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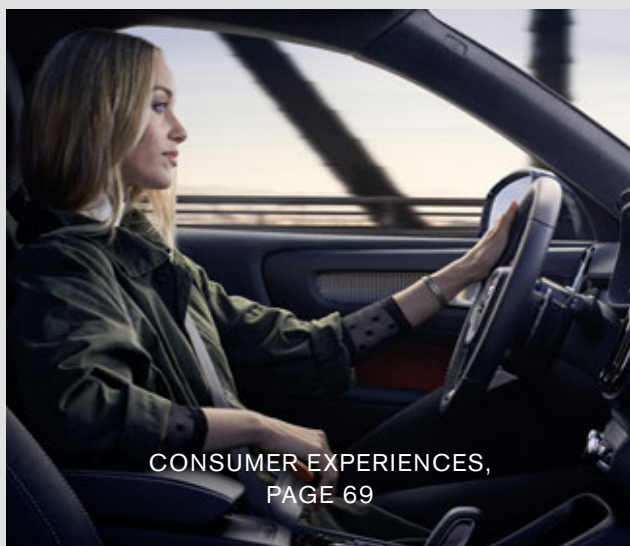
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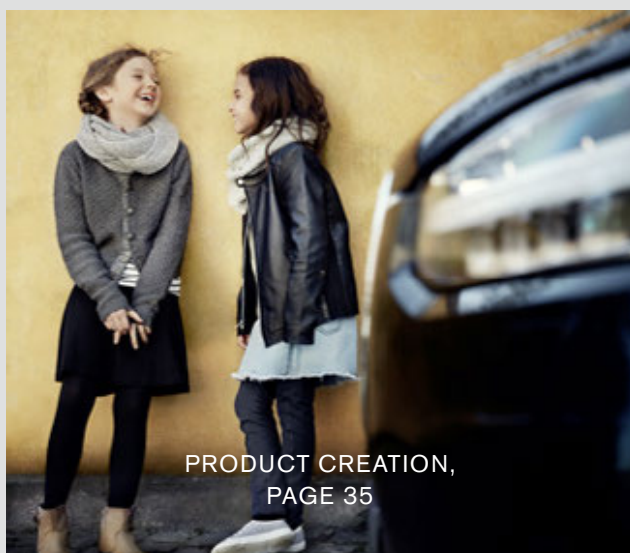
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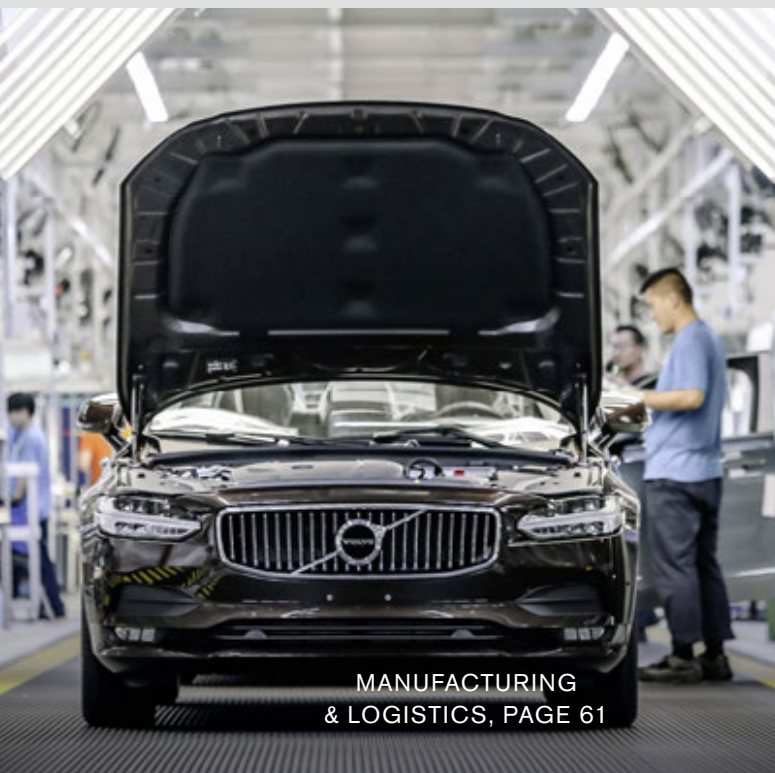
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VOLVO CAR GROUP

Our history dates back to 1927 when Volvo Car Corporation was founded in Sweden. That year we put the first Volvo car on the road and since then we have continuously developed, creating world changing innovations along the way.

Our cars are produced in factories around the globe; Gothenburg in Sweden, Ghent in Belgium, Chengdu, Daqing and Luqiao in China, and soon in Charleston in the US as well. Our mobility and subscription services are developed in Stockholm and Gothenburg in Sweden for customers all over the world. Together our operations deliver on consumer demand for current and future mobility.

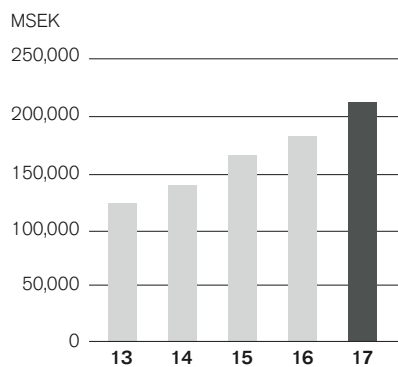
Volvo Car Group is headquartered in Gothenburg, Sweden.

“2017 was Volvo Cars’ fourth consecutive year of growth and we are delivering according to the plan we set out. We are investing heavily - in people, in our products and in our global footprint, but also in the future of mobility; electrification, autonomous driving, connectivity and subscription services.”

