk derivatives[2]	1,378	1,588
Other receivables	8,570	6,615
Outstanding raw materials derivatives	21	5
Current receivables, after deduction of valuation allowances for doubtful accounts receivable	**51,964**	**44,809**

1 Current part of Other interest bearing receivables in table Carrying amounts and fair values in Note 30.
2 Current part of Outstanding interest and currency risk derivatives in table Carrying amounts and fair values in Note 30.

Credit risks in accounts receivable

Change of valuation allowance for doubtful accounts receivable	2016	2015
Opening balance	1,219	834
New valuation allowance charged to income	655	695
Reversal of valuation allowance charged to income	–275	–250
Utilization of valuation allowance related to actual losses	–221	–34
Acquired and divested operations	–1	0
Translation differences	43	–34
Reclassifications, etc	23	8
Valuation allowance for doubtful accounts receivables as of December 31	**1,443**	**1,219**

» **Refer to Note 8** Other operating income and expenses, for information regarding credit provisions for Construction Equipment in China.

» **Refer to Note 15** for information regarding credit risk in customer financing receivables.

» **Refer to Note 30** for information regarding financial instruments.

Age analysis of portfolio value – Accounts receivable	Dec 31, 2016					Dec 31, 2015				
	Not Due	1–30	31–90	>90	**Total**	Not Due	1–30	31–90	>90	**Total**
Accounts receivable gross	32,094	1,317	521	1,929	**35,862**	26,798	1,102	656	1,765	**30,320**
Provision for doubtful accounts receivable	–414	–19	–17	–992	**–1,443**	–381	–16	–108	–714	**–1,219**
B/S **Accounts receivable net**	**31,679**	**1,298**	**504**	**937**	**34,419**	**26,417**	**1,086**	**548**	**1,051**	**29,101**

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 48,287 M (44,390) as of December 31, 2016.

Inventory	Dec 31, 2016	Dec 31, 2015
Finished products	31,012	27,496
Production materials, etc.	17,275	16,894
B/S **Inventory**	**48,287**	**44,390**

Inventories recognized as cost of sold products during the period amounted to SEK 212,398 M (216,778).

Increase (decrease) in allowance for inventory obsolescence	2016	2015
Opening balance	**3,624**	**3,394**
Change in allowance for inventory obsolescence charged to income	480	675
Scrapping	–576	–435
Translation differences	177	–29
Reclassifications etc.	–23	20
Allowance for inventory obsolescence as of December 31	**3,683**	**3,624**

NOTE 18 MARKETABLE SECURITIES AND LIQUID FUNDS

ACCOUNTING POLICY

Cash and Cash equivalents include highly liquid interest-bearing securities that are considered easily convertible to cash. This includes marketable securities, with a date of maturity within three months at the time of investment. Interest-bearing securities that fail to meet this definition are recognized as marketable securities.

Marketable securities	Dec 31, 2016	Dec 31, 2015
Government securities	201	1,586
Banks and financial institutions	1,000	1,090
Real estate financial institutions	21	668
B/S Marketable securities	**1,223**	**3,344**

Cash and cash equivalents	Dec 31, 2016	Dec 31, 2015
Cash in banks	22,226	18,474
Bank certificates	531	674
Time deposits in banks	1,192	1,900
B/S Cash and cash equivalents	**23,949**	**21,048**

Cash and cash equivalents as of December 31, 2016, include SEK 0.8 billion (0.8) that is not available for use by the Volvo Group and SEK 6.0 billion (5.4) 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 these liquid funds in other parts of the Volvo Group, however there is normally no limitation to use them for the Volvo Group's operation in the respective country.

NOTE 19 EQUITY AND NUMBER OF SHARES

ACCOUNTING POLICY

Earnings per share before dilution 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 2016, decided by the Annual General Meeting 2015, was SEK 3.00 (3.00) per share or totally SEK 6,093 M (6,090).

During 2016 AB Volvo transferred, free of consideration, 725,210 treasury B-shares, with a total quota value of 870,252 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 2016 AB Volvo converted a total of 12,956,739 Series A shares to Series B shares.

Unrestricted equity in the Parent Company as of December 31, 2016 amounted to SEK 33,207 M (31,115).

» **Read more in Note 27** about the Volvo Group share-based incentive program.

Information regarding number of shares	Dec 31, 2016	Dec 31, 2015
Own Series A shares	20,728,135	20,728,135
Own Series B shares	76,250,400	76,975,610
Total own shares	**96,978,535**	**97,703,745**
Own shares in % of total registered shares	4.77	4.59
Outstanding Series A shares	471,797,086	484,753,825
Outstanding Series B shares	1,559,644,599	1,545,962,650
Total outstanding shares	**2,031,441,685**	**2,030,716,475**
Total registered Series A shares	492,525,221	505,481,960
Total registered Series B shares	1,635,894,999	1,622,938,260
Total registered shares	**2,128,420,220**	**2,128,420,220**
Average number of outstanding shares	2,031,173,306	2,030,116,663

Information regarding shares	2016	2015
Number of outstanding shares, December 31, in millions	2,031	2,031
Average number of shares before dilution in millions	2,031	2,030
Shares that would be issued as an effect of ongoing shared-based incentive programs, in millions	2	2
Average number of shares after dilution in millions	2,033	2,032
Average share price, SEK	91.19	96.57
Net income attributable to Parent Company shareholders	13,147	15,058
Basic earnings per share, SEK	6.47	7.42
Diluted earnings per share, SEK	6.47	7.41

Change in other reserves	Hedge reserve	Available-for-sale reserve	Total
Opening balance 2016	–48	307	259
Other changes	68		68
Fair value adjustments regarding holdings in Japanese companies		18	18
Fair value adjustments regarding other companies		–74	–74
Balance as of December 31, 2016	**20**	**251**	**271**

The Volvo Group's accumulated amount of exchange difference recognized in equity relating to assets held for sale amounted to SEK – M (11).

NOTE 20 PROVISIONS FOR POST-EMPLOYMENT BENEFITS

The Volvo Group's post-employment benefits, such as pensions, healthcare and other benefits are mainly settled by means of regular payments to independent authorities or bodies that assume pension obligations and administer pensions through defined-contribution plans.

The remaining post-employment benefits are defined-benefit plans; that is, the obligations remain within the Volvo Group or are secured by proprietary pension foundations. The Volvo Group's defined-benefit plans relate mainly to subsidiaries in the U.S. and comprise both pensions and other benefits, such as healthcare. Other large-scale defined-benefit plans apply to 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. Healthcare 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, 2016	Dec 31, 2015
Obligations	–53,508	–49,038
Fair value of plan assets	38,917	35,400
Net provision for post-employment benefits	**–14,590**	**–13,638**

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 3,419 M, whereof SEK 252 M during 2016, 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, 2016, the fair value of the foundation's plan assets amounted to SEK 11,354 M (10,249), of which 47% (47) was invested in equity instruments. At the same date, retirement pension obligations attributable to the ITP plan amounted to SEK 14,437 M (12,915).

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 2016, 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 265 M to Alecta in 2017. 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 149% (153). 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, 2016 amounted to 0.33 % (0.29) and the share of the total number of active policy holders amounted to 1.67% (1.82).

During 2015 the Volvo Group reviewed all the assumptions regarding the Swedish pension plan where the consequence was a lower pension obligation, excluding any variation in the discount rate, and a future lower service cost in the income statement.

All employees in Sweden benefit from a jubilee awards plan according to which they receive a certain number of shares after they have rendered 25, 35 and 45 years of services. This plan is accounted for as a share-based payment program.

Read more in Note 27 Personnel about accounting policy on share-based payments.

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. There are five funded defined benefit plans, whereof one is closed, one is partially closed and three are open to new entrants. All plans are open for future accruals. 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 2016, the total value of pension obligations secured by pension plans of this type amounted to SEK 19,071 M (17,386). At the same point in time, the total value of the plan assets in these plans amounted to SEK 17,481 M (15,774), of which 45% (48) 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 2016, the Volvo Group contributed SEK 399 M (397) 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, 2016 the total value of pension obligations amounted to SEK 2,992 M (2,574).

Great Britain

In Great Britain the Volvo Group has five defined benefit pension plans. 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. 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 common trustee board is composed of representatives from the employees and an independent trust. 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 strategic allocation of plan assets must comply with the investment guidelines agreed by the trustees of the respective schemes. If a net surplus is recognized in the balance sheet when the pension scheme runs-off the Volvo Goup has an unconditional right to the surplus of that plan or plans.

At the end of 2016, the total value of pension obligations secured by pension plans amounted to SEK 7,114 M (6,820). The total value of the plan assets in these plans amounted to SEK 7,186 M (6,847).

During 2016, the Volvo Group has made extra contributions to the pension plans in Great Britain in the amount of SEK 104 M (107).

Assumptions applied for actuarial calculations, %	Dec 31, 2016	Dec 31, 2015
Sweden		
Discount rate[1]	3.00	3.50
Expected salary increase	2.90	2.90
Inflation	1.50	1.50
United States		
Discount rate[1,2]	2.50–4.29	3.00–4.40
Expected salary increase	2.60–3.50	2.70–3.50
Inflation	2.20	2.20
France		
Discount rate[1]	1.10–1.80	1.50–2.20
Expected salary increase	3.00	2.50–3.00
Inflation	1.50	1.50
Great Britain		
Discount rate[1]	2.80–2.95	3.50–3.80
Expected salary increases	3.25–3.80	3.50–3.60
Inflation	3.25–3.30	3.10

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 extrapolating current market rates along the yield curve of mortgage bonds.

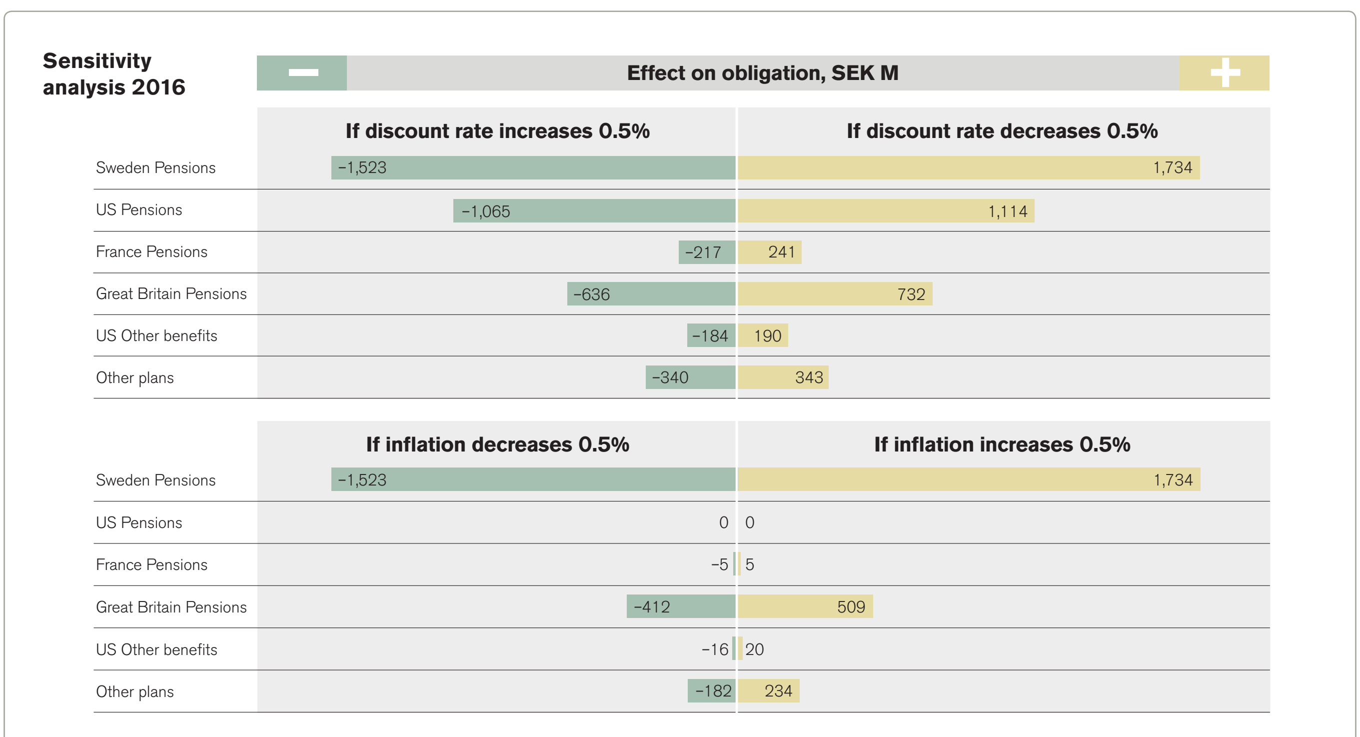
2 For all plans except three the discount rate used is within the range 3.67–4.29% (3.70–4.40).

Pension costs	2016	2015
Current year service costs	1,447	1,681
Interest costs	1,557	1,532
Interest income	–1,284	–1,208
Past service costs	–3	122
Gain/loss on settlements	–2	–129
Pension costs for the period, defined-benefit plans	**1,715**	**1,999**
Pension costs for defined contribution plans	2,169	2,340
Total pension costs for the period	**3,884**	**4,339**

Costs for the period, post-employment benefits other than pensions	2016	2015
Current year service costs	77	121
Interest costs	151	147
Interest income	–4	–3
Past service costs	–	–
Gain/loss on settlements	–1	–185
Remeasurements	20	248
Total costs for the period	**243**	**328**

	Sweden Pensions	US Pensions	France Pensions	Great Britain Pensions	US Other benefits
Average duration of the obligation, years	22.0	11.0	15.8	19.2	10.2

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. Depending on local regulations, facts and circumstances in the separate countries the sensitivity effect on the obligation differs for the respective assumptions.

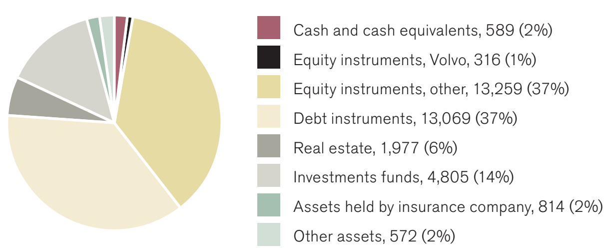


Obligations in defined-benefit plans	Sweden Pensions	US Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Obligations opening balance 2015	**15,831**	**16,841**	**2,849**	**6,671**	**3,516**	**5,241**	**50,948**
Acquisitions, divestments and other changes	–	–	–	–	–	–59	**–59**
Current year service costs	772	402	92	57	109	370	**1,802**
Interest costs	430	681	55	257	137	120	**1,680**
Past service costs	84	19	–	–	–	20	**124**
Settlements	160	–	–20	–	–184	–416	**–461**
Employee contributions	–2	–	–	14	–	4	**16**
Remeasurements:							
– Effect of changes in demographic assumptions	–166	335	–	11	39	–43	**176**
– Effect of changes in financial assumptions	–2,707	–265	–79	–36	–111	11	**–3,186**
– Effect of experience adjustments	–663	59	–87	–8	229	–27	**–496**
Exchange rate translation	–	1,174	–112	128	241	–112	**1,319**
Benefits paid	–436	–1,199	–122	–273	–304	–488	**–2,824**
Obligations as of December 31, 2015	**13,302**	**18,048**	**2,574**	**6,820**	**3,673**	**4,621**	**49,038**
of which							
Funded defined-benefit plans	12,938	17,386	10	6,820	24	3,190	**40,367**
Acquisitions, divestments and other changes	–	2	–5	–10	–2	–84	**–98**
Current year service costs	592	370	89	59	56	357	**1,524**
Interest costs	458	715	57	233	140	106	**1,709**
Past service costs	67	60	–	–	–	–93	**35**
Settlements	20	–	–2	–	–	–2	**15**
Employee contributions	–	–	–	12	–	7	**19**
Remeasurements:							
– Effect of changes in demographic assumptions	–	–68	–7	–	–122	–3	**–200**
– Effect of changes in financial assumptions	1,523	219	382	1,059	43	284	**3,510**
– Effect of experience adjustments	–717	104	–103	–100	–33	–45	**–894**
Exchange rate translation	–	1,692	118	–690	326	307	**1,753**
Benefits paid	–449	–1,358	–110	–269	–398	–317	**–2,902**
Obligations as of December 31, 2016	**14,796**	**19,786**	**2,992**	**7,114**	**3,683**	**5,137**	**53,508**
of which							
Funded defined-benefit plans	14,460	19,071	12	7,114	10	3,595	**44,263**

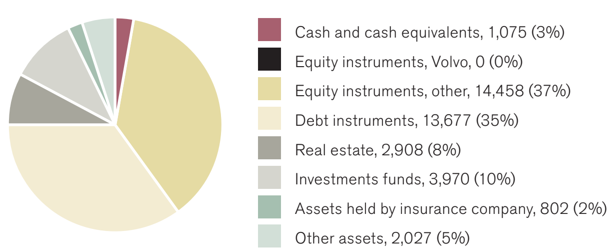
Fair value of plan assets in funded plans	Sweden Pensions	US Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Plan assets opening balance 2015	**9,511**	**15,215**	**8**	**6,772**	**26**	**2,859**	**34,391**
Acquisitions, divestments and other changes	–2	–	–	–	–	–105	**–107**
Interest income	261	621	–	263	1	65	**1,211**
Settlements	–	–	–	–	–	–309	**–309**
Remeasurements	285	–391	–	–167	–5	30	**–247**
Employer contributions	216	397	1	107	–	230	**950**
Employee contributions	–	–	–	14	–	4	**18**
Exchange rate translation	–	1,071	–	132	2	–96	**1,110**
Benefits paid	–1	–1,139	–	–273	–	–202	**–1,615**
Plan assets as of December 31, 2015	**10,270**	**15,774**	**9**	**6,847**	**23**	**2,477**	**35,400**
Acquisitions, divestments and other changes	–	–1	–	–9	–	–50	**–59**
Interest income	359	630	–	236	1	61	**1,287**
Settlements	–	–	–	–	–	–	**–**
Remeasurements	494	519	–1	960	–1	43	**2,014**
Employer contributions	252	399	3	104	–	332	**1,090**
Employee contributions	–	–	–	12	–	3	**15**
Exchange rate translation	–	1,481	–	–695	2	143	**931**
Benefits paid	–1	–1,321	–	–269	–15	–154	**–1,761**
Plan assets as of December 31, 2016	**11,374**	**17,481**	**11**	**7,186**	**9**	**2,855**	**38,917**

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, 2015	**–3,032**	**–2,274**	**–2,565**	**27**	**–3,650**	**–2,144**	**–13,638**
of which reported as:							
B/S Prepaid pensions	–	–	–	27	–	8	**34**
B/S Provisions for post-employment benefits	–3,032	–2,274	–2,565	–	–3,650	–2,151	**–13,673**
Net provisions for post-employment benefits as of December 31, 2016	**–3,422**	**–2,305**	**–2,981**	**72**	**–3,674**	**–2,283**	**–14,590**
of which reported as:							
B/S Prepaid pensions	–	–	–	72	–	7	**79**
B/S Provisions for post-employment benefits	–3,422	–2,305	–2,981	–	–3,674	–2,289	**–14,669**

Plan assets by category as of December 31, 2015



Plan assets by category as of December 31, 2016



Actual return on plan assets amounted to SEK 3,301 M (964).

Fair value of plan assets	Dec 31, 2016	Dec 31, 2015
With a quoted market price		
Cash and cash equivalents	1,075	579
Equity instruments	14,458	13,574
Debt instruments	13,486	13,069
Real estate	2,236	1,653
Derivatives	–29	–4
Investments funds	2,810	3,440
Other	1,952	573
With an unquoted market price		
Other	2,928	2,516
Total	**38,917**	**35,400**

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 2017 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 lead-time 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

The uncertainties about the amount or timing of outflows vary for different kind of provisions. Regarding provisions for warranty, extended coverage, residual value risks and service contracts, the provisions are based on historical statistics and estimated future costs, why the provided amount has a higher correlation with the outflow of resources. Regarding provisions for disputes, like tax and legal disputes, the uncertainty is higher.

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 25,822 M (22,585) as of December 31, 2016. 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 is recognized on a straight-line basis over the term of the commitment and the depreciable amount is adjusted to correspond to 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 equipments 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 equipments. 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.

In cases where the products have been recognized as assets under operating leases, the residual value commitment agreed with the customer is recognized as current and non-current residual value liabilities. For contracts which have been financed by Financial Services the residual value liability is being eliminated on Group level and instead recognized as finance liability both in the Financial Services and Group Balance Sheet.

» **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 that 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. For contracts which have been financed by Financial Services the residual value commitment is recognized as finance liability, hence no contingent liabilities are recognized for these contracts.

» **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. The provision is intended to cover the risk that the expected cost of providing services under the contract exceed the expected revenue.

Provision for service contracts
Service contracts offer the customer preventive maintenance according to an agreed service plan. The provision is intended to cover the risk that the expected cost of providing services and repairs under the contract exceeds the expected revenue.

Legal proceedings
Provisions for legal disputes are included within Other provisions in the table below.

The Volvo Group recognizes obligations as provisions or other liabilities only in cases where the Volvo group 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 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 in the fourth quarter of 2014. An additional provision of EUR 250 M was recognized in the second quarter of 2016. The provisions impacted the Volvo Group's operating income in each of the respective quarters negatively with the same amount. In July 2016, the Volvo Group reached a settlement with the European Commission in the investigation. As part of the settlement, the Volvo Group paid a fine of EUR 670 M in the fourth quarter of 2016. The part of the amount not covered by the provisions already made (EUR 20 M) impacted the Volvo Group's operating income negatively in the third quarter of 2016.

» **Read more in Note 24** Contingent liabilities.

Provision for externally issued credit guarantees for Construction Equipment in China
The provision for externally issued credit guarantees decreased during 2016.

» **Read more in Note 8** Other operating income and expenses and **Note 24** Contingent liabilities.

Provisions in insurance operations
Volvo Group has a captive insurance company and the provisions in insurance operations consist of the claims reserve related to third party claims addressed to companies within the Volvo Group. The claims reserve also includes a provision for unreported losses based on past experience. The unearned premium reserve is reported as an accrued expense within other current liabilities.

Other provisions
Other provisions mainly includes provisions for tax disputes, provisions for legal disputes, provisions for externally issued credit guarantees and other provisions, unless separately specified and commented in the table and text.