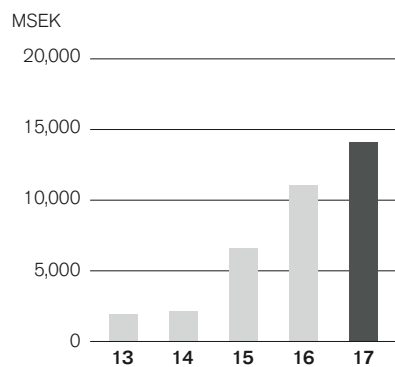
HÅKAN SAMUELSSON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
CEO COMMENT, PAGE 6

2017 IN BRIEF

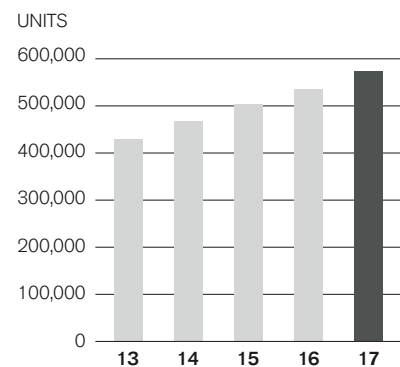
NET REVENUE



EBIT



RETAIL SALES



7.0%

Retail sales up to 571,577
(534,322) units

16.6%

Net revenue increased to
MSEK 210,912 (180,902)

14,061

Operating income (EBIT) increased to
MSEK 14,061 (11,014)

-3,800

Cash flow from operating and investing activities
decreased to MSEK -3,800 (6,515)

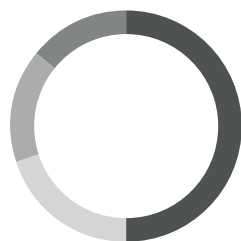
38,000

Average number of employees increased
to 38,000 (30,400)

30%

T8 Plug-in Hybrid sales increased
by 30% compared to last year

RETAIL SALES BY MARKET



Europe, 50%
China, 20%
US, 16%
Other, 14%

RETAIL SALES BY CARLINE



S, 20%
V, 34%
XC, 46%

KEY FIGURES

| MSEK | 2017 | 2016 |
|---|---------|---------|
| Net revenue | 210,912 | 180,902 |
| Research and development expenses | -10,187 | -10,174 |
| Operating income, EBIT | 14,061 | 11,014 |
| Net income | 10,225 | 7,460 |
| EBITDA | 26,159 | 21,541 |
| Cash flow from operating and investing activities | -3,800 | 6,515 |
| Gross margin, % | 22.1 | 21.4 |
| EBIT margin, % | 6.7 | 6.1 |
| EBITDA margin, % | 12.4 | 11.9 |
| Net cash (net debt if positive) | -12,513 | -18,873 |

CEO COMMENT

2017 was Volvo Cars' fourth consecutive year of growth and we are delivering according to the plan we set out. We are investing heavily - in people, in our products and in our global footprint, but also in the future of mobility; electrification, autonomous driving, connectivity and subscription services. In Sweden, we have grown from 16,000 employees in 2011 to 21,000 employees this year with a total workforce of 38,000 globally.

Volvo Cars continues to stand out as a pioneer within the auto space. With our sustainability commitment OMTANKE firmly embedded in our business, we are finding solutions to the disruptions being posed around electrification, connectivity, mobility services and autonomous driving (AD). This year we have laid out clear strategies in each of these areas, but before elaborating on them, let me recap on developments in our core business during 2017.

The Chinese passenger car market remains the fastest growing market worldwide, and Volvo Cars performed very well in China in 2017, breaking the 100,000 unit threshold for the first time. With car plants in Chengdu, Luqiao and Daqing, as well as a stable dealer network, we are driving greater awareness of our product quality,

that no one should be seriously injured or killed in a new Volvo car by 2020.

By launching the XC40 we have a complete SUV offering for the first time. Production started in November at our plant in Ghent, Belgium, and the car will come to market in the beginning of 2018.

The XC40 launch brought with it the launch of Care by Volvo, our response to flexible mobility. The aim is to give our customers more freedom - without having to own a car. I believe subscription services are one way forward as new mobility solutions continue its rapid development.

For subscription services and AD, connectivity and digitalisation are essential. Being a small player in this sector, we have chosen to make a virtue of our agility in forming a number of strong and mutually beneficial partnerships during the year.

Our collaborations are all with experts in their respective areas. Developing the software required for AD, we have joined up with Autoliv, which is a world leading automotive safety company, and set up a joint venture - Zenuity. Importantly, we believe that we can benefit from commercialising our AD technology as Zenuity will sell its products to other OEMs in the future.

With Uber we are developing the redundant base cars needed for AD. We have also agreed to sell up to 24,000 cars to them for their AD taxi service. Uber is already using XC90s for its self-driving tests, reflecting the strength of our credentials and commitment to becoming the supplier of choice for AD ride-sharing services globally.

On electrification, our strategy, laid out in July 2017, is that all new Volvo cars launched from 2019 will be hybrids or all electric. We think we have a very firm advantage with our progressive, pure electric performance brand Polestar already having started construction at its first plant in Chengdu, China. This clear move towards electrification also underlines our commitment to low carbon mobility, as well as our belief that a sustainable approach is key to our future success. In this respect, I am pleased to report that Volvo Cars is an active supporter of the United Nations Global Compact.

In 2018, we foresee continued growth both in revenue and retail sales. We are launching and ramping up production of our last two models on the SPA platform, the V60 and the S60. The latter will be built in the new factory in Charleston, US. We will also ramp up production of the XC40 and we are looking forward to its reception when it reaches our customers. In addition to our core business of building and selling cars, we will continue to develop business areas within subscription services, as well as embrace the business opportunities provided through electrification and AD. This, we expect, will result in improved 2018 profits while we will continue to lead the way in responding to the disruptive challenges in our industry.

Håkan Samuelsson
President and Chief Executive Officer

“This year we have laid out clear strategies for our continued work with electrification, autonomous driving, connectivity and mobility services.”

HÅKAN SAMUELSSON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

technology, brand values and Scandinavian heritage. We continued to increase sales in Europe where the market remained strong. We are particularly pleased with 6 per cent increase in Sweden selling almost 75,000 cars against market growth of 2 per cent.

Overall, the US market was softer this year than last. Our sales during the first half of 2017 declined, but during the second half, we saw a positive sales development, almost ending the year on the same level as 2016. We are opening our new factory in Charleston later in 2018 and we believe a stronger presence in the market will have a positive bearing on sales going forward.

I am very pleased with the successful ramp up of production of the new XC60 after the very impressive launch at the beginning of the year. As of December, the XC60 is now being built in both Gothenburg, Sweden, and in Chengdu, China. Recently, it was named the car with the best overall performance by the prestigious Euro NCAP 2017 Best in Class safety awards. This adds to a list of achievements that exemplify our commitment to our vision



“We expect improved profits while we continue to lead the way in responding to the disruptive challenges in our industry.”

HÅKAN SAMUELSSON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

2017 - A SUCCESSFUL TRANSITION YEAR

With the launch of the XC60 and XC40 premium SUVs, we completed the renewal of the XC model range, now utilising both our platforms, the Scalable Product Architecture (SPA) and Compact Modular Architecture (CMA) platforms. The new models were well received by the markets with the XC60 and 90 series driving our overall sales growth.



JANUARY

- ☐ We established a new shared mobility business unit including Sunfleet, a car sharing service
- ☐ The S90 and V90 received top Autonomous Emergency Braking (AEB) Pedestrian Safety Ratings from Euro NCAP



MARCH

- ☐ The new XC60 premium SUV was revealed at the Geneva Motor Show
- ☐ We were recognised as one of the World's Most Ethical Company® by the Ethisphere Institute



MAY

- ☐ Standard & Poor's upgraded our credit rating to BB+ stable outlook from BB positive outlook
- ☐ We became the first automaker in the world to export China made cars to Europe by ground-breaking rail link

JAN

FEB

MAR

APR

MAY

JUN



FEBRUARY

- ☐ Three new advanced collision avoidance features announced for the new XC60



APRIL

- ☐ Operations started for Zenuity, our AD joint venture with Autoliv
- ☐ We announced that our first fully electric car will be built in China



JUNE

- ☐ We teamed up with NVIDIA together with Autoliv and Zenuity to develop advanced systems for self-driving cars
- ☐ We started assembling the XC90 in Bangalore, India

**JULY**

- We announced that every car launched from 2019 will have an electric motor

**SEPTEMBER**

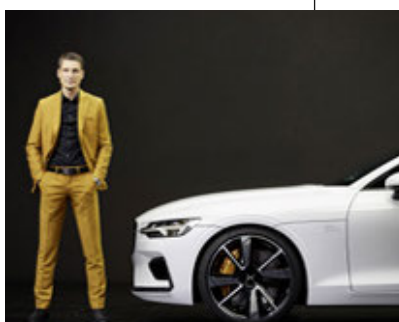
- The new XC40 small premium SUV was revealed in Milan, Italy
- We launched Care by Volvo, a subscription service available to buyers of the new XC40
- We announced expansion plans for our new US manufacturing operations
- We were awarded LEAD member status by the UN Global Compact for our efforts in supporting the Sustainable Development Goals (SDGs)

**NOVEMBER**

- We announced a framework agreement with Uber to sell tens of thousands of AD compatible base vehicles between 2019 and 2021

JUL**AUG****SEP****OCT****NOV****DEC****AUGUST**

- We agreed with Geely on certain technology sharing and the formation of Lynk & Co

**OCTOBER**

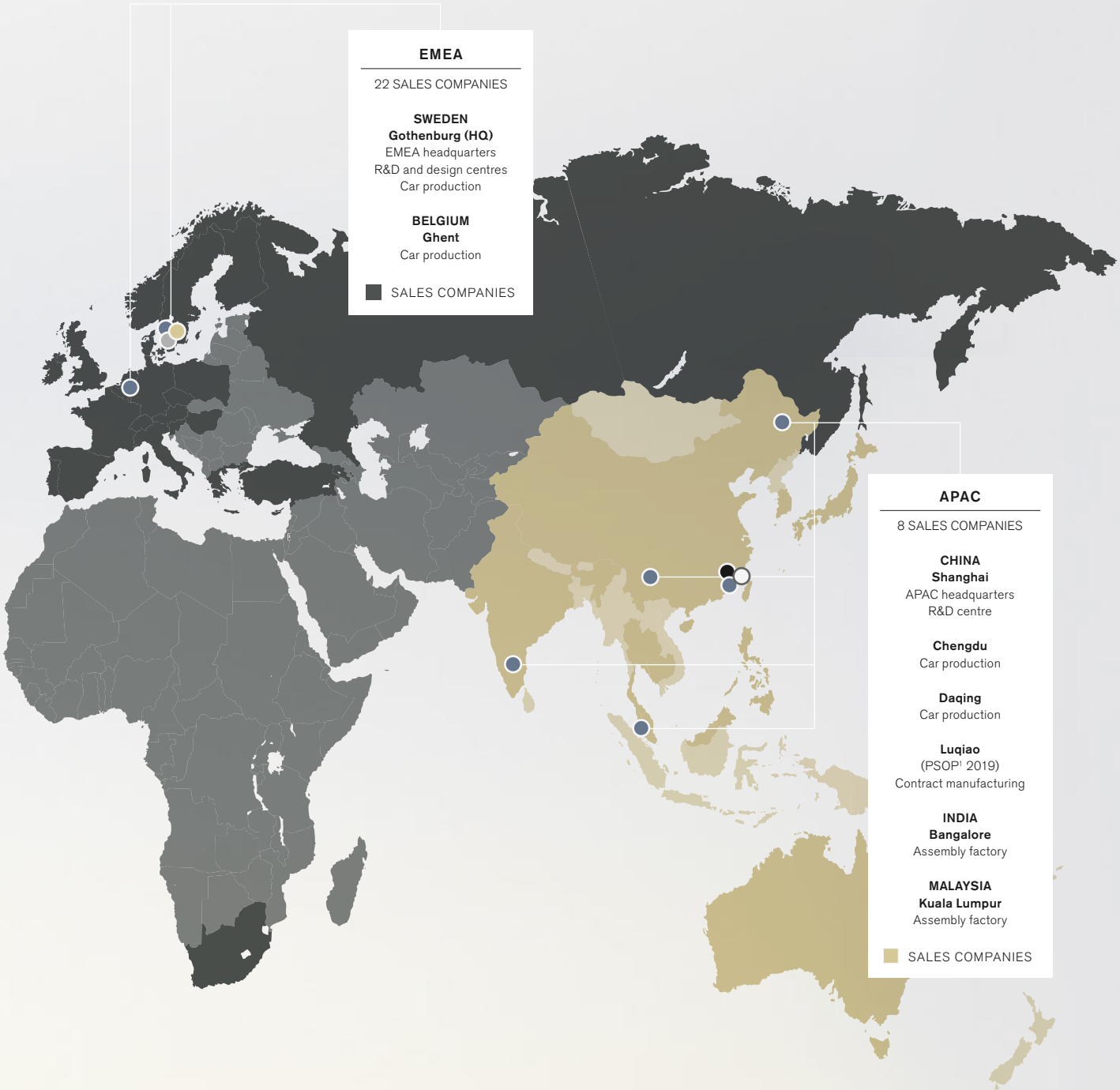
- We announced MSEK 6,100 will be invested together with Geely Holding affiliated companies to support the initial phase of Polestar's product, brand and industrial development