	Carrying value as of Dec 31, 2015	Provisions	Reversals	Utilizations	Acquired and divested companies	Translation differences	Other reclassi-fications	Carrying value as of Dec 31, 2016	Of which due within 12 months	Of which due after 12 months
Warranties	11,372	10,038	–2,044	–7,069	1	722	–199	12,821	7,127	5,694
Provisions for extended coverage	1,047	378	–100	–549	–	24	205	1,005	357	648
Provisions in insurance operations	697	150	–18	–186	–	11	–	654	–	654
Restructuring measures	1,297	223	–93	–863	–	64	–42	586	543	43
Provisions for residual value risks	1,004	743	–215	–469	1	61	10	1,135	421	714
Provisions for service contracts	324	285	–116	–169	–1	25	–4	344	179	165
Provision related to EU antitrust investigation	3,658	2,524	–	–6,382	–	200	–	–	–	–
Provision for externally issued credit guarantees for Volvo CE	408	–	–317	–	–	3	–	94	94	–
Other provisions	3,905	3,536	–851	–2,324	–4	287	–51	4,498	2,612	1,886
B/S Total	**23,712**	**17,877**	**–3,754**	**–18,011**	**–3**	**1,397**	**–81**	**21,137**	**11,333**	**9,804**

Long-term provisions as above are expected to be settled within 2 to 3 years.

» **Read more** about restructuring costs in **Note 8** Other operating income and expenses.

» **Read more** about provisions for residual value risks in **Note 24** Contingent liabilities.

NOTE 22 LIABILITIES

ACCOUNTING POLICY

Loans are valued at amortized cost using the effective interest rate method. A hybrid bond issued by AB Volvo 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.

Non-current liabilities

The tables below disclose the Volvo Group's non-current liabilities with the largest loans listed by currency. Loans in the Volvo Group's subsidiaries are mainly in local currencies through Treasury which minimizes the currency exposure in the individual companies. Treasury uses various derivatives to facilitate lending and borrowing in different currencies without increasing the risk for the Volvo Group.

» **Read more in Note 4** about Goals and policies in financial risk management and in **Note 30** about Financial Instruments.

Non-current liabilities Currency/start year/maturity	Actual interest rate Dec 31, 2016, %	Effective interest rate Dec 31, 2016, %	Dec 31, 2016	Dec 31, 2015
Bond loans				
EUR 2012–2016/2018–2078[4]	0.03–4.99	0.03–4.99	48,215	34,525
SEK 2013–2016/2018–2019	0.04–3.39	0.04–3.39	12,438	12,557
JPY 2014/2017			–	693
B/S **Total Bond loans[1]**			**60,653**	**47,776**
Other loans				
USD 2008–2016/2018–2024	1.11–3.00	1.11–3.00	6,157	6,766
EUR 2008–2016/2019–2027	1.05–6.5	1.05–6.50	1,817	1,753
CAD 2016/2019	1.98	1.99	472	754
MXN 2015–2016/2020	6.58–7.33	6.78–7.33	747	981
JPY 2009–2016/2019–2025	0.35–1.23	0.35–1.24	6,688	9,509
BRL 2010–2016/2019–2026	5.51–6.97	5.72–6.97	5,659	5,468
AUD 2015–2016/2019–2020	2.63–2.79	2.67–2.83	597	220
CNY 2012–2016/2018–2019	4.30–4.51	4.30–4.51	518	508
THB 2015/2017			–	348
Other loans			837	609
Revaluation of outstanding derivatives to SEK[2]			406	585
B/S **Total Other loans[1]**			**23,898**	**27,500**
Total Bond loans and Other loans[3]			**84,551**	**75,275**
Other liabilities				
Deferred leasing income			2,709	2,615
Residual value liabilities			5,942	4,939
Deferred service revenue			9,285	7,256
Outstanding interest and currency risk derivatives[2]			176	181
Other non-current liabilities			2,210	1,529
Outstanding raw material derivatives			0	18
B/S **Total Other liabilities**			**20,322**	**16,538**
Total non-current liabilities			**104,873**	**91,813**

1 Of which loans raised to finance the credit portfolio of the Financial Services operations amounted to SEK 44,669 M (25,238) in Bond loans and SEK 19,003 M (29,263) in Other loans.

2 » **Read more in Note 30** Financial Instruments, table Carrying amounts and fair values on Financial Instruments.

3 Of the above non-current loans, SEK 5,213 M (5,926) were secured by assets pledged.

» **Read more in Note 23** Assets pledged.

4 Including the hybrid bond of EUR 1,5 bn. This bond consists of two tranches, EUR 0.9 bn with a first call in 2020 and final maturity in 2075 and EUR 0.6 bn with a first call in 2023 and final maturity in 2078.

Maturity Year	Bond loans and other loans	Not utilized non-current credit facilities[1]
2018	43,687	7,979
2019	19,673	11,491
2020	2,993	–
2021	947	22,025
2022	131	–
2023 or later	17,120	–
Total	**84,551**	**41,495**

1 Current not utilized credit facilities amounted to SEK 958 M (1,576).

» **Read more in Note 15** Customer-financing receivables, table 15:2

AB Volvo issued a hybrid bond in 2014, amounting to EUR 1.5 bn with a maturity of 61,6 years, in order to further strengthen the Volvo Group's balance sheet and prolong the maturity structure of the debt portfolio. The predominant part of non-current loans that mature in 2018 is an effect of the Volvo Group's normal business cycle, with shorter duration in the Financial Services 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.

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

Current liabilities

Loans	Dec 31, 2016	Dec 31, 2015
Bank loans	13,309	14,495
Other loans	43,187	42,836
B/S **Loans**[1, 2]	**56,497**	**57,331**

1 Of which loans raised to finance the Financial Services credit portfolio amounted to SEK 45,876 M (48,786) and outstanding derivatives, at fair value, amounted to SEK 717 M (811).
2 Current loans amounting to SEK 5,027 M (3,299) were secured by assets pledged.

Bank loans include current maturities of non-current loans SEK 4,805 M (6,066). Other loans include current maturities of non-current loans, SEK 30,004 M (32,753), and commercial papers, SEK 8,213 M (5,845).

Non-interest-bearing current liabilities amounted to SEK 98,705 M (98,529), or 64% (63) of the Volvo Group's total current liabilities.

The table below presents the Volvo Group's other current liabilities. In addition to this non-interest-bearing current liabilities also include trade payables of SEK 55,264 M (55,648), current tax liabilities of SEK 685 M (1,322) and non-interest-bearing liabilities held for sale of SEK 148 M (573).

Other current liabilities	Dec 31, 2016	Dec 31, 2015
Advances from customers	4,356	4,026
Wages, salaries and withholding taxes	8,558	8,551
VAT liabilities	2,301	2,401
Accrued expenses for dealer bonuses and rebates[1]	5,129	3,696
Other accrued expenses and deferred income	12,945	12,728
Deferred leasing income	2,026	1,992
Residual value liability	2,590	2,825
Other financial liabilities	485	295
Other liabilities	3,971	4,287
Outstanding interest and currency risk derivatives[2]	241	134
Outstanding raw material derivatives	7	50
B/S **Other current liabilities**	**42,608**	**40,986**

1 » **Read more in Note 21** Other provisions.
2 » **Read more in Note 30** Financial Instruments, regarding current part of Outstanding interest and currency risk derivatives included in table carrying amounts and fair value.

» **Read more in Note 3** Acquisitions and divestments of shares in subsidiaries, table Assets and liabilities held for sale.

» **Read more in Note 23** Assets pledged.

NOTE 23 ASSETS PLEDGED

Assets pledged	Dec 31, 2016	Dec 31, 2015
Property, plant and equipment – mortgages	85	65
Assets under operating leases	228	–
Receivables	10,259	9,323
Cash, loans and marketable securities	20	40
Total	**10,592**	**9,428**

Non-current and current loans of SEK 10,240 M (9,225) were secured by assets pledged.

Under the terms of asset-backed securitizations, SEK 10,031 M (9,064) of securities have been issued tied to US-based loans, secured by customer financing receivables, SEK 10,259 M (9,323), recognized on the balance sheet with trucks and construction equipment assets as collaterals, whereof SEK 6,031 M (6,819) were signed in 2016.

» **Read more in Note 22** Liabilities.

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. Alternatively 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, 2016	Dec 31, 2015
Credit guarantees issued for customers and others	1,406	3,432
Tax claims	5,090	3,976
Residual value guarantees	4,014	3,195
Other contingent liabilities	5,546	4,977
Total contingent liabilities	**16,056**	**15,580**

Total contingent liabilities at December 31, 2016, amounted to net SEK 16,056 M (15,580) and included no contingent assets.

Credit guarantees amounted to SEK 1,406 M (3,432). 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.

A major part of the credit guarantees is still related to the outstanding credit guarantees related to Chinese dealers and retail customers within Construction Equipment. During 2016 the financial situation for Chinese dealers and retail customers has developed positively and the exposure is reduced which is reflected in the decreased recognized amount. However, including both contingent liabilities and on-balance sheet exposure the credit risk is still significant.

Other risks than credit guarantees referring to future credit losses in China, are reflected as on-balance sheet exposures. The provisions for externally issued credit guarantees decreased during 2016 and amounted to SEK 94 M (408) at December 31, 2016 affecting other operating income and expenses positively. This was offset by additional provisions for credit losses for receivables with a negative effect on other operating income and expenses. The net effect on other operating income and expenses was SEK 319 M (747) negatively during 2016. Also increased allowance of SEK 97 M of an entrustment loan to dealers was reported as other financial income and expenses.

Tax claims amounted to SEK 5,090 M (3,976) and pertained to charges against the Volvo Group for which the criteria for recognizing a provision were not met. 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. Out of total tax claims, SEK 2.2 (1.5) billion is related to a transfer price audit in Brazil and SEK 1.1 (0.7) billion to a custom duties audit in India. The increase in contingent liabilities is mainly related to currency changes.

Residual value guarantees amounted to SEK 4,014 M (3,195) 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 provisions.

Other contingent liabilities amounted to SEK 5,546 M (4,977) and included for example bid and performance clauses and legal proceedings.

Legal proceedings

Volvo Group has been subject to the below investigations by competition authorities. Volvo Group has co-operated 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 (KFTC). During 2013 KFTC decided to impose a fine on the Volvo Group in an amount corresponding to approximately SEK 133 M as of September 30, 2016. The Volvo Group appealed against the decision. A decision was rendered in August 2016 by the High Court in Seoul, which found in favor of the Volvo Group's appeal. KFTC filed an appeal of the High Court decision to the Supreme Court in September 2016. The Supreme Court dismissed KFTC's appeal in December 2016 and, consequently, the High Court's decision is final. The previously disclosed contingent liability corresponding to the fine amount has therefore been cancelled.

In January 2011, the Volvo Group and a number of other companies in the truck industry became part of an investigation by the European Commission regarding a possible violation of EU antitrust rules. In July 2016, the Volvo Group reached a settlement with the European Commission in the investigation. Following the adoption of the European Commission's settlement decision, the Volvo Group will be dealing with private damages claims from customers and other third parties alleging that they suffered loss by reason of the conduct covered in the decision. At this stage it is not possible to make a reliable estimate of the amount of any liability that could arise from any such proceedings.

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	2016	2015
Sales to associated companies	1,771	2,448
Purchase from associated companies	2,062	2,258
Receivables from associated companies, Dec 31	352	638
Liabilities to associated companies, Dec 31	438	515

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	2016	2015
Sales to joint ventures	1,756	1,887
Purchase from joint ventures	801	769
Receivables from joint ventures, Dec 31	182	319
Liabilities to joint ventures, Dec 31	169	194

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** Investments in joint ventures, associated companies and other shares and participations

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 2016, government grants of SEK 687 M (495) were received, and SEK 592 M (682) was recognized in the income statement. The amount includes tax credits of SEK 290 M (280) 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

Incentive programs
The Volvo Group has a long-term incentive program in accordance with IAS19 Employee benefits. During the vesting period, it is recognized as an expense and as a short term liability.

The Volvo Group also has share-based incentive programs for the years 2011 to 2013 and for the years 2014 to 2016 (terminated one year in advance), including 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 2016

The Annual General Meeting of 2016 decided upon a policy on remuneration and other employment terms for the members of the Volvo Group Executive Board. The decided principles can be summarized as follows:

The remuneration and the other terms of employment of the Executives shall be competitive so that the Volvo Group can attract and retain competent Executives. The total remuneration to Executives consists of fixed salary, short-term and long-term incentives, pension and other benefits. Short-term and long-term incentives shall be linked to predetermined and measurable criteria relating to EBIT and cash flow targets for the Volvo Group, devised to promote the long-term value creation of the Volvo Group and strengthen the link between achieved performance targets and rewards. The criteria for short-term and long-term incentives shall be determined by the Board annually.

Short-term incentive may, as regards the President and CEO, amount to a maximum of 100% of the fixed salary and, as regards other Executives, a maximum of 80% of the fixed salary.

Long-term incentive may, as regards the President and CEO, amount to a maximum of 100% of the fixed salary and as regards other Executives, a maximum of 80% of the fixed salary. The Board of Directors has decided on a new cash-based long-term incentive program for the Group's top 300 executives, including the Executives, subject to the general meeting's approval of this policy. Awards under the program, based on how well the performance targets are achieved, are disbursed in cash to the participants on the condition that they invest the net award in AB Volvo shares and that they retain the shares for at least three years. The long-term share-based incentive program resolved by the 2014 Annual General Meeting is therefore discontinued after 2015. New share-based incentive programs, will, where applicable, be resolved by the General Meeting, but no such program is currently proposed.

For Executives resident in Sweden, the notice period upon termination by the company shall not exceed 12 months and the notice period upon termination by the Executive shall not exceed 6 months. In addition, in the event of termination by the company, the Executive may be entitled to a maximum of 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.

The Board of Directors may deviate from this policy if there are special reasons to do so in an individual case.

Fee paid to the Board of Directors

According to a resolution adopted at the Annual General Meeting 2016, the fee to the Board of Directors appointed at the Annual General Meeting for the period until the close of the Annual General Meeting 2017 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 salary, short-term and long-term incentives
The President and CEO is entitled to a remuneration consisting of a fixed annual salary and short-term and long-term incentives. During the financial year 2016, the short-term and long-term incentives are based on EBIT and cash flow for the Volvo Group. The short-term and long-term incentives, each, amounts to a maximum of 100% of the fixed annual salary.

For the financial year 2016, Martin Lundstedt received a fixed salary of SEK 12,755,712 and a short-term incentive of SEK 3,105,894. The short-term incentive is 24.6% of the base salary. Other benefits, mainly pertaining to car and housing, amounted to SEK 311,516 in 2016. Martin Lundstedt was also participating in the long-term incentive program decided by the Board of Directors. During the financial year the outcome of the long-term incentive program amounted to SEK 3,105,894 of which the full net amount shall be invested in Volvo B shares. Payment of the amount is subject to the General Meetings approval.

Pensions
The President and CEO 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 short-term and long-term incentive component. The premium for the VMP is SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts and the premium for VEP is 10% of pensionable salary. There are no commitments other than the payment of the premiums. In addition to the collective bargain agreement the disability pension is 40% of pensionable salary between 30–50 income base amounts. The right to disability pension is conditional to employment and will cease upon termination of duty.

The President and CEO is also covered by Volvo Företagspension, a defined contribution plan for additional retirement benefit. The premium is negotiated each year. For 2016 the premium amounted to SEK 583 a month.

Total pension premiums 2016 amounted to SEK 4,003,740 for Martin Lundstedt.

Severance payments
Martin Lundstedt has a 6 months notice of termination on his own initiative and 12 months' notice of termination from AB Volvo. If terminated by the company, Martin Lundstedt is entitled to a severance payment equivalent to 12 months' salary. In the event he gains employment during the severance period, severance pay is reduced with an amount equal to 100% of the income from the new employment.

Remuneration to the Group Executive Board
Fixed salary, short-term and long-term incentives
Members of Group Executive Board receive short-term and long-term incentives in addition to fixed salaries. Short-term and long-term incentives are based on the fulfilment of certain improvement targets or financial targets. The targets are decided by the Board of Directors in AB Volvo and are based on EBIT and cash flow for the Volvo Group. During 2016, short-term and long-term incentives, for Group Executive Board members excluding the CEO, could each amount to a maximum of 80% of the fixed annual salary.

For the financial year 2016, fixed salaries amounted to SEK 67,352,200 and short-term incentive amounted to SEK 10,094,294 for Group Executive Board members excluding the CEO. The short-term incentive is 19.7% of the base salary. Group Executive Board comprised, excluding the CEO, of 12 members at the beginning and 12 at the end of the year. Other benefits, mainly pertaining to car and housing, amounted to SEK 7,654,703 in 2016.

Group Executive Board members, also participate in the long-term share-based incentive programs decided by the Annual General Meeting 2014. During 2016, 57,861 shares granted under the 2012 and 2013 programs corresponding to a taxable value of SEK 4,900,231 have been allotted to Group Executive Board members.

The Group Executive Board, excluding CEO, was also participating in the long-term incentive program decided by the Board of Directors in 2016. During the financial year the outcome of the long-term incentive program amounted to SEK 10,094,294 of which the full net amount shall be invested in Volvo B shares. Payment of the amount is subject to the General Meetings approval.

Pensions
Group Executive Board members resident in Sweden 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% 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% 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 Board excluding the CEO amounted to SEK 29,085,927 in 2016.

Severance payments
The employment contracts for Group Executive Board members contain rules governing severance payments when the company terminates the employment. For Executives resident in Sweden, the notice period upon termination by the company shall not exceed 12 months and the notice period upon termination by the Executive shall not exceed 6 months. In addition, in the event of termination by the company, the Executive may be entitled to a maximum of 12 months' severance pay.

Executives resident outside Sweden or resident in Sweden but having a material connection to or having 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.

Volvo Group's total costs for remuneration and benefits to the Group Executive Board
The total costs for remuneration and benefits to the Group Executive Board amounted to SEK 175 M (159) and pertained to fixed salary, short-term and long-term incentives, other benefits, pensions and severance compensations. It also included social fees on salaries and benefits, special pension tax and additional costs for other benefits. The cost related to the long-term share-based incentive program is reflected over the vesting period and amounted to SEK 18 M (14) for 2016. 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 2016, a part of the shares granted under the programs during 2012 and 2013 have been allotted to the participants (see further information in the table Long-term share-based incentive program on the next page).

Long-term share-based incentive program 2014–2015
The Annual General Meeting held in 2014 approved a long-term share-based incentive program for up to 300 Group and senior executives and comprising the years 2014 to 2016. The Board of Director's has in 2016 approved this program to be replaced by a new program as from 2016 with the effect of terminating current program one year in advance (read more under Remuneration policy decided at the Annual General Meeting 2016. During 2016, a part of the shares granted under the programs during 2014 and 2015 have been allotted to the participants (see further information in the table Long-term share-based incentive program on the next page).

Long-term incentive program valid from 2016
The Board of Director's has in 2016 approved a long-term incentive program comprising the top 300 executives in the Volvo Group. This program replaces the previous long-term share-based incentive program approved in 2014. A prerequisite for participation in the program is that the participants shall undertake to invest the annual net (after tax) pay-out amounts under the plan in Volvo B-shares and to hold those shares for at least three years.

Long-term incentive may, as regards the President & CEO, amount to a maximum of 100% of the fixed salary and, as regards other Executives, a maximum of 80% of the fixed salary. There will however be no pay-out under the long-term incentive program if the Annual General Meeting to be held in 2017 decides not to distribute any dividend to the shareholders.

Long-term share-based incentive program (equity-settled version)	Vesting year	Beginning of the year	Adjustment	Cancelled/ forfeited 2016	Allotments during 2016	End of the year	Cost 2016 (SEK M)[1]
		Shares granted conditional under the plan but not yet allotted (in thousand shares)					
Year 2011 incentive program	2014/2015	**3**	–	–	–3	–	–
Year 2012 incentive program	2015/2016	**313**	–	–	–313	–	0.8
Year 2013 incentive program	2016/2017	**395**	–	–3	–271	**121**	10.2
Year 2014 Incentive program	2017/2018	**446**	–	–6	–68	**372**	15.5
Year 2015 incentive program	2018/2019	**1,543**	170	–14	–69	**1,630**	80.4
Total		**2,699**	**170**	**–22**	**–725**	**2,122**	**106.8**

1 The fair value of the payments is determined based on the share price at the grant date reduced by the discounted value of expected dividends connected with the share during the vesting period. The cost for the program is recognized over the vesting period. The cost includes social security cost.

The cost for the cash-settled version of the incentive program amounted to SEK 14 M (6) including social security cost during 2016, and the total liability amounted to SEK 14 M (6) as of December 31, 2016.

The allotment during the year 2016 mainly pertained to the shares granted under the program during the years 2012 and 2013. During 2016, for the equity-settled plan, a total of 725,210 shares (1,377,988) have been allotted to participants. For the cash-settled plan, a total of SEK 2 M (13) has been allotted during 2016.

Average number of employees	2016 Number of employees	2016 of which women, %	2015 Number of employees	2015 of which women, %
AB Volvo				
Sweden	314	50	322	50
Subsidiaries				
Sweden	18,606	21	19,854	21
Western Europe (excl. Sweden)	21,022	15	22,146	15
Eastern Europe	5,566	21	5,792	21
North America	14,150	19	15,427	19
South America	5,279	15	6,074	15
Asia	17,279	13	18,005	13
Other countries	2,437	16	2,573	16
Group total	**84,653**	**17**	**90,193**	**18**

Board members[1] and other senior executives	2016 Number at year-end	2016 of which women, %	2015 Number at year-end	2015 of which women, %
AB Volvo				
Board members[1]	11	36	9	33
CEO and other senior executives	12	17	10	30
Volvo Group				
Board members[1]	483	22	471	23
Presidents and other senior executives	613	24	624	22

1 Excluding deputy Board members.

Wages, salaries and other remunerations SEK M	2016 Board and Presidents[1]	2016 of which variable salaries	2016 Other employees	2015 Board and Presidents[1]	2015 of which variable salaries	2015 Other employees
AB Volvo	30.2	5.1	350,4	56.8	5.3	356.0
Subsidiaries	578.9	63,8	38,109.9	684.6	75.5	39,360.1
Group total	**609.1**	**68.9**	**38,460.3**	**741.4**	**80.8**	**39,716.1**

Wages, salaries and other remunerations and social costs SEK M	2016 Wages, salaries remuneration	2016 Social costs	2016 Pension costs	2015 Wages, salaries remuneration	2015 Social costs	2015 Pension costs
AB Volvo[2]	380.6	106.8	114.2	412.8	123.1	119.7
Subsidiaries	38,688.9	8,121.3	3,769.6	40,044.7	8,871.7	4,219.9
Group total[3]	**39,069.4**	**8,228.1**	**3,883.8**	**40,457.5**	**8,994.8**	**4,339.6**

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 93 M (89) 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 687 M (600).