**DECEMBER**

- Swedish families started testing cars on public roads to support our AD car development

GLOBAL PRESENCE WITH SALES IN OVER 100 COUNTRIES





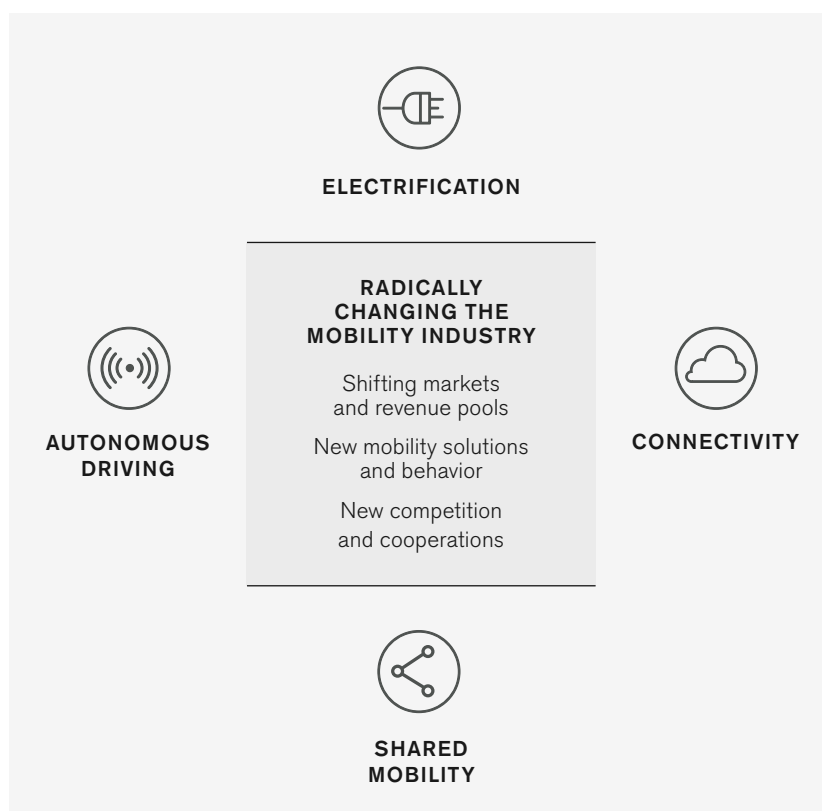
“The fast paced change within the automotive industry driven by technology shifts, digitalisation and changing consumer behaviours, opens up interesting opportunities for progressive players who are willing to drive it.”

KERSTIN ENOCHSSON
VICE PRESIDENT CORPORATE STRATEGY AT VOLVO CARS



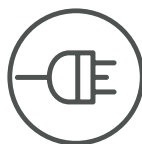
THE WORLD AROUND US

The automotive industry is currently undergoing significant changes driven both by technology shifts, digitalisation and changing consumer behaviours. The industry change in the automotive industry over the next ten years is expected to be more substantial than the changes seen within the automotive industry during the last 50 years.



Recently, we have seen significant investments in, and efforts put into electrification, autonomous driving, and connectivity from premium car manufacturers and technology companies, and the trend is expected to continue over the coming years.

The shared mobility landscape is evolving very quickly with new products and services launched by incumbents and new players every week.



ELECTRIFICATION

Electrification

Electrified vehicles are quickly gaining ground and we see a clear shift from being considered a niche technology to a more widespread adoption even though only about 0.5 per cent of global vehicle sales in 2016 was fully electrified Battery Electric Vehicles (BEVs). The development is driven both by political agendas to reduce emissions and through an increasing demand for electrified vehicles as well as sustainable and clean mobility solutions.

We see a clear trend towards more stringent regulations on emissions. Furthermore, in some larger cities we see a political ambition to gradually phase out vehicles with diesel or even all internal combustion engines through a combination of stricter legislative frameworks and introduction of subsidy schemes. Pure electric and hybrid vehicles will be vital to meet the increasingly demanding emission requirements.

In general, consumers are showing increasing interest in electrified vehicles and emission-free mobility solutions. There are several important factors that will impact the speed of transition to full electrification of vehicle drivelines. Among the most important are price and total cost of ownership. As battery prices drop, electrified vehicles will become cheaper which will likely further fuel cus-

tomers demand. A second important factor impacting the pace of the transition to electrified vehicles, is the speed of charging infrastructure build out. Also in this field we see promising progress and we expect the trend to continue. We think that it is not a matter of if, but of when, electric vehicles will be the dominant type of vehicles in urban areas. Leading car manufacturers are now driving the transition to electrified vehicles and are competing to provide the most compelling offer.

It is not a matter of if, but of when, electric vehicles will be the dominant type of vehicles in urban areas.





AUTONOMOUS DRIVING

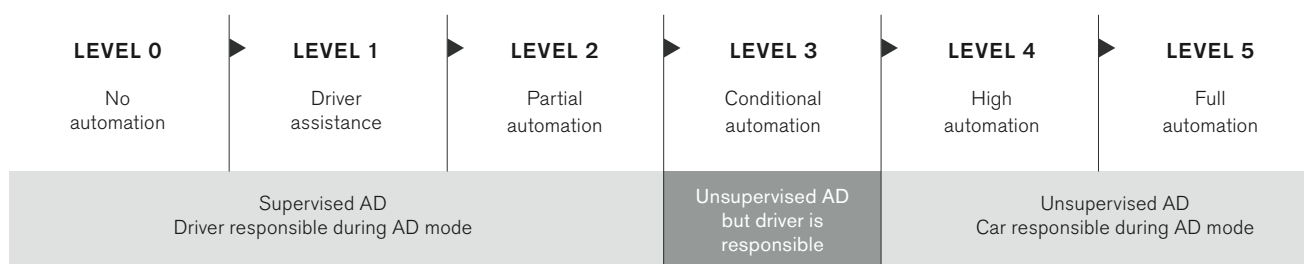
Autonomous driving

Autonomous driving (AD) has the potential to disrupt the automotive industry by itself and to unlock a number of benefits for the mobility consumer such as; (1) to create a more safe traffic environment, (2) enable a more efficient utilisation of vehicles and (3) to free up valuable time for the consumer.

The most advanced cars, in terms of AD, we see on the roads today are partially automated (Level 2). There is still extensive research required to reach highly (Level 4) and fully (Level 5) autonomous cars and the engineering solutions required to ensure safety and reliability for autonomous functionality are extremely complex. Before highly and fully autonomous cars can be commercialised, there are two main hurdles that must be overcome; (1)

regulatory constraints in terms of legality and liability, limiting the use of autonomous vehicles today, (2) technological constraints, with the safety of solutions needing to be validated. Among the most important technological constraints that must be overcome, are fusion of high bandwidth sensor data, object recognition, and management of boundary conditions.

Both technology companies and traditional car OEMs are investing heavily in development of autonomous vehicle technology for the automotive industry. We expect the development in this field to be fast, and when the hurdles are overcome, the benefits of highly and fully autonomous cars is likely to be extremely significant, and so large demand from consumers can be expected.



Description of AD levels based on SAE International's levels of driving automation for on-road vehicles



CONNECTIVITY

Connectivity

Within the next few years, a very large share of cars on the roads will be connected. Connectivity is a key enabler for new technologies such as AD. AD is expected to free up time and drive demand for, and the development of, new forms of media and entertainment offerings in the car. Furthermore, the increased speed of innovation in the industry will drive rapid software upgrade cycles and a demand for service products that can be delivered “over-the-air”.

Additionally, connected cars open up a great spectrum of new possibilities to provide services in and around the car. Volvo Cars is convinced that connectivity will be a key enabler for tomorrow's cars and mobility services. Going forward, it is likely that bandwidth/capacity will become a central theme. In the car, we are convinced that consumers will expect the interface between the car and phones, tablets and digital personal home assistants to be seamless and intuitive. Furthermore, convenience services around the car have the potential to create significant consumer value. We are convinced that convenience services will be a central aspect of tomorrow's premium car experience.

Connected cars have also opened up possibilities for new mobility services which emerge at a very fast pace today. As the share of connected cars increases and bandwidth and capacity is improved, the potential for new mobility services will grow further. We are convinced that we have only seen the start of connectivity enabled solutions and mobility services.

Connectivity is a key
enabler for new
technologies such as AD.



SHARED MOBILITY

Shared mobility

Many car manufacturers, technology companies and start-ups have invested heavily in the shared mobility space in recent years and the segment has shown staggering growth. The traditional business models of car manufacturers will in the future be supplemented by new business models built around new on-demand mobility concepts such as e-hailing, car-pooling and shared ownership. These new concepts have, up until today, primarily been targeting densely populated urban areas.

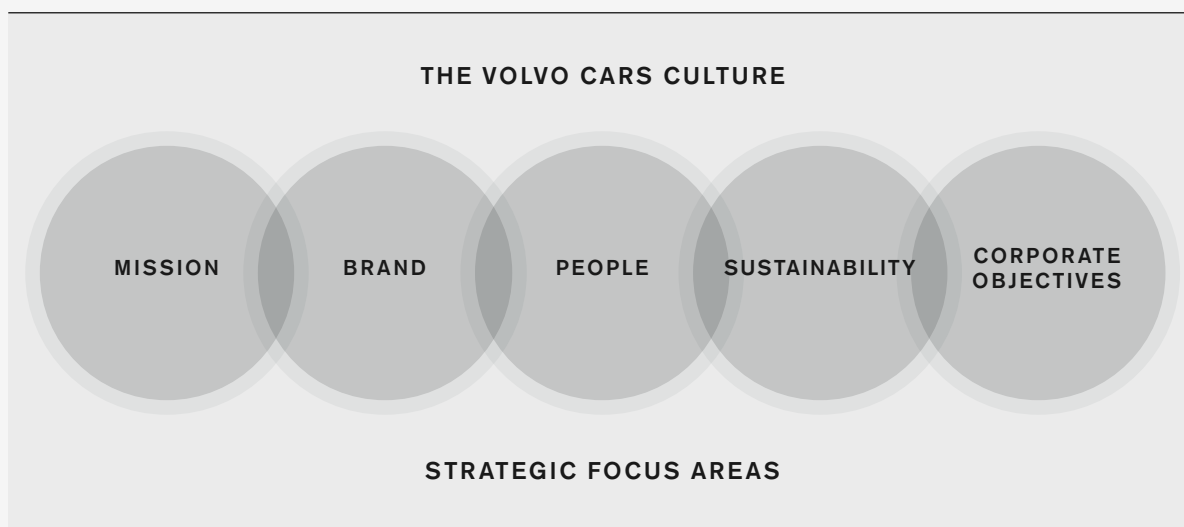
These new mobility concepts bring a slightly different set of expectations and requirements on the physical vehicle and Volvo Cars thinks that there will be cars that are “born to be shared”. Furthermore, once fully autonomous cars are reality on the roads, shared mobility concepts will see a significant increase in demand which will open up for new business models.

A large scale adoption of fully autonomous cars would significantly bring down the cost for e-hailing etc., which might reduce the interest in private car ownership. However this does not necessarily mean that the number of sold cars will decrease but rather, there will be a shift in customers for car manufacturers.