The cost for non-monetary benefits in the Volvo Group amounted to SEK 2,472 M (3,007) of which SEK 150 M (80) to Board members and Presidents.

The cost for non-monetary benefits in the Parent Company amounted to SEK 11.6 M (14.4) of which SEK 0.5 M (1.5) to Board members and Presidents.

NOTE 28 FEES TO THE AUDITORS

Fees to the auditors	2016	2015
PricewaterhouseCoopers AB		
– Audit fees	104	105
– Audit-related fees	4	5
– Tax advisory services	9	13
– Other fees	4	14
Total	**121**	**137**
Audit fees to others	3	3
Volvo Group Total	**124**	**140**

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 Acquired and divested operations and are included in cash flow from investing activities.

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

As of January 1, 2016 a divestment of an operation with the main purpose to dispose the fixed assets is included in the item disposal of fixed assets and leasing vehicles.

Other non-cash items	2016	2015
Risk provisions and losses related to doubtful accounts receivable/customer-financing receivables[1]	1,084	1,376
Capital gains/losses on divested operations	–937	–293
Unrealized exchange rate gains/losses on accounts receivable and payable	–156	257
Unrealized exchange rate gains/losses on other operating assets and liabilities	122	458
Provision for global profit sharing program	350	450
Provision for incentive program	484	66
Provision for restructuring cost	–	1,120
Gains/losses on sale of property, plant & equipment	–1,083	–17
Gains/losses on sale of shares and participations	–131	–4,590
Credit losses in Construction Equipment in China[1]	–32	398
Other changes	–132	323
Total Other items not affecting cash flow	**–431**	**–452**

1 SEK 247 M (349) is included in risk provisions related to doubtful accounts receivables.

» **Read more in Note 8** Other operating income and expenses about expected credit losses in Construction Equipment in China.

Acquired and divested shares and participations, net	2016	2015
New issue of shares	–3	–5
Capital contribution	–1	151
Acquisitions	–10	–7,072
Divestments	265	4,900
Other	–27	42
Total cash flow from acquired and divested shares and participations, net	**224**	**–1,984**

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

Acquired and divested operations, net	2016	2015
Acquired subsidiaries and other business units	–56	–
Divested subsidiaries and other business units	1,480	408
Total cash flow from acquired and divested subsidiaries and other business units	**1,425**	**408**

In 2016 Volvo Group sold its external IT operations and operation of its IT infrastructure to HCL Technologies. The sale generated a positive cash flow of SEK 1.1 billion.

» **Read more in Note 3** Acquisitions and divestments of shares in subsidiaries regarding the effect on net financial position from the acquisitions and divestments.

Changes in loans, net	2016	2015
New borrowings	177,573	127,059
Amortizations	–174,090	–132,437
Syndications	–5,638	–6,965
Changes in group composition	70	84
Other	–160	–988
Changes in loans, net	**–2,245**	**–13,247**

During 2016 bond loans and other loans in the Volvo Group increased by SEK 8.4 billion, whereof currency effects from revaluation of foreign subsidiaries increased the total debt by SEK 10,5 billion. Syndications were performed in Financial Services to an amount of SEK 5.6 billion (7.0). All syndications impacted cash flow this year. Changes in loans, net has been adjusted for currency effects in the cash flow.

Realized gains and losses on derivatives used to hedge future commercial cash flows amounted to positive SEK 0.2 billion (negative 0.6) and is included in Other in the table Changes in loans, net.

» **Read more in Note 22** Liabilities regarding Bond loans and other loans.

» **Read more in Group performance** regarding Cashflow and Net financial Position.

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 admission of financial liabilities are amortized over the term of the loan as financial cost.

A financial asset is derecognized from the balance sheet when all significant risks and benefits related 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 and level 3 for not listed and call options based on the Black & Scholes option pricing formula which are classified as level 3. 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. For forward exchange contracts the basis is the forward premium based on current spot rate for each currency and future date. The fair value is then discounted based on the forward rates as per the 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 the 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-financing portfolio within Financial Services as well as the debt portfolio 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 in Financial Services, 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. Realized result and unrealized revaluation of derivatives are recognized in Other financial income and expenses to be able to net all internal flows before entering into external derivatives to hedge future currency risk. When hedging future cash flows for specific orders the classification in the income statement is decided on a case by case basis, according to the Volvo Group financial risk policy. In 2016 gains and losses from derivatives hedging currency risks for specific orders of SEK 51 M have been recognized in Operating income and SEK 61 M in Other financial income and expenses.

» **Read more in Note 9** about the effect in the income statement from realized result and unrealized revaluation of 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 receivables, customer-finance receivables and other interest-bearing receivables.

» **Read more in Note 15** for accounting policy on customer-financing receivables.

» **Read more in Note 16** for accounting policy on account receivables 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 categories. 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 on Financial Instruments		Dec 31, 2016		Dec 31, 2015	
SEK M		Carrying value	Fair value	Carrying value	Fair value
Assets					
Financial assets at fair value through the income statement					
The Volvo Group's outstanding interest and currency risk derivatives[3]	Note 16	3,026	3,026	2,622	2,622
The Volvo Group's outstanding raw material derivatives	Note 16	33	33	6	6
Other derivatives[4]		564	564	564	564
B/S Marketable securities	Note 18	1,223	1,223	3,344	3,344
		4,845	4,845	6,536	6,536
Loans and receivables					
B/S Accounts receivable	Note 16	34,419	–	29,101	–
Customer financing receivables[1]	Note 15	110,821	–	102,583	–
Other interest-bearing receivables	Note 16	1,105	–	1,482	–
		146,345		133,166	–
Financial assets available for sale					
Holding of shares in listed companies	Note 5	491	491	507	507
Holding of shares in non-listed companies	Note 5	285	–	394	–
		777	491	902	507
B/S **Cash and cash equivalents**	Note 18	23,949	23,949	21,048	21,048
Liabilities	Note 22				
Financial liabilities at fair value through the income statement					
The Volvo Group's outstanding interest and currency risks derivatives		1,540	1,540	1,711	1,711
The Volvo Group's outstanding raw material derivatives		6	6	68	68
		1,546	1,546	1,779	1,779
Financial liabilities valued at amortized cost[2]					
Long term bond loans and other loans		84,145	86,926	74,691	78,576
Short term bank loans and other loans		55,780	55,720	56,521	56,056
		139,925	142,646	131,211	134,632
B/S **Trade Payables**		55,264	–	55,648	–

1 Volvo does not estimate the risk premium for the customer financing receivables and therefore chooses not to disclose fair value for this category.

2 In the Volvo Group consolidated financial position, financial liabilities include loan-related derivatives amounting to SEK –1,122 M (–1,395). The credit risk is included in the fair value of loans.

3 The Volvo Group's gross exposure from positive derivatives is reduced by 65% (53) by netting agreements and cash deposits to SEK 1,049 M (1,531).

4 The input data used in the valuation model for calculating the fair value has not changed during 2016.

» **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 recognized assets of the Volvo Group dependent on the risk and rewards related to the asset that have been transferred to the recipient. 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 that 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 considered not to be transferred the amount is kept on the balance sheet in full. Transferred financial assets that do not fulfill the requirements for derecognition amounted to SEK 0.8 bn (0.4). Financial assets for which substantially all risks and rewards have been transferred are derecognized from the Volvo Group's balance sheet. 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 0.2 bn (0.5).

The Volvo Group's maximum exposure to loss is considered being the total recourse relating to transferred assets that are part of the recognized 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 going into default at the same time is considered to be low. The gross exposure for the Volvo Group amounted to SEK 1.4 billion (3.4) related to credit guarantees issued for customers and others and is part of the Volvo Group's contingent liabilities. 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 21** regarding Other provisions

» **Read more in Note 24** regarding Contingent Liabilities.

Gains, losses, interest income and expenses from 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 by the different categories of financial instruments.

Recognized in operating income[1]	2016			2015		
SEK M	Gain/loss	Interest income	Interest expense[7]	Gain/loss	Interest income	Interest expense[7]
Financial assets and liabilities at fair value through the income statement[2]						
Currency risk derivatives[3]	51			–11	–	–
Loans receivable and other receivables						
Accounts receivables/trade payables[1]	–757			–913	–	–
Customer financing receivables Financial Services[1]	62	5,235		75	5,128	–
Financial assets available for sale						
Shares and participations for which a market value can be calculated[6]	37			4,650	–	–
Shares and participations for which a market value cannot be calculated	114			28	–	–
Financial liabilities valued at amortized cost[4]			–1,845		–	–1,945
Impact on operating income	**–494**	**5,235**	**–1,845**	**3,829**	**5,128**	**–1,945**

Recognized in net financial items[5,7]	Gain/loss 2016	Interest income 2016	Interest expense 2016	Gain/loss 2015	Interest income 2015	Interest expense 2015
Financial assets and liabilities at fair value through the income statement						
Marketable securities	–	7		–	14	
Interest and currency rate risk derivatives[2,3]	–952	3	–235	298	1	–208
Loans receivable and other receivables						
Cash and Cash equivalents	–	229		–	242	
Financial liabilities valued at amortized cost	1,344		–1,200	–841		–1,698
Impact on net financial items[5,7]	**392**	**240**	**–1,435**	**–543**	**257**	**–1,906**

1 Information is provided regarding changes in provisions for doubtful receivables and customer-financing in Notes 15, Customer-financing receivables and note 16, Accounts 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 of currency risk contracts are included in the table.

4 Interest expenses attributable to financial liabilities valued at amortized cost recognized in operating income include interest expenses for financing operating lease activities, which are not classified as Financial Instruments.

5 In gain, loss, income and expense related to financial instruments recognized in Net financial items, SEK 392 M (–543) was recognized under Other financial income and expenses.

6 During 2015 Volvo Group sold the holding of the shares in the listed Indian automotive manufacturer Eicher Motors Limited. The sale generated a gain of SEK 4.6 billion.

7 Interest expenses reported in net financial items attributable to pensions, SEK 411 M (460) are not included in this table.

» **Read more in Note 4**, Goals and policies in financial risk managment.

» **Read more in Note 9**, Other financial income and expenses for further information.

» **Read more in Note 5**, Investments in joint ventures, associated companies and other shares and participations for further information about the divestments of the shares in Eicher Motors limited.

In the table below outstanding derivatives hedging currency and interest rate risks is presented.

Outstanding derivative instruments

SEK M	Dec 31, 2016 Nominal amount	Dec 31, 2016 Carrying value	Dec 31, 2015 Nominal amount	Dec 31, 2015 Carrying value
Interest-rate swaps				
– receivable position	88,715	2,413	87,712	1,824
– payable position	74,249	–1,072	66,793	–763
Forwards and futures				
– receivable position	2,000	0	–	–
Foreign exchange derivatives				
– receivable position	25,136	593	44,386	793
– payable position	18,776	–452	16,019	–333
Options purchased				
– receivable position	1,518	20	627	5
– payable position	48	–	84	–
Options written				
– receivable position	48	0	–	–
– payable position	1,413	–16	755	–3
Subtotal		**1,486**		**1,522**
Raw material derivatives				
– receivable position	180	33	27	6
– payable position	259	–6	236	–68
Total		**1,512**		**1,460**

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 472 M (872). Changes in fair value of the loan related to hedge accounting amounted to SEK –194 M (–611). The changes in the fair value of the hedge instruments and on the loan have been recognized in the 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 (OCI). 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.

» **Read more in Note 4**, Goals and policies in financial risk management.

» **Refer to Note 19**, Equity and numbers of shares for information on the changes in the fair value on derivatives hedging forecasted electricity consumption recognized in the cash flow hedge reserve in OCI.

» **Refer to accounting policies** in this note for all other hedging relationships where hedge accounting is not applied.

Parent Company AB Volvo

Corporate registration number 556012-5790.

Amounts in SEK M unless otherwise specified. Amounts within parentheses refer to the preceding year, 2015.

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 1,473 (1,061) and transfer price adjustments and royalties amounting to an expense of 331 (775).

During 2015, capital gain from divestment of the holding in Eicher Motors Ltd. amounted to 4,608. Reversal of revaluation to market value amounted to 3,995 and was recognized in other comprehensive income.

The carrying value of shares and participations in Group companies amounted to 60,816 (60,766), of which 59,694 (60,092) 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 111,678 (103,382).

Total investments at year end in joint ventures and associated companies, recognized in accordance with the equity method in the consolidated accounts, amounted to 10,348 (10,392). The portion of shareholders' equity in joint ventures and associated companies pertaining to AB Volvo amounted to 8,487 (8,026).

Financial net debt amounted to 38,890 (42,933).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 45,600 (41,010) corresponding to 48% (41%) of total assets.

INCOME STATEMENT

SEK M		2016	2015
Net sales	Note 2	**625**	**884**
Cost of sales	Note 2	–625	–884
Gross income		**0**	**0**
Administrative expenses	Note 2, 3	–1,401	–1,342
Other operating income and expenses	Note 4	–44	–161
Income from investments in Group companies	Note 5	774	288
Income from investments in joint ventures and associated companies	Note 6	27	84
Income from other investments	Note 7	18	4,612
Operating income		**–626**	**3,481**
Interest income and similar credits		0	0
Interest expenses and similar charges	Note 8	–902	–1,195
Other financial income and expenses	Note 9	26	–9
Income after financial items		**–1,502**	**2,277**
Allocations	Note 10	11,265	12,565
Income taxes	Note 11	–1,636	–2,103
Income for the period		**8,127**	**12,739**

OTHER COMPREHENSIVE INCOME

Income for the period	**8,127**	**12,739**
Items that may be reclassified subsequently to income statement:		
Available-for-sale investments	–	–3,995
Other comprehensive income, net of income taxes	**–**	**–3,995**
Total comprehensive income for the period	**8,127**	**8,744**

BALANCE SHEET

SEK M		Dec 31, 2016	Dec 31, 2015
Assets			
Non-current assets			
Intangible assets	Note 12	–	8
Tangible assets	Note 12	11	41
Financial assets			
Shares and participations in Group companies	Note 13	60,816	60,766
Receivables from Group companies		48	54
Investments in joint ventures and associated companies	Note 13	10,353	10,397
Other shares and participations	Note 13	7	13
Deferred tax assets	Note 11	168	157
Other non-current receivables		0	–
Total non-current assets		**71,403**	**71,436**
Current assets			
Current receivables			
Receivables Group companies		23,332	28,627
Tax assets		2	–
Other receivables	Note 14	235	116
Total current assets		**23,569**	**28,743**
Total assets		**94,972**	**100,179**
Shareholders' equity and liabilities			
Shareholders' equity			
Restricted equity			
Share capital		2,554	2,554
Statutory reserve		7,337	7,337
Unrestricted equity			
Non-restricted reserves		327	302
Retained earnings		24,753	18,074
Income for the period		8,127	12,739
Total shareholders' equity		**43,098**	**41,006**
Untaxed reserves	Note 15	**2,502**	**4**
Provisions			
Provisions for post-employment benefits	Note 16	112	117
Other provisions	Note 17	6	11
Total provisions		**118**	**128**
Non-current liabilities	Note 18		
Liabilities to Group companies		13,973	13,973
Other liabilities		5	3
Total non-current liabilities		**13,978**	**13,976**
Current liabilities			
Trade payables		193	170
Other liabilities to Group companies		34,504	44,470
Tax liabilities		176	44
Other liabilities	Note 19	403	381
Total current liabilities		**35,276**	**45,065**
Total shareholders' equity and liabilities		**94,972**	**100,179**

CASH FLOW STATEMENT

SEK M		2016	2015
Operating activities			
Operating income		−626	3,481
Depreciation and amortization		10	17
Other non-cash items	Note 21	460	−5,104
Total change in working capital whereof		447	3
Change in accounts receivable		*−179*	*−166*
Change in trade payables		*−8*	*5*
Other changes in working capital		*634*	*164*
Interest and similar items received		0	0
Interest and similar items paid		−910	−1,171
Other financial items		6	−18
Group contributions received		12,566	3,504
Income taxes paid		−1,517	0
Cash-flow from operating activities		**10,436**	**712**
Investing activities			
Investments in fixed assets		−1	−10
Disposals of fixed assets		32	21
Investments and divestments of shares in group companies, net	Note 21	−418	519
Investments and divestments of shares in non-group companies, net	Note 21	24	−2,207
Interest-bearing receivables		–	26
Cash-flow after net investments		**10,073**	**−939**
Financing activities			
Change in loans, net	Note 21	−4,018	6,953
Dividends to AB Volvo shareholders		−6,093	−6,090
Other		38	76
Change in liquid funds		**0**	**0**
Liquid funds, beginning of year		**–**	**0**
Liquid funds, end of year		**–**	**–**

CHANGES IN SHAREHOLDERS' EQUITY

	Restricted equity		Unrestricted equity				
SEK M	Share capital	Statutory reserve	Share premium reserve	Fair value reserve	Retained earnings	Total	Total shareholders' equity
Balance at December 31, 2014	**2,554**	**7,337**	**257**	**3,995**	**24,143**	**28,395**	**38,286**
Income for the period	–	–	–	–	12,739	12,739	12,739
Other comprehensive income							
Available-for-sale investments:							
Divestment of fair value investment	–	–	–	–3,995	–	–3,995	–3,995
Other comprehensive income for the period	–	–	–	–3,995	–	–3,995	–3,995
Total income for the period	**–**	**–**	**–**	**–3,995**	**12,739**	**8,744**	**8,744**
Transactions with shareholders							
Dividends to AB Volvo shareholders	–	–	–	–	–6,090	–6,090	–6,090
Share based payments	–	–	45	–	21	66	66
Transactions with shareholders	–	–	45	–	–6,069	–6,024	–6,024
Balance at December 31, 2015	**2,554**	**7,337**	**302**	**–**	**30,813**	**31,115**	**41,006**
Income for the period	–	–	–	–	8,127	8,127	8,127
Other comprehensive income							
Available-for-sale investments:							
Divestment of fair value investment	–	–	–	–	–	–	–
Other comprehensive income for the period	–	–	–	–	–	–	–
Total income for the period	–	–	–	**–**	**8,127**	**8,127**	**8,127**
Transactions with shareholders							
Dividends to AB Volvo shareholders	–	–	–	–	–6,093	–6,093	–6,093
Share based payments	–	–	25	–	33	58	58
Transactions with shareholders	–	–	25	–	–6,060	–6,035	–6,035
Balance at December 31, 2016	**2,554**	**7,337**	**327**	–	**32,880**	**33,207**	**43,098**

» **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, 2015.

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, 2016, 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. In accordance with RFR 2, the Parent Company includes expenses related to acquisition of a business in the acquisition value. Dividend is recognized in the income statement. All shares and participations are related to business operations and profit or loss are recognized 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 applied for supplementary disclosures when applicable. RFR 2 refers to the Swedish law on safeguarding of pension commitments ("tryggandelagen") related to recognition 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 625 (884), of which 528 (756) pertained to Group companies. Purchases from Group companies amounted to 583 (810).

NOTE 3 ADMINISTRATIVE EXPENSES

Depreciation

Administrative expenses include depreciation of 10 (17) of which 1 (1) pertains to machinery and equipment, 0 (1) to buildings and 8 (15) to other intangible assets.

Fees to the auditors	2016	2015
PricewaterhouseCoopers AB		
– Audit fees	23	21
– Audit-related fees	1	1
– Tax advisory services	–	1
– Other fees	–	1
Total	**24**	**24**

» **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 381 (413), social costs to 107 (123) and pension costs to 108 (123). Pension cost of 5 (9) pertained to Board Members and the President. The Parent Company has outstanding pension obligations of 0 (1) to these individuals.

The number of employees at year end was 309 (327).

» **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 and Volvo profit sharing program costs by 3 (3).

NOTE 5 INCOME FROM INVESTMENTS IN GROUP COMPANIES

Income from investments in Group Companies	2016	2015
Dividends received		
Volvo Holding Sverige AB, Sweden	747	–
Volvo Korea Holding AB, Sweden	561	–
Volvo Danmark A/S, Denmark	69	–
Volvo Norge AS, Norway	65	–
Volvo Group UK Ltd., Great Britain	31	–
Volvo Automotive Finance (China) Ltd., China	–	477
Volvo Financial Services AB, Sweden	–	565
Volvo Malaysia Sdn Bhd., Malaysia	–	19
Subtotal	**1,473**	**1,061**
Impairment of shares		
UD Trucks Corporation, Japan	–417	–
Volvo Logistics AB, Sweden	–	–85
Volvo Business Services AB, Sweden	–	–67
Volvo East Asia (Pte) Ltd., Singapore	–	–9
Alviva AB, Sweden	–	–5
Subtotal	**–417**	**–166**
Reversal impairment of shares		
Volvo Parts AB, Sweden	50	–
Volvo Danmark A/S, Denmark	–	30
Subtotal	**50**	**30**
Income from divestment of shares		
Part of Volvo Norge AS after fission	0	134
Adjustment of divestment Volvo Aero AB	–1	4
Subtotal	**–1**	**138**
Income from investments in Group Companies	**1,105**	**1,063**

Transfer price adjustments and royalties amount to an expense of 331 (775).

NOTE 6 INCOME FROM INVESTMENTS IN JOINT VENTURES AND ASSOCIATED COMPANIES

Income from investments in joint ventures and associated companies include dividend from VE Commercial Vehicles, Ltd. of 51 (35), and from Deutz AG of 20 (20). Income include impairment of participation in Blue Chip Jet HB with 2 and in Blue Chip Jet II HB with 42. In 2015, reversal of impairment of participation in Blue Chip Jet HB was made with 4 and in Blue Chip Jet II HB with 25.

NOTE 7 INCOME FROM OTHER INVESTMENTS

Income from other investments includes gain from divestment of participation in Brf Falken of 19. Impairment of shares in Johanneberg Science Park AB and Lindholmen Science Park AB was made by an expense of 1 (3).

In 2015, income from other investments included gain from divestment of the holding in Eicher Motors Ltd. of 4,608. Dividend of 7 was received from Eicher Motors Ltd.

NOTE 8 INTEREST EXPENSES

Interest expenses and similar charges totalling 902 (1,195) included interest of 901 (1,193) 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 stock exchange listing cost.

NOTE 10 ALLOCATIONS

Allocations include a net of group contributions of 13,763 (12,566), tax allocation reserve of –2,500 (–) and additional depreciation of 2 (–1).

NOTE 11 INCOME TAXES

Income taxes were distributed as follow:

	2016	2015
Current taxes relating to the period	–1,809	–69
Adjustment of current taxes for prior period	162	–
Deferred taxes	11	–2,034
I/S **Total income taxes**	**–1,636**	**–2,103**

Deferred taxes relate to estimated tax on the change in tax-loss carry-forwards and temporary differences.

The table below discloses the principal reasons for the difference between the corporate income tax of 22% and the tax for the period:

	2016	2015
Income before taxes	9,763	14,842
Income tax according to applicable tax rate	–2,148	–3,265
Capital gains/losses	0	1,044
Non-taxable dividends	340	247
Non-taxable revaluations of shareholdings	–412	–24
Other non-deductible expenses	309	–26
Other non-taxable income	109	0
Withholding tax	–	–24
Adjustment of current taxes for prior period	162	–
Adjustment of deferred taxes for prior periods	4	–55
Income taxes for the period	**–1,636**	**–2,103**

Specification of deferred tax assets	Dec 31, 2016	Dec 31, 2015
Provisions for post-employment benefits	166	154
Provisions for restructuring measures	2	3
B/S **Deferred tax assets**	**168**	**157**

NOTE 12 INTANGIBLE AND TANGIBLE ASSETS

Intangible assets, acquisition costs	Rights	Other intangible assets	Total intangible assets
Opening balance 2015	52	116	**168**
Acquisition cost as of Dec 31, 2015	**52**	**116**	**168**
Acquisition cost as of Dec 31, 2016	**52**	**116**	**168**

Intangible assets, accumulated amortization	Rights	Other intangible assets	Total intangible assets
Opening balance 2015	52	93	**145**
Amortization	–	15	**15**
Accumulated amortization as of Dec 31, 2015	**52**	**108**	**160**
Amortization	–	8	**8**
Accumulated amortization as of Dec 31, 2016	**52**	**116**	**168**
B/S **Net value in balance sheet as of Dec 31, 2015**[1]	**–**	**8**	**8**
B/S **Net value in balance sheet as of Dec 31, 2016**[1]	**–**	**–**	**–**

Tangible assets, acquisition costs	Buildings	Land and improvements	Machinery and equipment	Construction in progress, including advance payments	Total tangible assets
Opening balance 2015	21	11	47	11	**90**
Capital Expenditures	–	–	–	10	**10**
Sales/scrapping	–	–	–	–21	**–21**
Acquisition cost as of Dec 31, 2015	**21**	**11**	**47**	**0**	**79**
Capital Expenditures	–	–	–	1	**1**
Sales/scrapping	–21	–11	–25	–	**–57**
Acquisition cost as of Dec 31, 2016	**–**	**–**	**22**	**1**	**23**

Tangible assets, accumulated depreciation	Buildings	Land and improvements	Machinery and equipment	Construction in progress, including advance payments	Total tangible assets
Opening balance 2015	3	0	33	–	**36**
Depreciation	1	0	1	–	**2**
Accumulated depreciation as Dec 31, 2015	**4**	**0**	**34**	**–**	**38**
Depreciation	–	0	1	–	**1**
Sales/scrapping	–4	0	–23	–	**–27**
Accumulated depreciation as of Dec 31, 2016	**–**	**–**	**12**	**–**	**12**
B/S **Net value in balance sheet as of Dec 31, 2015**[1]	**17**	**11**	**13**	**0**	**41**
B/S **Net value in balance sheet as of Dec 31, 2016**[1]	**–**	**–**	**10**	**1**	**11**

1 Acquisition value, less accumulated depreciation, amortization and impairment.

NOTE 13 INVESTMENTS IN SHARES AND PARTICIPATIONS

AB Volvo owns, directly or indirectly, 260 (278) 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 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	
	2016	2015	2016	2015	2016	2015
Opening balance as of January 1	60,766	61,283	10,397	3,322	13	4,241
Acquisitions/New issue of shares	–	–	–	7,197	–	–
Divestments	–	–381	–	–	–6	–232
Shareholder's contribution	417	–	–	–	1	2
Repayment of equity	–	–	–	–151	–	–
Impairment of shares and participations	–417	–166	–44	–	–1	–3
Reversal impairment of shares and participations	50	30	–	29	–	–
Revaluation of shares in listed companies	–	–	–	–	–	–3,995
B/S Balance sheet, December 31	**60,816**	**60,766**	**10,353**	**10,397**	**7**	**13**

Holding of shares in Group companies	Registration number	Dec 31, 2016 Percentage holding[1]	Dec 31, 2016 Carrying value[2]	Dec 31, 2015 Carrying value[2]
Volvo Lastvagnar AB, Sweden	556013-9700	100	8,711	8,711
Volvo Holding Sverige AB, Sweden	556539-9853	100	7,634	7,634
UD Trucks Corporation, 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]	–	55	561	561
Volvo Group Mexico SA, Mexico	–	100	531	531
Volvo Group Venture Capital AB, Sweden	556542-4370	100	361	361
Volvo Powertrain AB, Sweden	556000-0753	100	898	898
Volvo Information Technology AB, Sweden	556103-2698	100	1,263	1,263
Volvo Parts AB, Sweden	556365-9746	100	200	150
Volvo Group Insurance Försäkrings AB, Sweden	516401-8037	100	182	182
Volvo Business Services AB, Sweden	556029-5197	100	–	–
Volvo Danmark A/S, Denmark	–	100	157	157
VFS Servizi Financiari Spa, Italy[4]	–	25	79	79
Kommersiella Fordon Europa AB, Sweden	556049-3388	100	1,890	1,890
Volvo Norge AS, Norway	–	100	43	43
Volvo Malaysia Sdn Bhd., Malaysia	–	100	48	48
ZAO Volvo Vostok, Russia[5]	–	75	34	34
Volvo Italia Spa, Italy[6]	–	73	447	447
Volvo Logistics AB, Sweden	556197-9732	100	–	–
Alviva AB, Sweden	556622-8820	100	–	–
Volvo East Asia (Pte) Ltd., Singapore	–	100	–	–
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	2
Other holdings	–	–	1	1
Total carrying value Group companies[7]			**60,816**	**60,766**

Holding of shares in Joint Ventures, associated companies and non-Group companies	Registration number	Dec 31, 2016 Percentage holding[1]	Dec 31, 2016 Carrying value[2]	Dec 31, 2015 Carrying value[2]
Dongfeng Commercial Vehicles Co. Ltd., China	–	45.0	7,197	7,197
VE Commercial Vehicles Ltd., India[8]	–	45.6	1,616	1,616
Deutz AG, Germany	–	25.0	1,359	1,359
Blue Chip Jet HB, Sweden	969639-1011	50.0	5	8
Blue Chip Jet II HB, Sweden	969717-2105	50.0	170	212
Other investments	–	–	13	18
Total carrying value, joint ventures, associated companies and non-Group companies			**10,360**	**10,410**

Shares and participations in Group companies
Shareholder's contribution has been paid to UD Trucks Corporation, Japan by 417. Impairment of the holding has been made with the same amount. Reversal of impairment in Volvo Parts AB has been made by 50.

During 2015 CPAC was divested by 367. Fission was made in Volvo Norge AS which created four new companies divested by the carrying value of 14. Impairment of shares was made in Volvo Logistics AB by 85, in Volvo Business Services AB by 67, in Volvo East Asia (Pte) Ltd by 9 and in Alviva AB by 5. Reversal of impairment was made in Volvo Danmark A/S by 30.

AB Volvo's holding in Group companies is presented in the adjoining table.

Investments in associated companies and joint ventures
Impairment of participation in Blue Chip Jet HB has been made by 2 and in Blue Chip Jet II HB by 42.

During 2015, investment in Dongfeng Commercial Vehicles Co Ltd. was made by 7,197. Repayment of equity decreased the holding in Blue Chip Jet II by 151. Reversal of impairment of the participation in Blue Chip Jet was recognized by 4 and in Blue Chip Jet II HB by 25.

Shares and participations in non-Group companies
Divestment of Brf Falken has been made by 6. Shareholders' contribution has been paid to Johanneberg Science Park AB and Lindholmen Sciende Park AB by 1 (2). Impairment of shares in Johanneberg Science Partk AB and Lindholmen Science Park AB has been made by 1 (3).

During 2015, divestment was made of the holding in the listed company Eicher Motors Ltd. to a carrying amount of 4,228. The acquisition value amounted to 232 and reversal of the revaluation to fair value amounted to 3,995, also 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 Renault Trucks (SAS), Volvo Lastvagnar AB and AB Volvo is 100%.
7 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 111,678 (103,382).
8 In Volvo Group the company is reported as a joint venture, consolidated according to equity method.

NOTE 14 OTHER RECEIVABLES

	Dec 31, 2016	Dec 31, 2015
Accounts receivable	20	9
Prepaid expenses and accrued income	57	62
Other receivables	158	45
B/S **Total other receivables**	**235**	**116**

The valuation allowance for doubtful receivables amounted to 1 (1) at the end of the year. Fair value is not considered to differ from carrying value.

NOTE 15 UNTAXED RESERVES

	Dec 31, 2016	Dec 31, 2015
Tax allocation reserve	2,500	–
Accumulated additional depreciation:		
Machinery and equipment	2	4
B/S **Total untaxed reserves**	**2,502**	**4**

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 0.8% (1.9) 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 in accordance with the ITP plan. Since its formation, net contributions of 250 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 2015	575	122	697
Service costs	15	11	26
Interest costs	21	2	23
Pensions paid	–18	–18	–36
Obligations as of December 31, 2015	**593**	**117**	**710**
Service costs	15	10	25
Interest costs	23	1	24
Pensions paid	–19	–16	–35
Obligations as of December 31, 2016	**612**	**112**	**724**

Fair value of plan assets in funded plans	
Plan assets opening balance 2015	**656**
Actual return on plan assets	36
Contributions and compensation to/from the fund	–
Plan assets as of December 31, 2015	**692**
Actual return on plan assets	55
Contributions and compensation to/from the fund	–
Plan assets as of December 31, 2016	**747**

Provisions for post-employment benefits	Dec 31, 2016	Dec 31, 2015
Obligations[1]	–724	–710
Fair value of plan assets	747	692
Funded status	**23**	**–18**
Limitation on assets in accordance with RFR2 (when plan assets exceed corresponding obligations)	–135	–99
B/S **Net provisions for post-employment benefits**[2]	**–112**	**–117**

1 The ITP2 obligations amount to –593 (–573).
2 ITP2 obligations, net, amount to 0 (0).

Pension costs	2016	2015
Service costs	25	26
Interest costs[3]	24	23
Interest income[3]	–19	–18
Pension costs for defined-benefit plans	**30**	**31**
Pension costs for defined-contribution plans	**49**	**46**
Special payroll tax/yield tax[4]	28	46
Cost for credit insurance FPG	1	0
Total costs for the period	**108**	**123**

3 Interest cost, net of 1 (2) 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 6 (11).

NOTE 18 NON-CURRENT LIABILITIES

Non-current debt matures as follows:

2018–2022	9,352
2023 or later	4,626
B/S **Total non-current liabilities**	**13,978**

NOTE 19 OTHER LIABILITIES

	Dec 31, 2016	Dec 31, 2015
Wages, salaries and withholding taxes	183	184
VAT liabilities	5	1
Accrued expenses and prepaid income	212	162
Other liabilities	3	34
B/S **Total other liabilities**	**403**	**381**

No collateral is provided for current liabilities.

NOTE 20 CONTINGENT LIABILITIES

Contingent liabilities as of December 31, 2016, amounted to 298,384 (282,175) of which 298,363 (282,164) pertained to Group companies.

Credit guarantees are included to an amount corresponding to the credit limits. Credit guarantees amounted to 277,696 (272,432). The total amount pertained to Group companies.

The utilized portion at year end amounted to 133,041 (124,526), of which 133,020 (124,514) pertained to Group companies.

NOTE 21 CASH-FLOW

Other non-cash items	2016	2015
Revaluation of shareholdings	412	110
Gains on sale of shares	–18	–4,746
Transfer price adjustments, net	–24	–104
Anticipated dividend	–	–419
Other changes	90	55
Total Other items not affecting cash flow	**460**	**–5,104**

Further information is provided in Note 5 Income from investments in Group companies, Note 6 Income from investments in joint ventures and associated companies and Note 7 Income from other investments.

Acquired and divested shares in Group companies, net	2016	2015
Acquisitions	–417	–
Divestments	–1	519
Total cash flow from acquired and divested shares in Group companies, net	**–418**	**519**

Acquisitions and divestments of participations in Group companies are shown in Note 13 Investments in shares and participations.

Acquired and divested shares in non-Group companies, net	2016	2015
Acquisitions	–1	–7,047
Divestments	25	4,840
Total cash flow from acquired and divested shares in non-Group companies, net	**24**	**–2,207**

Acquisitions and divestments of participations in non-Group companies are presented in Note 13 Investments in shares and participations.

Change in loans, net

Decrease in loans is related to the Parent Company's liability in the group account at Volvo Treasury AB which has decreased by 4,018 (7,020).

CORPORATE GOVERNANCE

Corporate governance report 2016

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 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 2016

On March 1, the Volvo Group introduced a new brand-based organization with clearer commercial accountability for the Group's various truck brands. Volvo's Group Executive Board was changed in connection with the new organization and the number of executive positions comprising the Group Executive Board increased from 10 to 13.

In March, the sale of the Volvo Group's external IT operation and the operation of the IT infrastructure to HCL Technologies was completed. The transaction entails both sustained cost savings and a capital gain corresponding to SEK 885 million.

In July, the Volvo Group announced that it had reached a settlement with the European Commission putting an end to a long running EU antitrust investigation. As part of the settlement, Volvo has paid a fine of EUR 670 million, corresponding to SEK 6.5 billion.

During autumn, the Volvo Group completed the sale of properties for a sales price amounting to SEK 2.7 billion. The divestment is part of a long-term plan to gather the majority of Volvo Group office workers in Gothenburg in an area that will be called Campus Lundby.

In November, the Volvo Group announced that it has conducted a strategic review of the Governmental Sales business area and intends to initiate a process to divest the business.

The Swedish Corporate Governance Code

AB Volvo's shares are admitted to trading on the stock exchange 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.

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

Corporate Governance Model

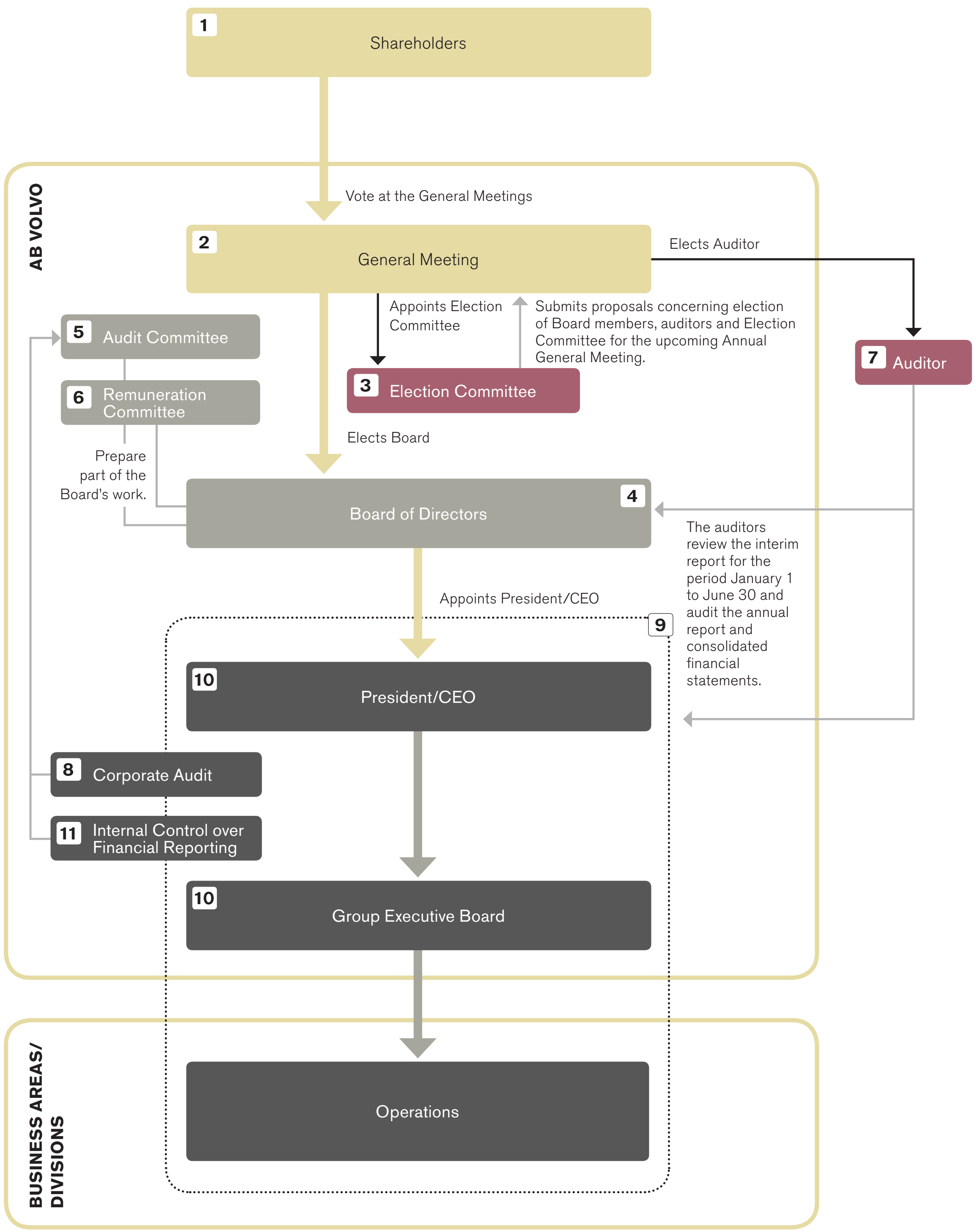
The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the General Meetings of AB Volvo, which is the Parent Company in the Volvo Group, the shareholders exercise their voting rights with regard to for example the composition of the Board of Directors of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

An Election Committee, appointed by the Annual General Meeting of AB Volvo, submits proposals to the Annual General Meeting concerning the election of Board members and Board Chairman as well as proposals for resolutions concerning fees to the Board. When applicable, the Election Committee also submits proposal concerning the election of external auditors and proposal for resolutions concerning fees to the auditors.

The Board is ultimately responsible for Volvo's organization and management of its 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 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.


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

1 Shares and shareholders

AB Volvo's share register is kept by Euroclear Sweden AB. On December 31, 2016, Volvo had 237,654 shareholders according to the share register. The largest shareholder on that date, in terms of votes, was AB Industrivärden, with 22.6 percent of the votes based on the number of outstanding shares. Cevian Capital held 15.3 percent of the votes, Norges Bank Investment Management held 6.1 percent of the votes and Svenska Handelsbanken together with SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen held 5.1 percent of the votes, based on the number of outstanding 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 2016, the total number of shares in AB Volvo amounted to 2,128,420,220, of which series A shares accounted for 492,525,221 and series B shares accounted for 1,635,894,999. The total number of votes amounted to 656,114,720.90.

For more information about the Volvo share and its shareholders, reference is made to the Board of Director's report on pages 103–105 of the Annual Report.

2 General Meeting

General

The General Meeting is Volvo's highest decision-making body. The Annual General Meeting is held within six months after the end of the fiscal year, normally in Göteborg. The Annual General Meeting adopts the income statement and balance sheet for AB Volvo and the Volvo Group, and resolves on the allocations of profit, the composition of Volvo's Board of Directors, Board remuneration 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.

In addition to what follows from applicable law regarding shareholders' right to participate at General Meetings, under Volvo's Articles of Association shareholders must give notice of their attendance (within the time stated in the convening notice) and notify the company of any intention to bring assistants.

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 2016 was held on April 6 in Konserthuset, Gothenburg, Sweden.

3 Election Committee

Annual General Meeting 2016
Volvo's Annual General Meeting 2016 was held on Wednesday, April 6, 2016 in Konserthuset, Göteborg. The Meeting was attended by 1,430 shareholders, either in person or by proxy, representing 70.26 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 Board were present at the Meeting. Authorized Public Accountants Peter Clemedtson, Volvo's Lead Audit Partner, and Johan Palmgren were also present, representing the company's auditor PricewaterhouseCoopers AB.

The Annual General Meeting 2016 decided to pay a dividend of SEK 3.00 per share. The Meeting further resolved to re-elect Board Members Matti Alahuhta, Eckhard Cordes, James W. Griffith, Kathryn V. Marinello, Martina Merz, Hanne de Mora, Carl-Henric Svanberg (as Chairman) and Lars Westerberg, and to elect Martin Lundstedt, Håkan Samuelsson and Helena Stjernholm as new Board Members.

The further resolutions of the Meeting are included in the complete minutes from the Annual General Meeting 2016 which, together with other information about the Meeting, are available at www.volvogroup.com.

Annual General Meeting 2017
Volvo's Annual General Meeting 2017 will be held on Tuesday, April 4, 2017 in Konserthuset, Göteborg. For further information about the Annual General Meeting 2017, please refer to the fold-out in the end of the Annual and Sustainability 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 and, when applicable, proposal for auditors and remuneration to the auditors.

The Election Committee is also responsible for submitting proposal for fees and other compensations to be paid to the Board Members. 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 2016, 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 2016 resolved to appoint the following individuals as members of the Election Committee:
- Carl-Henric Svanberg, Chairman of the Board,
- Bengt Kjell, representing AB Industrivärden,
- Lars Förberg, representing Cevian Capital,
- Yngve Slyngstad, representing Norges Bank Investment Management, and
- Pär Boman, representing Svenska Handelsbanken, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen.

The Election Committee appointed Bengt Kjell as Chairman.

4 Board of Directors

Duties

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

Composition

During the period January 1, 2016 to April 6, 2016, 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. According to the Articles of Association, the Board shall consist of not less than six and not more than twelve members elected by the General Meeting.

The Annual General Meeting 2016 re-elect Matti Alahuhta, Eckhard Cordes, James W. Griffith, Kathryn V. Marinello, Martina Merz, Hanne de Mora, Carl-Henric Svanberg and Lars Westerberg as Board members and Carl-Henric Svanberg as Chairman of the Board. Martin Lundstedt, Håkan Samuelsson and Helena Stjernholm 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 March 6, 2017, and the year they were elected on the Volvo Board, is presented in the "Board of Directors" section on pages 178–179.