STRATEGY

A COMPANY WITH PURPOSE



1. NIMBLE ORGANISATION
TO FURTHER DRIVE
PROFITABILITY IMPROVEMENT

4. DIGITALISATION TO CREATE
VALUE FOR CONSUMERS

2. FURTHER STRENGTHENING
OUR BRAND

5. LEVERAGE OUR
GLOBAL PRESENCE

3. LEAD TRANSFORMATION TO
ELECTRIFICATION AND
AUTONOMOUS DRIVING

6. LEVERAGE STRENGTH BASED
LEADERSHIP TO CONDUCT
RESPONSIBLE AND
SUSTAINABLE BUSINESS



A COMPANY WITH PURPOSE

Everything we do starts with people. We understand people. We protect what is important to them and want to make them feel special. We take pride in our role within society and recognise our commitment towards the environment. We innovate to make people's lives better and less complicated. Our human centric focus is at the heart of everything we create.

WE REINFORCE OUR PURPOSE THROUGH;

Our vision that no one should be seriously injured or killed in a new Volvo car by 2020.

Our vision to give back 1 week quality time per year through a new Volvo car by 2025.

Our commitment to have put 1 million electrified vehicles on the roads by 2025.

MISSION

Our mission is to be the world's most progressive and desired premium car company and to make people's lives less complicated.

CULTURE

We believe in doing things together, and we gather around missions to achieve great results. Our culture fosters engagement, development and performance, and consequently also drives our business performance and attractiveness as an employer.

We are curious;
we put user experience first,
learn every day and innovate.

We create together;
we build trust, maximise on our strengths,
have fun, and have no limits to where we contribute.

We make the difference;
we care about people
and the world we live in, and we get things done.



WHAT WE WANT TO ACHIEVE

CORPORATE OBJECTIVES

ATTRACTIVE PRODUCTS

EMPLOYER OF CHOICE



TRUE PREMIUM ALTERNATIVE

**GROWTH AND SUSTAINABLE
PROFITABILITY**

WE ARE CONVINCED THAT MAKING;

Attractive products

and

Being the employer of choice for people
who want to make a difference

will position us as a true premium alternative
in all segments. Growth and sustainable profitability will
follow as a consequence. Through focusing on enablers
we pay attention to the things we can really influence.

DESIGNED AROUND YOU

BRAND STRATEGY

The Volvo brand has been built for over 90 years and is closely associated with human centricity, sustainability and safety. Our brand values permeate all our offerings and we ensure this through a close link between our customer promises and our products and services.

Volvo Cars strongly believes that one of the keys to long term success is to be truly human centric. We will not bring products and services to market that are not “Designed Around You”.

CUSTOMER PROMISE

We understand you

At Volvo Cars, we are driven by innovations that make people's lives less complicated. Having a Volvo car should always be hassle free and joyful, regardless if you own, lease, subscribe, rent or share it.

We protect what is important to you

The guiding principle behind everything we create at Volvo Cars is, and must remain, safety. We strive for power without compromise, the kind of power that will not harm our environment, yet enhance the driving experience.

We make people feel special

We create and build premium cars and people should expect nothing less than world-class design, craftsmanship, technology and services – sustainable solutions that will stand the test of time.

▼

PRODUCT FOCUS

Intuitive innovations

Safety and environmental performance

Scandinavian design

“Scandinavian design is focused on minimising the design and keeping the surfaces visually clean, and most importantly, designing around people and their needs.”

ROBIN PAGE
SENIOR VICE PRESIDENT DESIGN AT VOLVO CARS



EMPLOYER OF CHOICE

PEOPLE STRATEGY

Volvo Cars is committed to bring out the best in people and become the employer of choice of people who want to make a difference.

Volvo Cars is a truly human centric company and we believe people performs at best when they are inspired and can utilise their strengths. We lead through missions and gather around topics to solve together as opposed to following a rigid organisational structure. We focus on engaging employees where they can play to their strengths.

Becoming the employer of choice for people who want to make a difference is critical for Volvo Cars to ensure we meet our corpo-

rate objectives. We produce highly attractive, and ground-breaking, products and services. To continue driving change in the automotive industry, we must ensure Volvo Cars is the employer of choice for talented employees. We believe that talents of today and tomorrow desire to make a difference and create a better world. We work ambitiously to attract, retain and develop the very best talent through established attractive work environment where people can utilise their strengths.

WHAT MAKES US ATTRACTIVE



OUR SPIRIT

We are people who want to make a difference. We bring out the best in each other and believe in doing things together.



OUR PRODUCTS

We are creating the next generation of attractive and sustainable premium cars. Our products are characterised by intuitive innovations, safety, environmental performance, and Scandinavian design.



OUR COMMITMENTS

Our sustainability commitments to protect and improve people's lives, as well as limit our environmental impact, helps us to attract the best talent.

HOW WE MAKE IT HAPPEN

CULTURE

There is no other way than to live our culture. In everything we do, we are curious, we create together and we make a difference. Our culture empowers and motivates our employees to reach their full potential, and it attracts and retains key talents.

LEADERSHIP

Our leaders bring out the best in people by utilising their strengths, so that they learn and develop themselves and our business. Our leaders are leading with a purpose, are building trust and are role models for our culture.

COMPETENCE

We take responsibility to constantly seek development. We dare to take on challenges in an innovative way and are well equipped to handle rapid change and future competence needs. We have the ability to develop attractive and highly competitive consumer offers.

“Volvo Cars' success depends on our people. I am proud being a part of a company that puts people at the heart of everything we do, and that drives innovations that improve people's lives. I firmly believe those values are crucial for being regarded as the Employer of Choice.”