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 2016, the Election Committee presented the following assessment concerning independence of the Board members elected by the Annual General Meeting 2016.

Matti Alahuhta, James W. Griffith, Kathryn V. Marinello, Martina Merz, Hanne de Mora, Håkan Samuelsson, 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.

Since Martin Lundstedt had the position as AB Volvo's President and CEO of the Volvo Group prior to the Annual General Meeting 2016, he was considered independent of the company's major shareholders but not of the company and the company management.

Eckhard Cordes and Helena Stjernholm were considered independent of the company and the company management.

Since Cevian Capital Partners, prior to the Annual General Meeting 2016, controlled more than 10 percent of the votes in the company, Eckhard Cordes, due to his capacity as partner in Cevian Capital Partners, was not considered independent in relation to one of the company's major shareholders.

Since AB Industrivärden, prior to the Annual General Meeting 2016, controlled more than 10 percent of the votes in the company, Helena Stjernholm, due to her 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 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 2016

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 2016, there were nine regular Board meetings, two extraordinary meetings and one statutory meeting. The attendance of Board members at these meetings is presented in the table on page 177.

During 2016, the Board has continued to focus on measures to increase the Group's profitability, strengthen the balance sheet and streamlining the business.

As a result, Volvo completed in March the sale of its external IT operation and the operation of the IT infrastructure to HCL Technologies. The transaction is the result of a review of the Group's IT operations conducted during 2015 and entails both sustained cost savings and a capital gain corresponding to SEK 885 million.

As part of its focus, the Board decided to divest the Group's properties in the areas of Arendal, Torslanda and Säve in Gothenburg, Sweden, which was completed during the autumn. The sales price totalled SEK 2.7 billion and the transaction results in a positive impact on the Group's operating cash flow and net financial debt in the amounts of SEK 2.6 billion and SEK 2.3 billion, respectively.

Finally, a strategic review of the Governmental Sales business has been conducted and in November it was announced that Volvo intends to initiate a process to divest the business.

In addition to the above measures, the Board has decided on an overall financial plan and investment frame for the Group's operations. The Board has continuously followed-up the Group's performance and financial position in order to ensure proper actions and 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 has been 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 has met with the company's auditors at several occasions during 2016 and without the presence of management at one occasion. Additionally, the Board has engaged in the succession planning for the executive management.

The Board has also focused on risk-related matters, such as enterprise risk management and ongoing legal cases and investigations. As part of this work, the Board has decided on a settlement with the European Commission, putting an end to the EU antitrust investigation. The settlement implies

In October 2016, the Board visited the Group's facilities in the US.

that Volvo, during the fourth quarter, has paid a fine of EUR 670 million to the Commission, corresponding to SEK 6.5 billion.

Finally, the Board continuously keeps itself updated about the status and development of the business operations of the Group by devoting considerable time to operational reviews of the Group's various Truck Divisions and Business Areas. As part of these operational reviews, the Board usually visits a Volvo Group facility once a year and in October 2016, the Board visited the Group's facilities in the US, which deepened the Board's understanding for the American market as well as for the Volvo Group's activities in the US.

Evaluation of the board's work

During 2016, the Board performed its yearly evaluation of the Board's work. The purpose of the evaluation is to develop the Board's efficiency and its working procedures and to determine the focus of the Board's coming work. In addition, the evaluation serves as a tool in determining the requirements for special competence needed in the Board and for analyzing the competence already accessible in the current Board. By that, the evaluation also serves as input for the Election Committee's work with proposing Board members.

In performing the yearly evaluation, the Board members were asked to complete an individual questionnaire rating, from their own perspective, different areas relating to the Board's work. The areas being evaluated for 2016 included, for example, the Board composition, management and focus of Board meetings, Board support, Board oversight and priorities for change. The areas covered by the evaluation may differ from one year to another to reflect the development of the Board's work and the Volvo Group.

Separate evaluations for the Board, the Chairman of the Board, the Audit Committee, the Remuneration Committee and the CEO were completed. The reports over the evaluations were discussed at a Board meeting. In addition, the results of the evaluations of the Board and the Board Chairman are shared with the Election Committee.

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 6, 2016, decided that until the end of the next Annual General Meeting, the remuneration to the Board should remain unchanged, as follows.

Volvo's Chairman receives a fee of SEK 3,250,000 and each of the remaining Members elected by the shareholders receives a fee of SEK 950,000 with the exception of the President. The Chairman of the Audit Committee receives SEK 300,000 and other members of the Audit Committee SEK 150,000 each. In addition, the Chairman of the Remuneration Committee receives SEK 125,000 and other members of the Remuneration Committee SEK 100,000 each.

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, among other things, 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 also responsible for evaluating the internal and external auditors' work and, when applicable, handling the tender process for audit services. In addition, it is the Audit Committee's task to pre-approve what other services, beyond auditing, the company may procure from the auditors. The Audit Committee also adopts guidelines for transactions with companies and persons closely associated with Volvo. Finally, the Audit Committee shall evaluate the quality, relevance and efficiency of the Group's system for internal control over financial reporting, as well as with respect to the internal audit and risk management, and discharge any other duties of an audit committee.

Composition and work in 2016

At the statutory Board meeting following the Annual General Meeting 2016, the following Board members were appointed members of the Audit Committee:

- Lars Westerberg
- Helena Stjernholm
- Hanne de Mora

Lars Westerberg was appointed Chairman of the Audit Committee.

The Audit Committee met with the external auditors without the presence of management at four occasions during 2016 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 eight regular meetings during 2016. The attendance of Board Members at Committee meetings is presented in the table on page 177. The Audit Committee reports the outcome of its work to the full Board on a regular basis, and the minutes of the Audit Committee meetings are distributed to the Board members.

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 CEO and the Deputy CEO 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, no later than three 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 2016

At the statutory Board meeting following the Annual General Meeting 2016, the following Board members were appointed members of the Remuneration Committee:

- Carl-Henric Svanberg
- Matti Alahuhta
- James W. Griffith

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 2016 is presented under the "Independence requirements" section on page 174.

The Remuneration Committee held three meetings during 2016. The attendance of Board Members at Committee meetings is presented in the table on page 177. The Remuneration Committee reports the outcome of its work to the full Board on a regular basis.

The Board's composition and attendance at meetings
January 1, 2016 – December 31, 2016

Member	Board (12 incl. statutory)	Audit Committee (8)	Remuneration Committee (3)
Carl-Henric Svanberg	12		3
Martin Lundstedt[1]	8		
Matti Alahuhta	12		2
Eckhard Cordes	12		
James Griffith	12		3
Hanne de Mora	12	8	
Kathryn Marinello	11		
Martina Merz	12		
Anders Nyrén[2]	3	2	1
Håkan Samuelsson[3]	6		
Helena Stjernholm[4]	8	6	
Lars Westerberg	10	7	
Lars Ask, employee representative[5]	12		
Mats Henning, employee representative	12		
Camilla Johansson, employee representative[6]	6		
Mari Larsson, employee representative	12		
Mikael Sällström, employee representative	11		
Berth Tulin[7]	3		
Total number of meeting	**12**	**8**	**3**

1 Joined the Board on April 6, 2016.
2 Stepped down from the Board on April 6, 2016.
3 Joined the Board on April 6, 2016.
4 Joined the Board on April 6, 2016.
5 Employee representative, deputy member, until April 6, 2016 when he joined as ordinary member.
6 Joined the Board as employee representative, deputy member, on April 6, 2016.
7 Stepped down from the Board as employee representative, ordinary member, on April 6, 2016.

Board of Directors

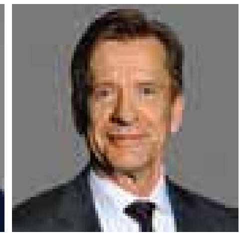
BOARD MEMBERS ELECTED BY THE ANNUAL GENERAL MEETING

					
	Carl-Henric Svanberg *Chairman of the Board, Chairman of the Remuneration Committee*	**Matti Alahuhta** *Member of the Remuneration Committee*	**Eckhard Cordes**	**James W. Griffith** *Member of the Remuneration Committee*	**Martin Lundstedt** *President and CEO*
Education	Master of Science, BSc. Business Administration.	Master of Science, Doctor of Science.	MBA and PhD, University of Hamburg.	BSc Industrial Engineering, MBA from Stanford University.	MSc.
Born	1952	1952	1950	1954	1967
Member of the Volvo Board	Chairman of the Volvo Board since April 4, 2012.	Since April 2, 2014.	Since April 1, 2015.	Since April 2, 2014.	Since April 6, 2016.
Position and Board memberships	Board Chairman: BP p.l.c.	Board Chairman: DevCo Partners Oy and Outotec Corporation. Board member: Kone Corporation, ABB Ltd.	Partner in Cevian Capital and EMERAM Capital Partners. Member of the Executive Committe of Eastern European Economic Relations of German Industry. Board Chairman: Bilfinger SE.	Board member: Illinois Tool Works Inc.	President and CEO of AB Volvo. Board Chairman: Partex Marking Systems AB and Permobil AB. Board member: ACEA Commercial Vehicle and Concentric AB. Member of the Royal Swedish Academy of Engineering Sciences.
Principal work experience	Has held various positions at Asea Brown Boveri (ABB) and Securitas AB; President and Chief Executive Officer of Assa Abloy AB; President and Chief Executive Officer of Telefonaktiebolaget LM Ericsson; member of the External Advisory Board of the Earth Institute at Columbia University and the Advisory Board of Harvard Kennedy School.	Has held several management positions in the Nokia Group – President of Nokia Telecommunications, President of Nokia Mobile Phones and Chief Strategy Officer of the Nokia Group; President of Kone Corporation between 2005–2014 and between 2006–2014 also Chief Executive Officer. Board Chairman Aalto University Foundation until 2015. Board Chairman at the Confederation of Finnish Industries 2015–2016.	Started with Daimler Benz AG, where he has held several management positions, such as head of the trucks and buses business, Head of Group Controlling, Corporate Development and M&A in AEG AG and CEO of Mercedes Car Group. Previously CEO of Metro AG, senior advisor at EQT and Board member of Air Berlin, SKF, Carl Zeiss and Rheinmetall AG. Since 2012 partner in Cevian Capital and EMERAM Capital Partners respectively.	Began his career at The Timken Company in 1984, where he has held several management positions, such as responsible for Timken's bearing business activities 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.	President and CEO of Scania 2012–2015. Prior to that, various managerial positions at Scania since 1992. Co-chairman of the UN Secretary-General's High-Level Advisory Group on Sustainable Transport 2015–2016.
Holdings in Volvo, own and related parties	700,000 Series B shares	64,100 Series B shares.	None.	20,000 Series B shares.	36,447 Series B shares.

BOARD MEMBERS APPOINTED BY THE EMPLOYEE ORGANISATIONS

			
	Lars Ask *Employee representative, ordinary member*	**Mats Henning** *Employee representative, ordinary member*	**Mikael Sällström** *Employee representative, ordinary member*
Born	1959	1961	1959
Member of the Volvo Board	Deputy member from June 16, 2009. Ordinary member since April 6, 2016.	Since May 9, 2014.	Since September 7, 2009.
Background within Volvo	With Volvo since 1982.	With Volvo since 1982.	With Volvo 1980–1999 and since 2009.
Holdings in Volvo, own and related parties	245 Series A shares.	495 shares, including 250 Series B Shares.	495 shares, including 250 Series B Shares.



Kathryn V. Marinello	**Martina Merz**	**Hanne de Mora** *Member of the Audit Committee*	**Håkan Samuelsson**	**Helena Stjernholm** *Member of the Audit Committee*	**Lars Westerberg** *Chairman of the Audit Committee*
BA from State University of New York at Albany, MBA from Hofstra University.	BS from University of Cooperative Education, Stuttgart.	BA in Economics from HEC in Lausanne, MBA from IESE in Barcelona.	MSc.	MSc Business Administration.	MSc Engineering, Bachelor Business Administration.
1956	1963	1960	1951	1970	1948
Since April 2, 2014.	Since April 1, 2015.	Since April 14, 2010.	Since April 6, 2016.	Since April 6, 2016.	Since April 4, 2007.
President and CEO Hertz Global Holdings. Board member: Nielsen.	Vice Chairperson: SAF Holland SA. Board member: Deutsche Lufthansa AG (supervisory board) and NV Bekaert S.A.	Board Chairperson: a-connect (group) ag. Board member: IMD Supervisory Board.	President and CEO of Volvo Car Group Board member: Teknikföretagen (Engineering companies).	President and CEO of AB Industrivärden Board member: AB Industrivärden, Sandvik AB and Ericsson.	Board member: SSAB Svenskt Stål AB, Sandvik 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. Senior Advisor, Ares Management, LLC.	Until January 2015, Chief Executive Officer for Chassis Brakes International. Has, during almost 25 years held various management positions in Robert Bosch GmbH, most recently as Executive Vice President Sales and Marketing in the Chassis System Brakes division combined with responsibility for regions China and Brazil and previously Chief Executive Officer of the subsidiary Bosch Closure Systems, also member of the Board of Management of Brose Fahrzeugteile GmbH & Co.	Credit Analyst Den Norske Creditbank in Luxemburg 1984, various positions within brand management and controlling within Procter & Gamble 1986–1989, Partner McKinsey & Company, Inc. 1989–2002, one of the founders and owners, also Board Chairperson of the global consulting firm and talent pool a-connect (group) ag since 2002.	Began his career in 1977 at Scania where he stayed for more than 20 years. He held leading positions within Scania's technical division before he joined the executive board in 1996. He brought his vast truck experience from Scania to MAN in 2000 when he became Chairman & CEO of MAN Nutzfahrzeuge AG. Chairman & CEO of MAN AG from 2005–2009.	Between 1998–2015, partner in the private equity firm IK Investment Partners (former Industri Kapital) with responsibility for its Stockholm office. She was also a member of IK's Executive Committee. Helena has served in various positions with IK and prior to that worked as a consultant for Bain & Company.	Has held various positions within ASEA 1972–1984. Served several executive positions at Esab AB 1984–1994 including Chief Executive Officer and President. Chief Executive Officer and President of Gränges AB 1994–1999. Chief Executive Officer and President of Autoliv Inc. 1999–2007 and Chairman of Autoliv Inc. 2007–2011. Previously Chairman of Husqvarna AB, Vattenfall AB and Ahlsell AB.
None.	4,500 Series B shares.	3,000 Series B shares.	106,000 Series B shares.	8,000 Series B shares.	198,000 shares including 168,000 Series B shares.

DEPUTIES APPOINTED BY THE EMPLOYEE ORGANISATIONS


SECRETARY TO THE BOARD

Camilla Johansson *Employee representative, deputy member*	**Mari Larsson** *Employee representative, deputy member*	**Sofia Frändberg** *Secretary to the Board* Master of Laws
1966	1978	1964
Deputy member since April 6, 2016.	Deputy member since May 22, 2015.	Secretary to the Board since April 1, 2013.
With Volvo since 1997.	With Volvo since 2004.	Executive Vice President Group Legal & Compliance and General Counsel.
595 Series A shares.	557 Series A shares.	48,517 shares, including 46,827 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 Palmgren, 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 and consolidated accounting 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 three times 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.

During 2016, Volvo has decided to initiate a tender process regarding statutory audit services to prepare for the election of statutory auditors at the Annual General Meeting to be held in April 2018. The process is currently ongoing.

For information concerning Volvo's remuneration to the auditors, reference is made 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 Nordea AB, SKF AB and Ratos AB. His unlisted clients include Stena AB and Wallenbergstiftelserna.

Born 1956.

Johan Palmgren

Authorized Public Accountant.

Partner.

Auditor since 2015.

Johan Palmgren's other listed clients include Hexatronic Group AB.

Born 1974.

8 Corporate Audit

Volvo's internal audit function, Corporate Audit, helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate, independently and objectively, the effectiveness of risk management, control, and governance processes as well as to contribute to its improvement.

In the discharge of its duties, Corporate Audit performs internal audits and special assignments requested by management and the Audit Committee and issues reports summarizing the results of these activities.

The audits cover, among other things, assessments on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks and evaluation of compliance with policies and directives.

Corporate Audit also assists in investigations of suspected fraudulent activities within the organization and coordinates and provides oversight of other control and monitoring functions.

The head of Corporate Audit reports directly to the CEO, the Group's General Counsel and the Board's Audit Committee.

For additional information on internal control over financial reporting, see pages 186–187.

9 Governance principles and organizational structure

Volvo's strategy

The Volvo Group's mission is to "Drive prosperity through transport solutions". The Volvo Group contributes to society's welfare globally in many different ways, through transportation of people and goods, sanitation and power generation, extraction of raw materials in mines and infrastructure optimization. The Group's products and services are continuously being developed to support sustainable societies and the well-being and safety of people. With this mission in mind, the Volvo Group strives to achieve its Vision to "Be the most desirable and successful transport solution provider in the world". Trust and customer relations are therefore important ingredients of the Group's total customer offer.

Volvo's aspirations are to have leading customer satisfaction for all its brands; being the most admired employer in the industry and having industry leading profitability. The Group values Customer Success, Trust, Passion, Change and Performance are the base for how the Volvo Group's company culture. Seven strategic priorities further set the direction for the Volvo Group. They describe the key fundamentals of the Volvo Group strategy such as customer focus, decentralization, empowerment and P&L responsibility for its brand organizations, continuous improvements as well as the importance of utilizing the Group strengths to increase synergies, profitability and to take leadership in key technologies.

Based on the Group strategic priorities, each Business Area defines their own Business Area execution plans. In addition, long term plans such as the Group's industrial and technology plans are developed as a crucial part of the Group's strategic direction. The follow-up of the Volvo Group strategy is managed by the annual Group Strategy cycle. The strategic direction of the Group is set by the Group Executive Board while overall balancing of the Group's offering portfolio and resources are managed by the Product Board.

Governance documents

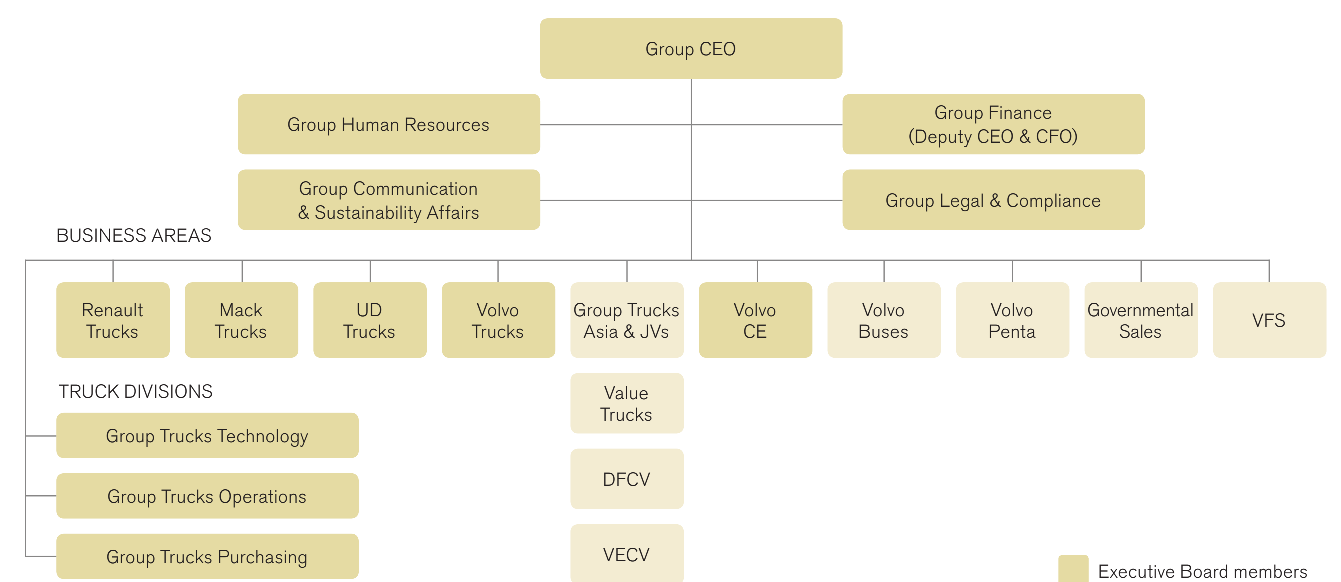
Another key component of the governance and control is the Group's policies and directives, such as the Code of Conduct and policies pertaining to investments, financial risks, accounting, financial control and internal audit, which contain Group wide operating and financial rules for the operations,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

Organizational structure

On March 1, 2016, the Volvo Group introduced a new brand-based organization with clearer commercial accountability for the Group's trucks sales operations. The former single Group Trucks Sales division was replaced by four brand specific Business Areas; Volvo Trucks, UD Trucks, Renault Trucks and Mack Trucks, each with profit and loss responsibility for their respective business. A new Business Area called Group Trucks Asia & JVs has also been introduced.

The Truck Division Group Trucks Technology (GTT) is responsible for product development of engines, transmissions and trucks, whereas the Truck Division Group Trucks Operations (GTO) is responsible for the production of trucks and the Group's engines and transmissions. GTO is also responsible for the Group's spare parts supply and logistics operation.

VOLVO GROUP ORGANIZATION AS FROM MARCH 1, 2016



Governance principles and organizational structure (cont.)

A new Truck Division, Group Trucks Purchasing (GTP) has been introduced, with an overall responsibility for purchasing for the Group's trucks, engines and transmissions operations as well as for the Group's purchase of indirect products and services.

Since March 1, 2016, the Volvo Group's business activities are therefore, in addition to the three Trucks Divisions, organized into ten Business Areas, namely: Volvo Trucks, UD Trucks, Renault Trucks, Mack Trucks, Group Trucks Asia & JVs, Volvo Construction Equipment, Volvo Buses, Volvo Penta, Governmental Sales and Volvo Financial Services (VFS). In addition, there are four Group Functions; Group Human Resources, Group Finance, Group Communication & Sustainability Affairs and Group Legal & Compliance, providing support to the CEO and the Group Executive Board with expertise in each Group Function area and developing standards for the entire organization through policies, directives and guidelines. In addition there are Group Functions that provide services and/or products to the entire Group, for example Group IT and Accounting & Company Control.

With this governance model, Volvo can utilize the synergies of having global organizations for manufacturing, product development and purchasing, while still having clear leadership and responsibility for each truck brand to make sure that customer needs are met. The governance model imply that all Business Areas are driven along the same distinct business principles and the Group's decided brand positioning, whereby each Business Area can follow and optimize its own earnings performance in the long and short term.