HANNA FAGER

SENIOR VICE PRESIDENT HUMAN RESOURCES AT VOLVO CARS



OMTANKE

OUR APPROACH TO SUSTAINABILITY

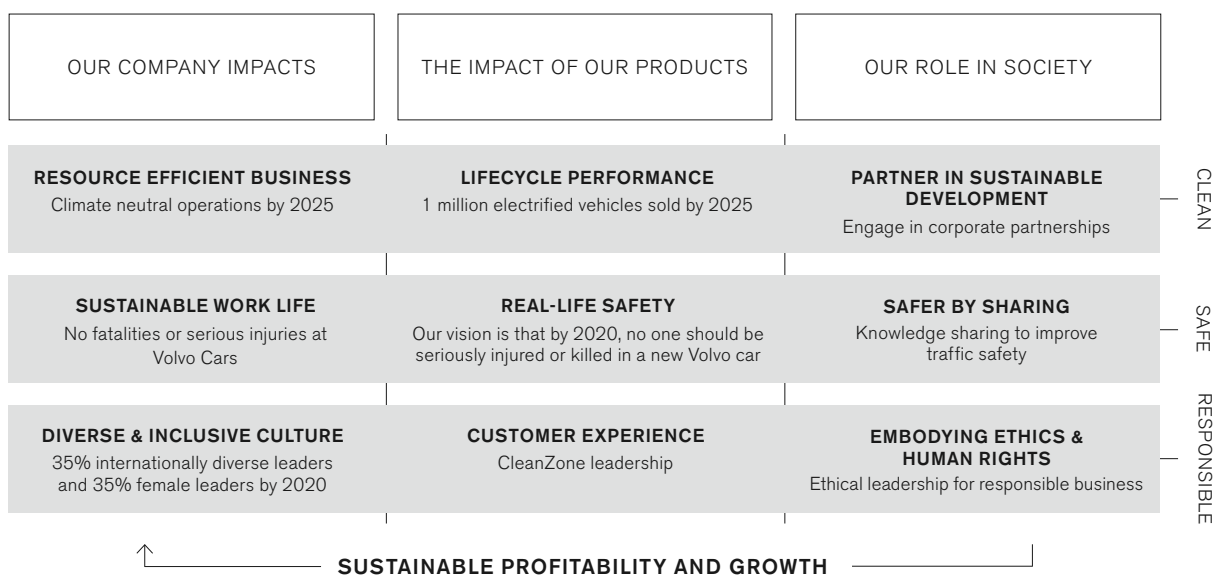
At Volvo Cars, sustainability is in our DNA. Over 90 years ago, our founders made clear that we would make cars that protect people, and safety would be our guiding principle.

Since then, we have led the industry, from the invention of the three point seat belt (estimated to have saved over 1 million lives) to the latest city safety technology in the new XC40, which protects those outside as well as inside the car. We have also pioneered environmental innovations; in 1976, we released the Lambda Sond, the world's first catalytic converter, a variant of which is still found in every petrol powered vehicle. This focus on reducing our environmental footprint continues today with our ground-breaking commitment to an electric future.

Our Sustainability Program is called "Omtanke". It is a Swedish word that means "caring" and "consideration", but also importantly "to think again". This reflects the fact that we should always work

to minimise our environmental impact, maximise our social impact and care for our customers and fellow employees. The program focuses on nine impact areas, each containing a clear commitment (see below).

Omtanke is a central part of our corporate strategy, as we recognise a sustainable approach is key to our future success. Why? Of course, it is good for the planet and society, but also it makes sound business sense, not least as customers are demanding more sustainable products and services. In addition, Omtanke protects and enhances our most valuable asset, our people. As well as driving internal engagement, it helps us attract the best talent – those who can help us make a difference, and care.



UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

The development of Omtanke was guided by the United Nations Sustainable Development Goals (SDGs), a series of 17 global goals which aim to help end all forms of poverty, reduce inequality and tackle climate change. Governments, civil society and business will work towards meeting them by 2030. The SDGs act as our guide, with 13 out of the 17 directly relevant to our sustainability work.

“Care for people and the environment runs through Volvo Cars' history. We are guided by our Sustainability Program Omtanke, which runs through our corporate strategy, and is vital to our future success.”

STUART TEMPLAR
DIRECTOR SUSTAINABILITY AT VOLVO CARS



KEY INITIATIVES

STRATEGIC FOCUS AREAS

Volvo Cars focuses on six strategic focus areas. We are convinced that successful execution of tasks within these areas will support the continued development of the company, value creation and growth.

1. NIMBLE ORGANISATION TO FURTHER DRIVE PROFITABILITY IMPROVEMENT

- Streamline organisation and processes
- Utilise the strengths and possibilities from digitalisation
- Capture full potential throughout the value chain
- Act fast on emerging opportunities
- Carefully assess how we invest and allocate our resources

2. FURTHER STRENGTHENING OUR BRAND

- Build on our world-class safety
- Be true to our human centric brand strategy
- Continue the ambitious renewal and expansion of our model portfolio

3. LEAD TRANSFORMATION TO ELECTRIFICATION AND AUTONOMOUS DRIVING

- Make future mobility safe, emission-low and convenient
- Lead transition to electrified vehicles and phase out of diesel engines
- Build on our safety heritage and human centric values when developing autonomous driving Level 4 features
- Leverage our strong position in Advanced Driver Assist Systems when developing to bring autonomous driving Level 4 to market

4. DIGITALISATION TO CREATE VALUE FOR CONSUMERS

- Digitise our core through a secure and scalable cloud infrastructure, laying the ground for new digital offerings
- Through digitalisation, set a new standard of premium experience through launching highly attractive convenience services that makes people's lives less complicated
- Establish smart collaborations to bring leading progressive products and services to market
- Develop and launch new subscription based mobility offerings
- Excel in sales and services

5. LEVERAGE OUR GLOBAL PRESENCE

- Ramp up US manufacturing capability
- Optimise operational processes and logistics flows for our global footprint
- Leverage our global footprint to respond to new market trends and changing consumer needs

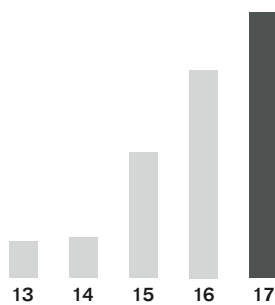
6. LEVERAGE STRENGTH BASED LEADERSHIP TO CONDUCT RESPONSIBLE AND SUSTAINABLE BUSINESS

- Leverage strength based leadership and organise ourselves so employees can utilise their strengths
- Gather people around missions and topics to create the best results
- Ensure long term business relationships through maintaining our truly responsible business conduct

2017 RESULTS AND PROGRESS

1.

IMPROVED PROFITABILITY



Operating income (EBIT)
at MSEK 14,061

4.