10 Group Management

Since March 1, 2016, the Group Executive Board comprises 13 executive positions, including the CEO. The position as Executive Vice President GTP was vacant until January 1, 2017.

In addition to the CEO, the Group Executive Board comprises the Executive Vice Presidents of the three Group Truck Divisions, the Executive Vice Presidents of the five Business Areas Renault Trucks, Mack Trucks, UD Trucks, Volvo Trucks and Volvo Construction Equipment, and the Executive Vice Presidents of the four Group Functions Group Human Resources, Group Communication & Sustainability Affairs, Group Finance (Deputy CEO & Chief Financial Officer (CFO)) and Group Legal & Compliance. The members of the Group Executive Board report directly to the CEO.

The Presidents of the Business Areas Group Trucks Asia & JVs, Volvo Buses, Volvo Penta, Governmental Sales and VFS also report directly to the CEO and are part of an extended Group Management Team together with the members of the Group Executive Board.

The CEO is responsible for managing the day-to-day operations of the Volvo Group and is authorized to make decisions on matters that do not require Board approval. The CEO leads the operations of the Group mainly through the Group Executive Board and the enlarged Group Management Team. Further, the ten Business Areas also have separate decision foras for important matters, so called Business Review Meetings. The CEO is the Chairman of the Business Review Meetings for the five trucks related Business Areas. The Deputy CEO/CFO is the Chairman of the Business Review Meetings for the five Business Areas Volvo Construction Equipment, Volvo Buses, Volvo Penta, Governmental Sales and VFS.

The Product Board is where key decisions are made related to the Group's offering- and technology portfolio. The Product Board makes the overall balancing of the development resources and protects and develops synergies from a Business Area and Group perspective. The Product Board focuses primarily on R&D projects for Truck Business Areas and Group common projects of significant size. Members of the Product Board are the CEO (chairperson), the deputy CEO & CFO, the Executive Vice Presidents of the three Group Truck Divisions and the Executive Vice Presidents of Renault Trucks, Mack Trucks, UD Trucks, Volvo Trucks and Group Trucks Asia & JVs. In Group common matters, the Executive Vice Presidents of Volvo Construction Equipment, Volvo Buses, Volvo Penta, Governmental Sales and VFS are also involved in the Product Board.

The Quality Board is where quality related matters are addressed in order to support fast decision making and customer focus in this area. Members of the Quality Board are the CEO (chairperson), the Deputy CEO & CFO, the Executive Vice Presidents of the three Group Truck Divisions and the Executive Vice Presidents of Renault Trucks, Mack Trucks, UD Trucks, Volvo Trucks and Group Trucks Asia & JVs. On a regular basis, the Executive Vice Presidents of Volvo Construction Equipment, Volvo Buses, Volvo Penta, Governmental Sales and VFS are also involved in the Quality Board.

At the Sales & Operations Planning (S&OP) Executive decision meetings, the executive management decides upon one S&OP plan that optimizes the Volvo Group's overall profitability. The purpose is to balance demand with supply chain capabilities, drive capacity management and provide directions for Sales and Operations. Members of the S&OP Executive decision meeting are the CEO (chairperson), the Deputy CEO & CFO, the Executive Vice Presidents of Renault Trucks, Mack Trucks, UD Trucks, Volvo Trucks, Group Trucks Asia and JVs, Volvo Construction Equipment, Volvo Buses, Volvo Penta, and the Executive Vice Presidents of the Group Truck Divisions GTO and GTP.

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 Board

AB Volvo's Annual General Meeting annually approves a policy on remuneration to the Group Executive Board, following a proposal from the AB Volvo Board.

In 2015, a review of the reward strategy for the Volvo Group's top 300 executives was performed. The purpose of the review was to ensure alignment between the reward system and the development of the business and to reinforce a high performing culture. As a consequence of the revised Top Executive Reward Strategy the Board proposed that the Annual General Meeting 2016 would resolve to adopt a revised policy for remuneration to the members of the Volvo Group Executive Board.

The remuneration policy adopted by the Annual General Meeting 2016 states that the guiding principle is that remuneration and other terms of employment for the Group Executive Board shall be competitive in order to ensure that the Volvo Group can attract and retain competent executives. The total remuneration to Executives consists of fixed salary, short-term and long-term incentives, pension and other benefits. Short-term and long-term incentives shall be linked to predetermined and measurable criteria relating to EBIT and cash flow targets for the Volvo Group, devised to promote the long-term value creation of the Volvo Group and strengthen the link between achieved performance targets and reward.

The policy states that the short term incentive may, as regards the President & CEO, amount to a maximum of 100 percent of the fixed salary and, as regards other Executives, a maximum of 80 percent of the fixed salary.

Martin Lundstedt, President and CEO, at the Volvo Group Leadership Summit in February 2016.

Long-term incentive may, as regards the President & CEO, amount to a maximum of 100 percent of the fixed salary and, as regards other Executives, a maximum of 80 percent of the fixed salary. The long-term incentive plan (LTI) adopted in 2016 is cash-based with annual performance targets measured on EBIT and operating cash flow levels, with annual pay-outs. The participants in the plan shall undertake to invest the annual net (after tax) pay-out amounts under the plan in Volvo B-shares and to hold those shares for at least three years. The purpose of the plan is to reward long-term company performance and to ensure alignment between management and shareholders. As of 2016, the new LTI plan replaces the previous share-based incentive program resolved by the Annual General Meeting 2014.

The short-term incentive program (STI) adopted in 2016 is also based on annual performance targets measured on EBIT and operating cash flow levels achieved for 2016 with annual pay-outs. The EBIT and cash flow targets are measured on a Group level for the Volvo Group Executive Board. For less senior management levels the targets may be measured partly on a Group level and partly on a business area/regional/brand/local level.

The AB Volvo Board Remuneration Committee conducts an annual evaluation of the remuneration policy, Volvo's system for variable remuneration to executives and the AB Volvo Board prepares a special report of this evaluation and the conclusions. The report on the evaluation for 2016 will be available on Volvo's website no later than three weeks prior to the Annual General Meeting 2017, www.volvogroup.com. For more information about remuneration to the Group Executive Board 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 Board

As a result of the new trucks sales organization and a decision to include representatives from the Group's largest Business Areas in the Executive Board, the number of executive positions comprising the Group Executive Board increased as from March 1, 2016 from 10 to 13 including the CEO.

The composition of the Group Executive Board after the organizational change is detailed above in the preamble section of this chapter.

On June 1, 2016, Jan Ohlsson joined the Group Executive Board and assumed the position as Executive Vice President for Volvo Group Trucks Operations (GTO). Jan Ohlsson, who replaced Mikael Bratt, served since April 1, 2016 as the Acting Head of Group Trucks Operations.

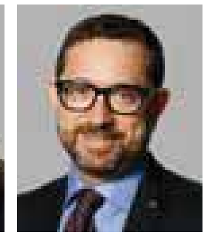
On October 10, 2016, Lars Stenqvist joined the Group Executive Board and assumed the position as Executive Vice President for Volvo Group Trucks Technology (GTT). Lars Stenqvist replaced Torbjörn Holmström, who in September 2015 announced his intention to step down from his position as Executive Vice President GTT.

On January 1, 2017, Andrea Fuder joined the Group Executive Board and assumed position as Executive Vice President Volvo Group Trucks Purchasing (GTP). The position had, at that time, been vacant since it was introduced on March 1, 2016.

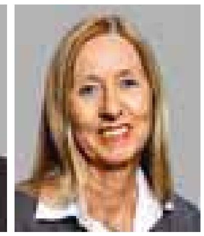
Group Executive Board





	Martin Lundstedt *President and CEO*	**Jan Gurander** *Deputy CEO and CFO*	**Claes Nilsson** *Executive Vice President Volvo Group & President Volvo Trucks*	**Bruno Blin** *Executive Vice President Volvo Group & President Renault Trucks*	**Dennis Slagle** *Executive Vice President Volvo Group and President Mack Trucks*	**Joachim Rosenberg** *Executive Vice President Volvo Group and Chairman of UD Trucks.*
Education	MSc.	MSc.		MBA.	BS Accounting CPA.	MSc Industrial Engineering and Management, MSc Financial Economics, MSc Business and Economics.
Born	1967	1961	1957	1963	1954	1970
Principal work experience	President and CEO of Volvo and member of the Group Executive Board since October 22, 2015. President and CEO of Scania 2012–2015. Prior to that, various managerial positions at Scania since 1992.	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 Board since 2014. With Volvo 1999–2001 and since 2014.	President Volvo Trucks since 2016. Senior Vice President Volvo Group Trucks Sales Latin America 2015. Senior Vice President Volvo Group Trucks Sales, Europe North and Central 2013–2014. Senior Vice President Volvo Trucks 2011–2012. President Volvo Trucks, Europe Division 2007–2011 and International Division 2006. Member of the Group Executive Board since 2016. With Volvo since 1982.	After having worked for several companies in the manufacturing, quality and purchasing areas, Bruno Blin joined Renault Trucks Purchasing in 1999. He has held several senior positions over the years until being appointed Senior Vice President of Volvo Group Purchasing. He has also served as Senior Vice President, Group Truck Sales South Europe since January 2013. Member of the Group Executive Board since March 1 2016. With Volvo since 1999.	Has held various executive level positions within Volvo Group Trucks Sales North America 2008–2016. President Volvo Construction Equipment NA 2000–2008. Member of the Executive Board since March 1, 2016 and between 2008–2014. With Volvo since 2000.	Has held various senior positions in the Volvo Group, most recently as Executive Vice President Group Trucks Sales 2015. 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 Board since 2012. With Volvo since 2005.
Board memberships	Chairman of Partex Marking Systems AB and Permobil AB. Board member of ACEA Commercial Vehicle and Concentric AB. Member of the Royal Swedish Academy of Engineering Sciences.				Volvo Group Representative for National Association of Manufacturers (NAM).	Volvo Group representative for Japan Automobile Manufacturers Association (JAMA).
Holdings in Volvo, own and related parties	36,447 Series B shares.	17,687 Series B shares.	17,195 shares, including 17,037 Series B shares.	19,417 Series B shares.	74,825 Series B shares.	52,194 shares, including 52,107 Series B shares.

						
Martin Weissburg *Executive Vice President Volvo Group and President Volvo Construction Equipment*	**Lars Stenqvist** *Executive Vice President Group Trucks Technology*	**Jan Ohlsson** *Executive Vice President Group Trucks Operations*	**Andrea Fuder** *Executive Vice President Volvo Group Trucks Purchasing*	**Sofia Frändberg** *Executive Vice President Group Legal & Compliance and General Counsel*	**Kerstin Renard** *Executive Vice President Group Human Resources*	**Henry Sténson** *Executive Vice President Group Communication & Sustainability Affairs*
Master of Business Management, BSc Industrial Management.	MSc Industrial Engineering.	MSc.	MSc and MBA.	Master of Laws.	BSc Sociology.	
1962	1967	1953	1967	1964	1961	1955
President Volvo CE since 2014. President & CEO Volvo Financial Services 2010–2014. President Volvo Financial Services Americas 2005–2010. Prior to Volvo, President Woodard LLC. President Great Dane Financial Services. Senior Vice President ORIX. Member of the Executive Board since March 1, 2016 and between 2010–2014. With Volvo since 2005.	Executive Vice President Group Trucks Technology and Volvo Group Chief Technology Officer since October 10, 2016. Head of R&D and CTO at Volkswagen Truck & Bus 2015–2016. Senior Vice President Vehicle Definition R&D at Scania 2007–2015. Prior to that various senior positions at Scania since 1992. Member of the Group Executive Board since October 2016. With Volvo Group since October 2016.	Senior Vice President Powertrain Production Group Trucks Operations, since 2012. 2001–2012 General Manager European Manufacturing Volvo Trucks. Member of the Group Executive Board since April 1, 2016. With Volvo since 1979.	Has worked in Quality and Logistic and held various senior positions at Volkswagen's Purchasing organization since 1992. Head of Purchasing at Scania 2012–2016. With Volvo since 2017.	Responsible for Group 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 Board since April 1, 2013. With Volvo since 1994.	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 Board since 2012. With Volvo since 2005.	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 1989–1994. Member of the Group Executive Board since 2015. With Volvo 1989–1994 and 1995–1998 and since 2015.
				Secretary to the Board of AB Volvo since April 1, 2013.	Board member Teknikföretagen (Engineering companies).	Board member Vestas Wind Systems A/S, Denmark. Braathens Regional Aviation.
62,745 series B shares and 4,500 non-sponsored ADR shares.	1,210 Series B shares.	34,602 shares, including 34,163 Series B shares.	3,700 shares, including 2,100 Series B shares.	48,517 shares, including 46,827 Series B shares.	39,401 shares, including 38,996 Series B shares.	16,967 Series B shares.

11 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 continuously 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 which, among other things, independently monitors 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, to the Group's General Counsel and the Board's Audit Committee.

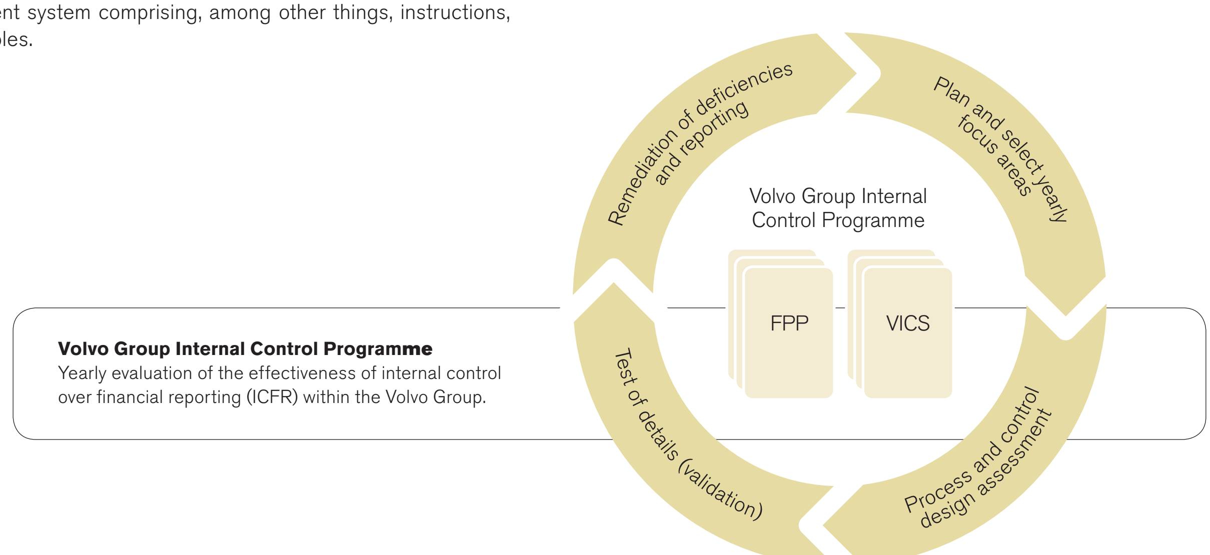
Control environment
Fundamental to Volvo's control environment is the business culture that is established within the Group and in which managers and employees operate. Volvo works actively on communications and training regarding the company's basic values included in the Group's Code of Conduct, to 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 the Volvo Group Management System, a group wide management system comprising, among other things, instructions, rules and principles.

Risk assessment
Risks relating to financial reporting are evaluated and monitored by the Board through the Audit Committee inter alia through identifying 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 Directors of AB Volvo and its Audit Committee, the management groups and other decision-making bodies in the Group 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 function conduct review and follow-up activities in accordance with what is described in the introduction of this report. More specifically, the Internal Control function runs and coordinates evaluation activities through the "Volvo Group Internal Control Programme," with the purpose of systematically evaluating the quality of the internal control over financial reporting on an annual basis. An annual evaluation plan is established and presented to the Audit Committee. This evaluation program comprises three main areas:

1. Group-wide controls: Self-assessment procedure carried out by management teams at business area, Group Function and company levels. The main areas evaluated are compliance with the Group's financial directives and policies found in the Financial Policies and Procedures, 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. During 2016, the Internal Control function reported three times to the Audit Committee regarding the annual evaluation plan, status on outstanding issues and final assessment of the control environment.

Göteborg, March 6, 2017

AB Volvo (publ)
The Board of Directors

Auditor's report on the Corporate Governance Report

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

Engagement and responsibility

The Board of Directors is responsible for that the corporate governance statement on pages 170–187 has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement 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. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Göteborg, March 6, 2017

PricewaterhouseCoopers AB

Peter Clemedtson Authorized Public Accountant Lead Partner	Johan Palmgren Authorized Public Accountant Partner

Proposed policy for remuneration to senior executives

Proposal by the Board of Directors to the Annual General Meeting 2017

This policy concerns the remuneration and other terms of employment for the members of the Volvo Group Executive Board ("Executives").

The remuneration and the other terms of employment of the Executives shall be competitive so that the Volvo Group can attract and retain competent Executives. The total remuneration to Executives consists of fixed salary, short-term and long-term incentives, pension and other benefits. Short-term and long-term incentives shall be linked to predetermined and measurable criteria relating to EBIT and cash flow targets for the Volvo Group, devised to promote the long-term value creation of the Volvo Group and strengthen the link between achieved performance targets and reward. The criteria for short-term and long-term incentives shall be determined by the Board annually.

Short-term incentive may, as regards the President & CEO, amount to a maximum of 100% of the fixed salary and, as regards other Executives, a maximum of 80% of the fixed salary.

Long-term incentive may, as regards the President & CEO, amount to a maximum of 100% of the fixed salary and, as regards other Executives, a maximum of 80% of the fixed salary. The long-term incentive program for the Group's top executives, including the Executives, is cash-based. Awards under the program, based on how well the performance targets are achieved, are disbursed in cash to the participants on the condition that they invest the net award in AB Volvo shares and that they retain the shares for at least three years. Any new share-based incentive program will, where applicable, be resolved by the General Meeting, but no such program is currently proposed.

For Executives resident in Sweden, the notice period upon termination by the company shall not exceed 12 months and the notice period upon termination by the Executive shall not exceed 6 months. In addition, in the event of termination by the company, the Executive may be entitled to a maximum of 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.

Authority to decide on deviations from this policy

The Board of Directors may deviate from this policy if there are special reasons to do so in an individual case.

Additional information

Executive compensation, which has been decided but which has not yet become due for payment by the time of the 2017 Annual General Meeting, falls within the scope of this policy. Additional information regarding remuneration is available in the Volvo Group Annual and Sustainability Report for 2016.

Proposed Disposition of Unappropriated Earnings

AB Volvo	SEK
Retained earnings	25,079,971,412.46
Income for the period 2016	8,127,108,554.17
Total retained earnings	**33,207,079,966.63**

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 3.25 per share	6,602,589,682.00
To be carried forward	26,604,490,284.63
Total	**33,207,079,966.63**

The record date for determining who is entitled to receive dividends is proposed to be Thursday April 6, 2017.

In view of the Board of Directors' proposal to the Annual General Meeting to be held April 4, 2017 to decide on the distribution of a dividend of SEK 3.25 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 45.4% to 41.3% and the Group's solvency from 24.5% to 23.2%, calculated as per year end 2016. The Board of Directors considers this solvency to be satisfactory with regard to the business in which the Group is active.

According to the Board of Directors' opinion, the proposed dividend will not affect the Company's or the Group's ability to fulfil their payment obligations and the Company and the Group are well prepared to handle both changes in the liquidity and unexpected events.

The Board of Directors is of the opinion that the Company and the Group have capacity to assume future business risks as well as to bear contingent losses. The proposed dividend is not expected to adversely affect the Company's and the Group's ability to make further commercially justified investments in accordance with the Board of Directors' plans.

In addition to what has been stated above, the Board of Directors has considered other known circumstances which may be of importance for the Company's and the Group's financial position. In doing so, no circumstance has appeared that does not justify the proposed dividend.

If the Annual General Meeting resolves in accordance with the Board of Directors' proposal, SEK 26,604,490,284.63 will remain of the Company's non-restricted equity, calculated as per year end 2016.

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.

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, March 6, 2017

Carl-Henric Svanberg
Board Chairman

Matti Alahuhta
Board member

Eckhard Cordes
Board member

James W. Griffith
Board member

Martin Lundstedt
President, CEO and Board member

Kathryn V. Marinello
Board member

Martina Merz
Board member

Hanne de Mora
Board member

Håkan Samuelsson
Board member

Helena Stjernholm
Board member

Lars Westerberg
Board member

Lars Ask
Board member

Mats Henning
Board member

Mikael Sällström
Board member

Our audit report was issued on March 6, 2017

PricewaterhouseCoopers AB

Peter Clemedtson
Authorized Public Accountant
Lead Partner

Johan Palmgren
Authorized Public Accountant
Partner

Audit Report for AB Volvo (publ)

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of AB Volvo (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 76–169, 188–189 and 202–203 in this document.

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 parent company as of 31 December 2016 and its financial performance and cash flow 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 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

In our audit, we have focused on those entities that have the largest impact on the financial reporting with consideration taken to the group's different segments as well as each entity's different function such as manufacturing, sales, financial services.

For the Swedish entities the audit is performed by the group audit team and for the entities outside of Sweden the audit is performed by local audit teams primarily within the PwC network. The work of local audit teams are based on instructions from the group audit team who continuously monitor and evaluate the work of local audit teams.

As part of this year's audit procedures we from the group audit team have visited foreign subsidiaries of which some were South Africa, Australia and India.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
EU antitrust settlement – risk for losses from private damages claims from customers and other third parties	
Refer to note 24 in the annual report. In January 2011, the company and a number of other companies in the truck industry became part of an investigation by the European Commission regarding a possible violation of EU antitrust rules. In July 2016, the company reached a settlement with the European Commission in the investigation. Following the adoption of the European Commission's settlement decision, the company will be dealing with private damages claims from customers and other third parties alleging that they suffered loss by reason of the conduct covered in the decision. To assess this kind of legal disputes and possible future obligations is complicated and require involvement of experts within relevant areas to assist in the assessment of the financial application aspects of the matters. The outcome of the private damages claims from customers and other third parties require judgement and is uncertain. At this stage it has not been possible for the company to make a reliable estimate of the amount of any liability that could arise from any such proceedings.	Management and the board of directors have been highly involved in the dealing with private damages claims. In our audit, we assess how the private damages claims are treated on management and board level, including reviewing supporting documentation. We have in our audit taken part of several statements from the company's external legal advisors as well as requested and received Legal Letter from the company's external legal advisors about the claims.
Credit loss risks in China	
Refer to note 8, 21, 24 and 30 in the annual report. As a result of the downturn of the Chinese mining industry during the last years, many dealers and retail customers of Construction equipment in China have financial difficulties. On-balance exposure mainly consists of exposure for accounts receivables, entrustment loans to dealers and used equipment that has been bought back while off-balance exposure consists of credit guarantees. Management has put several mitigating activities in place to manage the situation. During 2016 the financial situation for Chinese dealers and retail customers has developed positively and the exposure is reduced. The assessment of risk for losses for assets and credit guarantees include judgement where the outcome can differ from the current assessment.	Our audit of credit loss risks in China is performed in several steps and include to understand and assess the process and models management use to limit the losses through mitigating activities. We review the risk assessments made by management and thereby also the impairment ratio used for provisions and allowances. The review is made individually per dealer and the objective is to assess the provisions and allowances. Our procedures include to review the exposure through test of the gross amounts of accounts receivables, entrustment loans to dealers and credit guarantee exposure through testing a sample of supporting documentation.
Revenue Recognition	
Refer to note 7 and 21 in the annual report. The recognised net sales pertain mainly to revenues from sales of goods and services. Revenue from the sale of goods is recognised 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 recognised as an operating lease transaction if significant risks in regard to the goods are retained in the group. Revenue is then recognised over the period of the residual value commitment. If the residual value risk commitment is not significant the revenue is recognised at the time of sale and a provision is made to reflect the estimated residual value risk. Due to the complexity in assessing the transfer of risk and rewards of ownership there is an inherent risk that revenue is recognised in the incorrect period.	As the group offer financing and different kinds of residual value guarantees in connection to the sales, the sales agreements must be assessed with respect to the timing of the revenue recognition. The company has developed instructions and models for how to recognise revenue for these transactions with customers. We have assessed whether the accounting models are in line with IFRS. Our audit approach has consisted of controls testing regarding managements process for identifying sales agreements that should be classified as operating leases. We also tested a sample of the sales agreements and evaluated the classification of the sales. For sales agreements classified as operating leases we have tested that the sale is recognised as an operating lease and revenue is recognised over the time of the contract.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–75, 193–201 and 204. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Report on other legal and regulatory requirements

Opinions
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of AB Volvo (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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.

Basis for Opinions
We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

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. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility
Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Göteborg, March 6, 2017

PricewaterhouseCoopers AB

Peter Clemedtson Authorized Public Accountant Lead Partner	Johan Palmgren Authorized Public Accountant Partner

Eleven-year Summary

The reporting in the eleven-year summary is based on IFRS. 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. The eleven-year summary presents each year in accordance with the Generally Accepted Accounting Practice (GAAP) for that year. Earlier years are not restated when new accounting standards are applied.

Consolidated income statement

SEK M	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net sales	**301,914**	**312,515**	**282,948**	**272,622**	**303,647**	**310,367**	**264,749**	**218,361**	**303,667**	**285,405**	**258,835**
Cost of sales	–231,602	–240,653	–220,012	–212,504	–235,085	–235,104	–201,797	–186,167	–237,578	–219,600	–199,054
Gross income	**70,312**	**71,862**	**62,937**	**60,118**	**68,562**	**75,263**	**62,952**	**32,194**	**66,089**	**65,805**	**59,781**
Research and development expenses	–14,631	–15,368	–16,656	–15,124	–14,794	–13,276	–12,970	–13,193	–14,348	–11,059	–8,354
Selling expenses	–26,867	–27,694	–27,448	–28,506	–28,248	–26,001	–24,149	–25,334	–27,129	–26,068	–21,213
Administrative expenses	–5,121	–5,769	–5,408	–5,862	–5,669	–7,132	–5,666	–5,863	–6,940	–7,133	–6,551
Other operating income and expenses	–3,135	–4,179	–7,697	–3,554	–2,160	–1,649	–2,023	–4,798	–1,915	163	–3,466
Income from investments in joint ventures and associated companies	156	–143	46	96	–23	–81	–86	–14	25	430	61
Income from other investments	112	4,609	50	–30	–47	–225	–58	–6	69	93	141
Operating income	**20,826**	**23,318**	**5,824**	**7,138**	**17,622**	**26,899**	**18,000**	**–17,013**	**15,851**	**22,231**	**20,399**
Interest income and similar credits	240	257	328	381	510	608	442	390	1,171	952	666
Interest expenses and similar charges	–1,847	–2,366	–1,994	–2,810	–2,476	–2,875	–3,142	–3,559	–1,935	–1,122	–585
Other financial income and expenses	11	–792	931	11	–301	297	213	–392	–1,077	–504	–181
Income after financial items	**19,230**	**20,418**	**5,089**	**4,721**	**15,355**	**24,929**	**15,514**	**–20,573**	**14,010**	**21,557**	**20,299**
Income taxes	–6,008	–5,320	–2,854	–919	–4,097	–6,814	–4,302	5,889	–3,994	–6,529	–3,981
Income for the period	**13,223**	**15,099**	**2,235**	**3,802**	**11,258**	**18,115**	**11,212**	**–14,685**	**10,016**	**15,028**	**16,318**
Attributable to:											
Equity holders of the Parent Company	13,147	15,058	2,099	3,583	11,039	17,751	10,866	–14,718	9,942	14,932	16,268
Minority interest	75	41	136	219	219	364	346	33	74	96	50
	13,223	**15,099**	**2,235**	**3,802**	**11,258**	**18,115**	**11,212**	**–14,685**	**10,016**	**15,028**	**16,318**

Consolidated income statement Industrial Operations

SEK M	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net sales	**291,459**	**303,582**	**275,999**	**265,420**	**296,031**	**303,589**	**257,375**	**208,487**	**294,932**	**276,795**	**249,020**
Cost of sales	–225,797	–236,311	–217,251	–209,307	–231,216	–233,097	–197,480	–179,578	–232,247	–214,160	–192,400
Gross income	**65,662**	**67,271**	**58,748**	**56,113**	**64,815**	**70,492**	**59,895**	**28,909**	**62,685**	**62,635**	**56,620**
Research and development expenses	–14,631	–15,368	–16,656	–15,124	–14,794	–13,276	–12,970	–13,193	–14,348	–11,059	–8,354
Selling expenses	–24,946	–25,857	–25,778	–26,904	–26,582	–25,181	–22,649	–23,752	–25,597	–24,671	–19,999
Administrative expenses	–5,081	–5,728	–5,367	–5,824	–5,639	–4,753	–5,640	–5,838	–6,921	–7,092	–6,481
Other operating income and expenses	–2,531	–3,473	–6,931	–2,710	–1,600	–1,045	–659	–2,432	–1,457	249	–3,275
Income/loss from investments in joint ventures and associated companies	156	–143	46	96	–23	–82	–86	–15	23	428	61
Income from other investments	112	4,610	49	–31	–46	–225	–57	–13	69	93	141
Operating income	**18,740**	**21,312**	**4,111**	**5,616**	**16,130**	**25,930**	**17,834**	**–16,333**	**14,454**	**20,583**	**18,713**

Consolidated balance sheets

SEK M	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Intangible assets	37,916	36,416	37,115	36,588	40,373	39,507	40,714	41,628	43,958	36,508	19,117
Property, plant and equipment	55,875	53,618	55,181	52,233	55,004	54,540	54,242	55,280	57,270	47,210	34,379
Assets under operating leases	34,693	32,531	31,218	25,672	29,022	23,922	19,647	20,388	25,429	22,502	20,501
Shares and participations	12,420	12,050	9,839	6,327	2,890	1,874	2,098	2,044	1,953	2,219	6,890
Inventories	48,287	44,390	45,533	41,153	40,409	44,599	39,837	37,727	55,045	43,645	34,211
Customer-financing receivables	110,821	102,583	99,166	83,861	80,989	78,699	72,688	81,977	98,489	78,847	64,742
Interest-bearing receivables	2,393	2,938	2,555	1,389	5,635	3,638	2,757	3,044	5,101	4,530	4,116
Other receivables	70,814	61,932	68,448	59,943	55,531	59,877	53,154	50,575	61,560	55,152	42,567
Non-interest-bearing assets held for sale	525	3,314	288	8,104	–	9,348	136	1,692	–	–	805
Cash and cash equivalents	25,172	24,393	33,554	29,559	28,889	37,241	32,733	37,910	23,614	31,034	31,099
Assets	**398,916**	**374,165**	**382,896**	**344,829**	**338,742**	**353,244**	**318,007**	**332,265**	**372,419**	**321,647**	**258,427**
Shareholders' equity[1]	97,764	85,610	80,048	77,365	86,914	85,681	74,121	67,034	84,640	82,781	87,188
Provision for post-employment benefits	14,669	13,673	16,683	12,322	6,697	6,665	7,510	8,051	11,705	9,774	8,692
Other provisions	26,408	27,207	28,010	19,900	21,787	20,815	18,992	19,485	29,076	27,084	20,970
Interest-bearing liabilities	141,048	132,607	147,985	135,001	131,842	130,479	123,695	156,852	145,727	108,318	66,957
Liabilities associated with assets held for sale	148	573	130	350	–	4,716	135	272	–	–	280
Other liabilities	118,879	114,495	110,042	99,891	91,502	104,888	93,554	80,571	101,271	93,690	74,340
Shareholders' equity and liabilities	**398,916**	**374,165**	**382,896**	**344,829**	**338,742**	**353,244**	**318,007**	**332,265**	**372,419**	**321,647**	**258,427**
[1]of which minority interests	1,703	1,801	1,723	1,333	1,266	1,100	1,011	629	630	579	284
Assets pledged	10,592	9,428	7,680	5,078	4,099	1,832	3,339	958	1,380	1,556	1,960
Contingent liabilities	16,056	15,580	15,940	17,290	17,763	17,154	11,003	9,607	9,427	8,153	7,726

Consolidated balance sheets, Industrial Operations											
SEK M	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Intangible assets	37,768	36,314	37,010	36,479	40,267	39,385	40,613	41,532	43,909	36,441	19,054
Property, plant and equipment	55,812	53,554	55,087	52,146	54,899	54,446	54,169	55,208	57,185	47,132	30,493
Assets under operating leases	22,752	20,616	19,484	17,013	21,263	16,749	13,217	13,539	16,967	13,850	11,822
Shares and participations	12,409	12,042	9,825	6,321	2,884	1,871	2,080	2,025	1,935	2,189	16,565
Inventories	48,080	44,194	45,364	40,964	40,057	43,828	38,956	35,765	54,084	43,264	33,893
Customer-financing receivables	1,698	11	1,828	1,406	1,397	1,702	1,428	1,367	975	1,233	1,193
Interest-bearing receivables	4,415	3,738	2,777	2,195	11,011	6,734	11,153	8,010	6,056	13,701	13,214
Other receivables	75,759	68,223	70,413	60,679	54,324	59,062	52,358	49,008	60,586	55,970	43,335
Non-current assets held for sale	525	3,314	288	8,104	–	9,348	136	1,692	–	–	805
Cash and cash equivalents	20,875	21,210	31,105	28,230	27,146	35,951	31,491	37,404	22,575	30,026	29,907
Assets	**280,093**	**263,216**	**273,181**	**253,537**	**253,248**	**269,076**	**245,602**	**245,550**	**264,272**	**243,806**	**200,281**
Shareholders' equity	86,579	75,151	70,105	68,467	78,321	76,682	66,101	58,485	75,046	75,129	87,188
Provision for post-employment benefits	14,608	13,621	16,580	12,249	6,663	6,635	7,478	8,021	11,677	9,746	8,661
Other provisions	22,545	23,936	25,054	17,575	19,653	19,101	17,240	17,456	27,015	25,372	19,385
Interest-bearing liabilities	33,944	32,562	48,180	52,491	54,472	55,394	59,857	78,890	46,749	38,286	9,779
Liabilities associated with assets held for sale	148	573	130	350	–	4,716	135	272	–	–	280
Other liabilities	122,269	117,374	113,131	102,405	94,139	106,548	94,791	82,426	103,785	95,273	74,988
Shareholders' equity and liabilities	**280,093**	**263,216**	**273,181**	**253,537**	**253,248**	**269,076**	**245,602**	**245,550**	**264,272**	**243,806**	**200,281**

Consolidated cash-flow statements

SEK bn	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating income	20.8	23.3	5.8	7.1	17.6	26.9	18.0	–17.0	15.9	22.2	20.4
Depreciation and amortization	16.7	16.8	15.9	17.4	14.7	13.9	13.8	15.2	13.5	12.5	12.4
Other non-cash items	–0.4	–0.5	6.1	2.4	1.4	1.3	1.6	4.4	–0.2	–0.5	0.7
Change in working capital	–13.9	–9.0	–14.1	–10.8	–21.9	–15.1	4.8	16.9	–23.3	–9.9	–7.7
Financial items and income tax	–5.7	–4.6	–5.0	–5.1	–8.0	–7.3	–5.5	–4.6	–5.2	–5.9	–4.3
Cash-flow from operating activities	**17.5**	**25.9**	**8.7**	**11.0**	**3.8**	**19.7**	**32.7**	**14.9**	**0.7**	**18.4**	**21.5**
Investments in fixed assets	–9.5	–8.8	–8.6	–12.2	–14.6	–12.6	–10.4	–10.5	–12.7	–10.1	–10.0
Investments in leasing assets	–10.8	–10.5	–10.1	–8.2	–10.0	–7.4	–4.8	–4.2	–5.4	–4.8	–4.6
Disposals of fixed assets and leasing assets	9.0	6.0	5.0	3.4	3.1	3.3	3.1	3.8	2.9	2.9	3.2
Shares and participations, net	0.2	–2.0	0.1	0.0	–1.2	–0.1	–0.1	0.0	0.0	0.4	–5.8
Acquired and divested subsidiaries and other business units, net	1.4	0.4	7.4	0.9	3.4	–1.6	0.6	0.2	–1.3	–15.0	0.5
Interest-bearing receivables including marketable securities	2.5	3.6	–4.8	0.5	3.7	2.6	6.8	–8.9	10.9	3.6	7.7
Cash-flow after net investments	**10.4**	**14.5**	**–2.3**	**–4.6**	**–11.8**	**3.9**	**27.9**	**–4.7**	**–4.9**	**–4.6**	**12.5**
Change in loans, net	–2.2	–13.2	6.7	13.0	14.1	8.7	–25.7	12.6	18.2	28.7	–2.6
Repurchase of own shares	–	–	–	–	–	–	–	0.0	–	–	–
Dividend to AB Volvo's shareholders	–6.1	–6.1	–6.1	–6.1	–6.1	–5.1	0.0	–4.1	–11.1	–20.3	–6.8
Dividend to minority shareholder's	–0.2	0.0	0.0	–0.2	0.0	0.0	–0.1	–	–	–	–
Other	0.0	0.0	–0.1	0.1	0.0	0.0	0.0	–0.1	0.0	0.0	0.0
Change in cash and cash equivalents excluding translation differences	**1.9**	**–4.8**	**–1.8**	**2.2**	**–3.8**	**7.5**	**2.1**	**3.7**	**2.2**	**3.8**	**3.1**
Translation differences on cash and cash equivalents	1.0	–0.4	1.1	–0.5	–0.8	–0.1	–0.4	–0.2	1.0	0.0	–0.5
Change in cash and cash equivalents	**2.9**	**–5.2**	**–0.7**	**1.7**	**–4.6**	**7.4**	**1.7**	**3.5**	**3.2**	**3.8**	**2.6**

Operating cash-flow Industrial Operations

SEK bn	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating income	18.7	21.3	4.1	5.6	16.1	26.0	17.8	–16.3	14.5	20.6	18.7
Depreciation and amortization	12.6	12.6	12.7	14.5	12.0	11.4	11.4	12.4	11.8	10.3	9.8
Other non-cash items	–1.1	–1.1	5.3	1.5	0.8	0.6	0.1	2.3	–0.7	–0.4	0.2
Change in working capital	–14.7	–1.9	–3.3	–2.0	–9.2	–4.2	4.6	4.7	–10.9	–0.1	–3.1
Financial items and income taxes	–5.6	–4.0	–4.5	–4.9	–7.3	–6.9	–5.1	–4.7	–5.0	–6.0	–3.7
Cash-flow from operating activities	**9.9**	**26.7**	**14.3**	**14.7**	**12.4**	**26.9**	**28.8**	**–1.6**	**9.7**	**24.4**	**21.9**
Investments in fixed assets	–9.4	–8.8	–8.6	–12.2	–14.6	–12.6	–10.3	–10.3	–12.6	–10.1	–9.7
Investments in leasing assets	–0.1	–0.3	–0.5	–1.5	–3.6	–1.4	–0.3	–0.2	–0.4	–0.2	–0.5
Disposals of fixed assets and leasing assets	3.2	0.7	1.1	0.5	0.9	1.2	0.8	0.7	0.6	1.1	0.9
Operating cash-flow	**3.5**	**18.3**	**6.4**	**1.5**	**–4.9**	**14.1**	**19.0**	**–11.4**	**–2.7**	**15.2**	**12.6**

Exports from Sweden											
SEK M	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Volvo Group, total	91,962	86,731	78,174	88,560	84,314	91,065	72,688	41,829	96,571	88,606	80,517

Key ratios	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Gross margin, %[1]	22.5	22.2	21.3	21.1	21.9	23.7	23.3	13.9	21.3	22.6	22.7
Research and development expenses as percentage of net sales[1]	5.0	5.1	6.0	5.7	5.0	4.4	5.0	6.3	4.9	4.0	3.4
Selling expenses as percentage of net sales[1]	8.6	8.5	9.3	10.1	9.0	8.0	8.8	11.4	8.7	8.9	8.0
Administration expenses as percentage of net sales[1]	1.7	1.9	1.9	2.2	1.9	2.3	2.2	2.8	2.3	2.6	2.6
Return on shareholders' equity, %	14.9	18.4	2.8	5.0	12.9	23.1	16.0	−19.7	12.1	18.1	19.6
Interest coverage, times[1]	10.3	9.1	2.2	2.1	6.7	9.6	5.9	−4.7	8.8	20.7	26.1
Self-financing ratio, %	155	194	64	84	18	118	270	137	5	153	189
Self-financing ratio Industrial Operations, %	155	316	180	112	72	210	294	−16	78	265	235
Net Financial position incl. post-employment benefits SEK M[1]	−15,679	−13,237	−26,378	−32,066	−22,978	−19,346	−24,691	−41,489	−29,795	−4,305	23,076
Net financial position incl. post-employment benefits as percentage of shareholders' equity[1]	−18.1	−17.6	−37.6	−46.8	−29.3	−25.2	−37.4	−70.9	−39.7	−5.7	29.2
Shareholders' equity as percentage of total assets	24.5	22.9	20.9	22.4	25.7	24.3	23.3	20.2	22.7	25.7	33.7
Shareholders' equity as percentage of total assets, Industrial Operations	30.9	28.6	25.7	27.0	30.9	28.5	26.9	23.8	28.4	30.8	40.6
Shareholders' equity excluding minority interest as percentage of total assets	24.1	22.4	20.5	22.0	25.2	23.9	23.0	20.0	22.6	25.6	33.6

1 Pertains to the Industrial Operations. For periods up to and including 2006, Financial Services is included and consolidated according to the equity method.

Volvo share statistics

Data per share (adjusted for issues and splits)[1]	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Basic earnings, SEK[1]	6.47	7.42	1.03	1.77	5.44	8.75	5.36	–7.26	4.90	7.37	8.03
Cash dividend, SEK	3.25[9]	3.00	3.00	3.00	3.00	3.00	2.50	0	2.00	5.50	10.00[8]
Share price at year end (B share), SEK	106.40	79.10	84.70	84.45	88.80	75.30	118.50	61.45	42.90	108.50	90.70
Dividend yield (B share), %[2]	3.1	3.8	3.5	3.6	3.4	4.0	2.1	–	4.7	5.1	11.0
Effective return (B share), %[3]	39	–3	4	–2	22	–34	97	43	–59	25.7	39.8
Price/earnings ratio (B share)[4]	16.4	10.7	82.2	47.7	16.3	8.6	22.1	neg	8.8	14.7	11.3
EBIT multiple[5]	11.7	7.7	26.3	19.6	9.0	5.1	12.0	neg	3.6	9.7	10.3
Payout ratio, %[6]	50	40	291	169	55	34	47	–	41	75	62
Shareholders' equity, SEK[7]	47	41	39	38	43	42	36	33	41	41	43
Return on shareholders' equity, %	14.9	18.4	2.8	5.0	12.9	23.1	16.0	neg	12.1	18.1	19.6

1 Basic earnings per share is calculated as income for the period divided by average number of shares outstanding.
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 less 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	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Number of shareholders at year end	237,654	234,989	237,871	246,265	242,482	251,715	240,043	233,311	220,192	197,519	183,735
Number of Series A shares outstanding at year end, million	472	485	492	499	526	643	657	657	657	657	131.4
Number of Series B shares outstanding at year end, million	1,560	1,546	1,537	1,530	1,502	1,385	1,371	1,371	1,371	1,369	273.4
Average number of shares outstanding, million	2,031	2,030	2,028	2,028	2,028	2,027	2,027	2,027	2,027	2,025	404.7
Number of Series A shares traded in Stockholm during the year, million	67.2	51.7	86.3	53.0	45.4	130.5	203.2	147.0	308.0	172.3	56.4
Number of Series B shares traded in Stockholm during the year, million	1,667.9	2,052.1	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

The largest shareholders in AB Volvo, December 31, 2016[1]	Number of shares	% of total votes	Share capital, %
Industrivärden	142,154,571	22.6	7.0
Cevian Capital	170,515,457	15.3	8.4
Norges Bank Investment Management	97,514,686	6.1	4.8
SHB	32,027,820	5.1	1.6
Alecta (pension funds)	83,206,000	4.6	4.1
AMF Insurance & Funds	58,314,924	3.0	2.9
AFA Insurance	14,884,990	2.1	0.7
Swedbank Robur Funds	96,328,321	2.0	4.7
AP4 Fund	23,841,352	1.9	1.2
Skandia Life	17,201,021	1.0	0.8
Total	**735,989,142**	**63.8**	**36.2**

1 Based on the number of outstanding shares.

Distribution of shares, December 31, 2016[1]	Number of shareholders	% of total votes[1]	Share of capital, %[1]
1–1,000 shares	183,887	2.9	2.6
1,001–10,000 shares	48,781	5.9	6.5
10,001–100,000 shares	4,167	3.5	4.9
100,001–	819	87.7	86.0
Total	**237,654**	**100.0**	**100.0**

1 Based on all registered shares.

AB Volvo held 4.6% of the Company's shares on December 31, 2016.

Business area statistics

Net sales[1] SEK M		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Trucks	Europe	91,468	83,767	72,757	73,640	76,365	83,451	69,606	65,874	109,914	108,651	93,282
	North America	51,849	73,017	53,696	40,314	42,650	37,042	26,901	21,563	26,588	27,255	50,605
	South America	10,613	11,624	19,669	23,318	21,172	26,847	21,680	12,490	14,680	11,483	9,213
	Asia	33,464	31,589	29,264	26,740	36,531	37,840	35,231	26,943	37,515	26,593	8,975
	Africa and Oceania	13,256	13,982	15,518	14,462	15,565	13,741	13,887	12,069	14,538	13,910	9,190
	Total	**200,650**	**213,978**	**190,904**	**178,474**	**192,283**	**198,920**	**167,305**	**138,940**	**203,235**	**187,892**	**171,265**
Construction Equipment	Europe	19,739	17,732	17,215	16,356	16,518	17,765	16,138	12,987	25,192	25,294	20,326
	North America	10,724	11,843	10,784	8,319	12,027	7,829	6,267	5,475	10,159	11,170	11,280
	South America	1,414	2,207	3,234	3,314	3,788	4,163	4,130	2,578	2,913	2,155	1,358
	Asia	15,765	16,424	18,458	21,911	27,033	29,999	24,352	12,957	13,738	12,179	6,903
	Africa and Oceania	3,088	2,802	3,164	3,539	4,192	3,745	2,923	1,661	4,077	2,835	2,264
	Total	**50,731**	**51,008**	**52,855**	**53,437**	**63,558**	**63,500**	**53,810**	**35,658**	**56,079**	**53,633**	**42,131**
Buses	Europe	7,861	7,284	6,139	5,429	6,200	6,631	6,242	7,707	7,321	7,767	7,924
	North America	11,345	10,635	6,721	5,929	6,675	7,532	7,200	5,673	5,355	4,630	4,910
	South America	1,363	1,425	2,559	1,836	2,794	2,715	1,737	1,235	1,571	1,623	1,537
	Asia	3,067	2,557	1,892	2,055	2,853	2,953	3,299	2,749	2,094	1,802	2,003
	Africa and Oceania	1,749	1,678	1,334	1,457	1,774	1,992	2,038	1,101	971	786	897
	Total	**25,386**	**23,580**	**18,645**	**16,707**	**20,295**	**21,823**	**20,516**	**18,465**	**17,312**	**16,608**	**17,271**
Volvo Penta	Europe	4,973	4,462	3,779	3,714	3,620	4,274	4,507	4,390	6,554	6,798	6,111
	North America	2,191	2,161	1,584	1,491	1,486	1,379	1,500	1,100	1,947	2,674	2,815
	South America	291	365	386	297	306	335	335	284	364	274	221
	Asia	1,891	1,855	1,615	1,692	1,867	2,130	2,008	2,054	2,082	1,624	1,359
	Africa and Oceania	546	562	425	356	352	341	366	331	486	349	268
	Total	**9,893**	**9,406**	**7,790**	**7,550**	**7,631**	**8,458**	**8,716**	**8,159**	**11,433**	**11,719**	**10,774**
Volvo Aero	Europe	–	–	–	–	2,404	2,893	3,768	3,942	3,497	3,462	3,798
	North America	–	–	–	–	2,657	3,300	3,599	3,508	3,534	3,723	3,815
	South America	–	–	–	–	0	7	27	34	58	127	173
	Asia	–	–	–	–	109	104	233	205	234	234	356
	Africa and Oceania	–	–	–	–	49	52	81	114	125	100	91
	Total	**–**	**–**	**–**	**–**	**5,219**	**6,356**	**7,708**	**7,803**	**7,448**	**7,646**	**8,233**
	Other and eliminations	4,799	5,610	5,806	9,252	7,044	4,532	–680	–538	–575	–703	–654
Net sales Industrial Operations		**291,459**	**303,582**	**275,999**	**265,420**	**296,031**	**303,589**	**257,375**	**208,487**	**294,932**	**276,795**	**249,020**
Financial Services	Europe	5,116	5,278	5,120	4,686	4,703	4,663	4,733	7,127	7,099	4,484	4,388
	North America	4,202	4,033	2,999	2,900	2,833	2,326	2,605	3,004	369	2,467	2,569
	South America	1,235	1,116	1,122	1,009	1,195	1,131	1,156	1,070	791	620	608
	Asia	476	548	638	707	795	571	435	435	158	87	45
	Africa and Oceania	213	224	232	237	257	192	101	75	68	47	38
	Total	**11,242**	**11,199**	**10,111**	**9,539**	**9,783**	**8,883**	**9,031**	**11,711**	**8,485**	**7,705**	**7,648**
	Eliminations	–787	–2,265	–3,162	–2,336	–2,167	–2,104	–1,658	–1,836	250	905	2,167
Volvo Group total		**301,914**	**312,515**	**282,948**	**272,622**	**303,647**	**310,367**	**264,749**	**218,361**	**303,667**	**285,405**	**258,835**

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[1] SEK M	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Trucks	15,020	19,517	4,157	6,145	10,216	18,227	10,112	–10,805	12,167	15,193	13,116
Construction Equipment	2,246	2,044	652	2,592	5,773	6,812	6,180	–4,005	1,808	4,218	4,072
Buses	911	860	92	–190	51	1,114	780	–350	–76	231	745
Volvo Penta	1,269	1,086	724	626	541	825	578	–230	928	1,173	1,105
Volvo Aero	–	–	–	–	767	360	286	50	359	529	359
Financial Services	2,086	2,006	1,712	1,522	1,492	969	167	–680	1,397	1,649	1,686
Other	–707	–2,195	–1,514	–3,557	–1,217	–1,408	–102	–994	–731	–762	–684
Operating income/loss Volvo Group	**20,826**	**23,318**	**5,824**	**7,138**	**17,622**	**26,899**	**18,000**	**–17,013**	**15,851**	**22,231**	**20,399**

1 Between 2007 and 2011, 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. Operating income in 2006 included adjustment of goodwill of neg 1,712, reported in Trucks. Operating income in 2014 included expected credit losses of 660. See section for Alternative Performance Measures regarding adjusted items.

Operating margin %	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Trucks	7.5	9.1	2.2	3.4	5.3	9.2	6.0	–7.8	6.0	8.1	7.7
Construction Equipment	4.4	4.0	1.2	4.9	9.1	10.7	11.5	–11.2	3.2	7.9	9.7
Buses	3.6	3.6	0.5	–1.1	0.3	5.1	3.8	–1.9	–0.4	1.4	4.3
Volvo Penta	12.8	11.5	9.3	8.3	7.1	9.8	6.6	–2.8	8.1	10.0	10.3
Volvo Aero	–	–	–	–	14.7	5.7	3.7	0.6	4.8	6.9	4.4
Volvo Group Industrial Operations	**6.4**	**7.0**	**1.5**	**2.1**	**5.4**	**8.5**	**6.9**	**–7.8**	**5.2**	**7.8**	**7.9**
Financial Services	18.6	17.9	16.9	16.0	15.3	10.9	1.8	–5.8	16.5	21.4	22.0
Volvo Group	**6.9**	**7.5**	**2.1**	**2.6**	**5.8**	**8.7**	**6.8**	**–7.8**	**5.2**	**7.8**	**7.9**

Number of employees at year-end Number[1, 2, 3]	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Trucks	52,154	54,668	58,067	58,542	61,256	62,315	57,796	56,505	64,280	64,390	49,900
Construction Equipment	13,397	13,889	14,901	14,663	14,788	18,422	16,648	16,126	19,810	19,710	11,050
Buses	7,353	7,270	6,900	6,648	7,514	8,529	8,685	9,541	8,930	9,290	7,760
Volvo Penta	1,530	1,470	1,422	1,412	1,361	2,549	2,353	2,928	2,940	3,000	1,650
Volvo Aero	–	–	–	–	–	3,179	3,120	3,278	3,510	3,550	3,510
Financial Services	1,328	1,340	1,339	1,355	1,362	1,323	1,235	1,234	1,290	1,150	1,010
Other	8,277	9,827	10,193	12,913	12,436	1,845	572	596	620	610	8,310
Volvo Group, total	**84,039**	**88,464**	**92,822**	**95,533**	**98,717**	**98,162**	**90,409**	**90,208**	**101,380**	**101,700**	**83,190**

1 Between 2007 and 2011, employees in business units are allocated to the business areas.
2 As of 2009, only regular employees are shown, for previous years also temporary employees were 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	2016	2015	2014	2013
Energy consumption (GWh; MWh/SEK M)	2,076; 7.1	2,077; 6.8	2,168; 7.9	2,320; 8.7
Direct CO_2 emissions, scope 1 (1,000 tons; tons/SEK M)[3]	211; 0.7	220; 0.7	231; 0.8	255; 1.0
Indirect CO_2 emissions, scope 2 (1,000 tons; tons/SEK M)[3]	196; 0.7	192; 0.6	218; 0.8	243; 0.9
Water consumption (1,000 m^3; m^3/SEK M)	4,430; 15.2	4,919; 16.2	4,982; 18.1	5,815; 21.9
NO_x emissions (tons; kilos/SEK M)	333; 1.1	344; 1.3	332; 1.2	347; 1.3
Solvent emissions (tons; kilos/SEK M)	1,792; 6.1	1,885; 6.2	2,472; 9.0	2,221; 8.4
Sulphur dioxide emissions (tons; kilos/SEK M)	12,9; 0.04	32.1; 0.1	37.9; 0.1	23.4; 0.1
Hazardous waste (tons; kg/SEK M)	27,649; 94.9	27,824; 91.6	24,944; 90.4	28,395; 107.0
Net sales, SEK bn	291.5	303.6	276.0	265.4

1 Restated according to new accounting rules.
2 Excluding UD Trucks and Ingersoll Rand Road Development.
3 From 2012 revised system boundaries and emission factors.

Employees

Number[1]	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Sweden	19,235	20,412	21,384	22,588	23,052	24,663	23,073	22,763	28,190	28,660	27,830
Europe, excluding Sweden	26,955	27,662	29,449	29,746	30,382	30,458	29,239	29,793	32,940	32,780	30,070
North America	14,245	15,534	15,217	16,397	16,569	15,427	12,844	12,640	14,200	15,750	14,820
South America	4,762	5,380	6,353	6,275	5,977	5,234	4,322	4,257	4,380	4,640	3,890
Asia	16,469	17,046	17,793	17,953	20,222	19,924	18,535	18,416	19,090	17,150	4,420
Africa and Oceania	2,373	2,430	2,626	2,574	2,515	2,456	2,396	2,339	2,580	2,720	2,160
Volvo Group total	**84,039**	**88,464**	**92,822**	**95,533**	**98,717**	**98,162**	**90,409**	**90,208**	**101,380**	**101,700**	**83,190**

1 As of 2009, only regular employees are shown, for previous years also temporary employees were included.

Delivered units

Number	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Heavy-duty trucks (>16 tons)	158,025	176,589	173,650	170,307	172,798	179,779	123,522	82,675	179,962	172,322	179,089
Medium-duty trucks (7–16 tons)	15,691	14,749	15,114	16,779	32,935	34,631	30,657	21,653	30,817	27,933	14,695
Light trucks (<7 tons)	16,708	16,137	14,360	13,188	18,284	23,982	25,811	23,354	40,372	36,101	26,147
Total trucks	**190,424**	**207,475**	**203,124**	**200,274**	**224,017**	**238,391**	**179,989**	**127,681**	**251,151**	**236,356**	**219,931**

Number		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Trucks	Europe	97,909	86,448	72,458	82,088	84,355	95,113	65,503	49,145	121,847	128,070	114,417
	North America	39,193	64,507	57,714	44,755	47,806	42,613	24,282	17,574	30,146	33,280	70,499
	South America	9,442	11,069	23,741	29,137	23,443	29,274	21,483	12,587	18,092	15,264	11,646
	Asia	31,502	31,979	32,399	28,692	51,514	56,165	53,833	34,800	60,725	39,916	12,817
	Africa and Oceania	12,378	13,472	16,812	15,602	16,899	15,226	14,888	13,575	20,341	19,826	10,552
	Total	**190,424**	**207,475**	**203,124**	**200,274**	**224,017**	**238,391**	**179,989**	**127,681**	**251,151**	**236,356**	**219,931**
Buses	Europe	2,676	2,431	2,221	2,146	2,491	2,695	2,395	3,164	3,313	3,748	3,570
	North America	2,659	2,398	1,590	1,752	1,826	3,014	2,092	1,539	1,884	1,547	1,741
	South America	1,149	1,415	2,985	2,434	2,560	2,620	1,174	690	995	1,318	1,236
	Asia	1,849	1,656	1,242	1,822	2,945	3,417	3,477	3,839	3,033	2,757	3,349
	Africa and Oceania	1,220	925	721	756	856	1,040	1,091	625	712	546	464
	Total	**9,553**	**8,825**	**8,759**	**8,910**	**10,678**	**12,786**	**10,229**	**9,857**	**9,937**	**9,916**	**10,360**

2012[1]	2011	2010	2009	2008	2007[2]	2006
2,483; 8.5	2,471; 8.1	2,315; 9.0	1,888; 9.1	2,530; 8.6	2,426; 9.6	2,612; 10.5
273; 0.9	255; 0.8	279; 1.1	213; 1.0	291; 1.0	242; 1.0	282; 11.4
260; 0.9						
7,372; 25.2	7,970; 26.2	7,519; 29.2	6,637; 31.8	8,205; 27.8	7,067; 27.9	7,596; 30.6
413; 1.4	474; 1.6	719; 2.8	322; 1.5	800; 2.7	542; 2.1	606; 2.4
2,358; 8.1	2,554; 8.4	2,294; 8.9	1,435; 6.9	1,945; 6.6	1,979; 7.8	2,048; 8.3
26; 0.1	34; 0.1	33; 0.1	38; 0.2	64; 0.2	58; 0.2	69; 0.3
32,547; 111.4	25,943; 85.5	22,730; 88	17,558; 84	27,675; 94	27,120; 107	26,987; 108.8
292.2	303.6	257.4	208.5	294.9	253.2	248.1

Explanation to adjusted operating income

SEK M 2016	Quarter	Trucks	Construction Equipment	Buses	Volvo Penta	Group functions & Other incl. elim.	Industrial operations	Financial Services	Elimina-tions	Volvo Group
Net sales		**200,650**	**50,731**	**25,386**	**9,893**	**4,799**	**291,459**	**11,242**	**–787**	**301,914**
Operating income		**15,020**	**2,246**	**911**	**1,269**	**–707**	**18,740**	**2,086**	**–**	**20,826**
Sale of external IT business	1	–	–	–	–	–885	–885	–	–	–885
EU competition investigation	2	2,334	–	–	–	–	2,334	–	–	2,334
EU competition investigation	3	190	–	–	–	–	190	–	–	190
Gain from divestment of real estate in Gothenburg, Sweden	4	–71	–	–41	–	–1,258	–1,371	–	–	–1,371
	Year to date	2,453	–	–41	–	–2,143	268	–	–	268
Adjusted operating income		**17,472**	**2,246**	**870**	**1,269**	**–2,850**	**19,008**	**2,086**	**–**	**21,094**
Operating margin		**7.5**	**4.4**	**3.6**	**12.8**	**–**	**6.4**	**–**	**–**	**6.9**
Adjusted operating margin		**8.7**	**4.4**	**3.4**	**12.8**	**–**	**6.5**	**–**	**–**	**7.0**

SEK M 2015	Quarter	Trucks	Construction Equipment	Buses	Volvo Penta	Group functions & Other incl. elim.	Industrial operations	Financial Services	Elimina-tions	Volvo Group
Net sales		**213,978**	**51,008**	**23,580**	**9,406**	**5,610**	**303,582**	**11,199**	**–2,265**	**312,515**
Operating income		**19,517**	**2,044**	**860**	**1,086**	**–2,195**	**21,312**	**2,006**	**–**	**23,318**
Efficiency program	1	127	75	–	16	11	229	–	–	229
Sale of Eicher shares	1	–2,471	–	–	–	–	–2,471	–	–	–2,471
Efficiency program	2	701	17	5	–	76	799	–	–	799
Sale of Eicher shares	2	–2,137	–	–	–	–	–2,137	–	–	–2,137
Efficiency program	3	368	–5	9	–	62	434	–	–	434
Efficiency program	4	837	–41	8	–	67	871	–	–	871
Favourable outcome in an arbitration case	4	–772	–	–37	–	–	–809	–	–	–809
	Year to date	–3,347	46	–15	16	216	–3,084	–	–	–3,084
Adjusted operating income		**16,170**	**2,090**	**845**	**1,102**	**–1,979**	**18,228**	**2,006**	**–**	**20,234**
Operating margin		**9.1**	**4.0**	**3.6**	**11.5**	**–**	**7.0**	**–**	**–**	**7.5**
Adjusted operating margin		**7.6**	**4.1**	**3.6**	**11.7**	**–**	**6.0**	**–**	**–**	**6.5**

SEK M 2014	Quarter	Trucks	Construction Equipment	Buses	Volvo Penta	Group functions & Other incl. elim.	Industrial operations	Financial Services	Elimina-tions	Volvo Group
Net sales		**190,904**	**52,855**	**18,645**	**7,790**	**5,806**	**275,999**	**10,111**	**–3,162**	**282,948**
Operating income		**4,157**	**652**	**92**	**724**	**–1,514**	**4,111**	**1,712**	**–**	**5,824**
Efficiency program	1	318	–	–	–	–	318	–	–	318
Efficiency program	2	370	1	6	5	376	758	4	–	762
Release of Volvo Rents provision	2	–	–	–	–	–226	–226	–	–	–226
Gain from divestment of real estate	2	–64	–	–	–	–751	–815	–	–	–815
Efficiency program	3	578	–	–	–	81	659	–	–	659
EPA litigation US	3	–	–	–	–	422	422	–	–	422
Efficiency program	4	199	579	–	–	52	830	–	–	830
EU competition investigation	4	–	–	–	–	3,790	3,790	–	–	3,790
	Year to date	1,401	580	6	5	3,744	5,736	4	–	5,740
Adjusted operating income		**5,558**	**1,232**	**98**	**729**	**2,230**	**9,847**	**1,716**	**–**	**11,563**
Operating margin		**2.2**	**1.2**	**0.5**	**9.3**	**–**	**1.5**	**–**	**–**	**2.1**
Adjusted operating margin		**2.9**	**2.3**	**0.5**	**9.4**	**–**	**3.6**	**–**	**–**	**4.1**

SEK M 2013	Quarter	Trucks	Construction Equipment	Buses	Volvo Penta	Group functions & Other incl. elim.	Industrial operations	Financial Services	Elimina-tions	Volvo Group
Net sales		**178,474**	**53,437**	**16,707**	**7,550**	**9,252**	**265,420**	**9,539**	**–2,336**	**272,622**
Operating income		**6,145**	**2,592**	**–190**	**626**	**–3,557**	**5,616**	**1,522**	**–**	**7,138**
Efficiency program	3	104	–	–	–	–	104	–	–	104
Efficiency program	4	549	–	–	–	–	549	–	–	549
Write down of Volvo Rents	4	–	–	–	–	1,457	1,457	–	–	1,457
	Year to date	653	0	0	0	1,457	2,110	–	–	2,110
Adjusted operating income		**6,798**	**2,592**	**–190**	**626**	**–2,100**	**7,726**	**1,522**	**–**	**9,248**
Operating margin		**3.4**	**4.9**	**–1.1**	**8.3**	**–**	**2.1**	**–**	**–**	**2.6**
Adjusted operating margin		**3.8**	**4.9**	**–1.1**	**8.3**	**–**	**2.9**	**–**	**–**	**3.4**

SEK M 2012	Quarter	Trucks	Construction Equipment	Buses	Volvo Penta	Volvo Aero	Group functions & Other incl. elim.	Industrial operations	Financial Services	Elimina-tions	Volvo Group
Net sales		**189,156**	**63,558**	**19,587**	**7,631**	**5,219**	**7,047**	**292,198**	**9,783**	**–2,167**	**299,814**
Operating income		**10,779**	**5,667**	**37**	**549**	**775**	**–1,235**	**16,573**	**1,496**	**–**	**18,069**
EPA litigation US	1	–	–	–	–	–	66	66	–	–	66
Restructuring UD Trucks	3	560	–	–	–	–	–	560	–	–	560
Gain on sale of Volvo Aero	4	–	–	–	–	–	–254	–254	–	–	–254
Restructuring charges	4	880	–	110	–	–	–	990	–	–	990
	Year to date	1,440	–	110	–	–	–188	1,362	–	–	1,362
Adjusted operating income		**12,219**	**5,667**	**147**	**549**	**775**	**–1,423**	**17,935**	**1,496**	**–**	**19,431**
Operating margin		**5.7**	**8.9**	**0.2**	**7.2**	**14.8**	**–**	**5.7**	**–**	**–**	**6.0**
Adjusted operating margin		**6.5**	**8.9**	**0.8**	**7.2**	**14.8**	**–**	**6.1**	**–**	**–**	**6.5**

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.

REPORTING SCOPE AND BOUNDARY

For the reporting scope and boundary for non-financial data, please see the GRI (G4) Index at www.volvogroup.com.

ANNUAL GENERAL MEETING, APRIL 4, 2017

The Annual General Meeting of AB Volvo will be held in Göteborg in Konserthuset, Götaplatsen, Tuesday, April 4, 2017.

Notice

Those who wish to participate must be recorded as shareholders in the share register maintained by Euroclear Sweden AB on March 29, 2017 and give notice of intention to attend the meeting no later than March 29, 2017:

- 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 29, 2017
- 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 of the proxy, if any
- number of any accompanying assistant(s) (maximum two)

To be entitled to participate in the annual general meeting, 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 29, 2017 and should therefore be requested well in advance of March 29, 2017.

VOLVO'S ELECTION COMMITTEE

The following persons are members of Volvo's Election Committee:

Bengt Kjell	Chairman of the Election Committee, AB Industrivärden
Lars Förberg	Cevian Capital
Pär Boman	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

Annual General Meeting 2017	April 4, 2017
Report on the first quarter 2017	April 25, 2017
Report on the second quarter 2017	July 19, 2017
Report on the third quarter 2017	October 20, 2017
Report on the fourth quarter 2017	January 31, 2018

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

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AB Volvo, Investor Relations and Group Accounting