NEW WAYS TO CONSUMERS

INNOVATIVE PLATFORMS AND SERVICES

Our subscription service Care by Volvo was launched and implementation of the Retail and Consumer Experience Platform started

2.

SUV LINEUP COMPLETED

XC

With the launch of the new XC40, the full SUV lineup was completed

5.

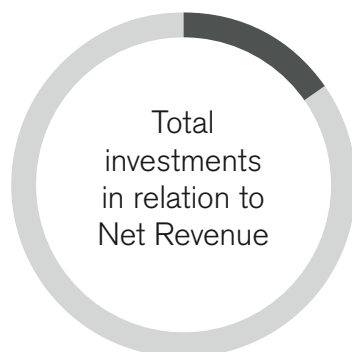
EXPANDED GLOBAL PRESENCE

S90

We started exporting the S90 to both the US and Europe

3.

INVESTMENTS IN THE FUTURE



We continued investing in our plants and R&D including electrification, autonomous driving, connectivity, consumer experiences and design

6.

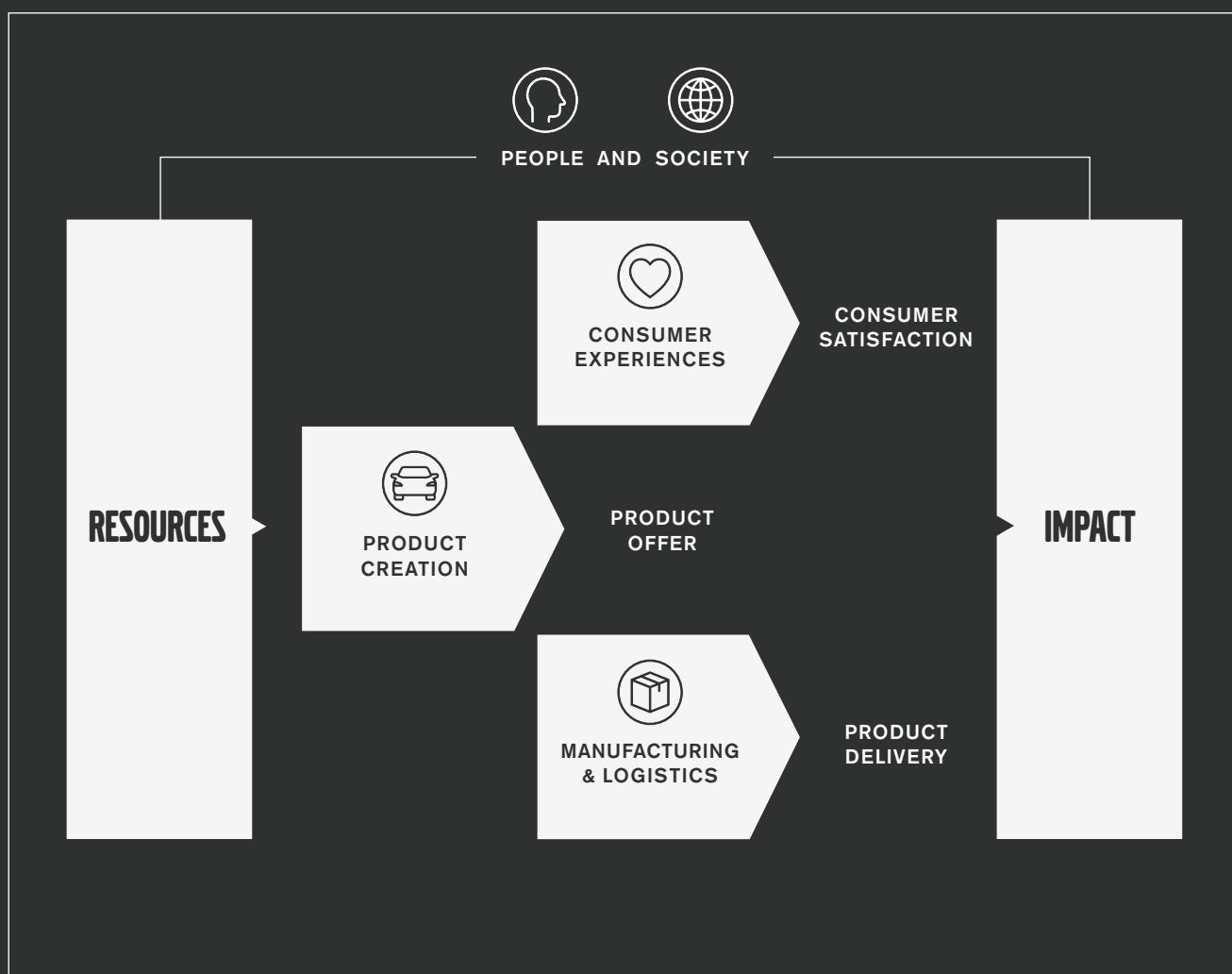
STRENGTHENED COMPETENCIES

7,600

We strengthened our workforce to an average of 38,000 (30,400)

CREATING SUSTAINABLE VALUE AND GROWTH

We invest, design, innovate, manufacture and sell products and services to make people's lives better and less complicated. Our human centric focus is at the heart of everything we do. Creating sustainable value and growth is achieved by investing, and utilising our resources, in a sustainable way throughout our value chain with concern for people, society and the environment in which we operate.



CREATING VALUE



PEOPLE

We put people at the heart of everything we do. Our culture, our products and our commitments to employees, consumers and environment make us unique and attractive, and are reasons to why people want to join our exciting journey and work at Volvo Cars.



PRODUCT CREATION

DESIGN
TECHNOLOGY
FUTURE MOBILITY
PROCUREMENT
PRODUCTS

We compete in the premium car segment with confidence in design, innovations and niche products and services. Based on our Scandinavian heritage, our products are developed on highly flexible vehicle platforms and powered by our industry leading in-house developed engine technology. Our innovations are designed to simplify and improve life and we are especially proud of our advances in electrification, autonomous driving, safety and connectivity. Being in the middle of a unprecedented expansion of our global manufacturing footprint, we integrate and optimise our supply chain, building where we sell, and source where we build. We work hard to engineer and produce fuel-efficient and safe cars. Our product portfolio, our engine programs and our electrification strategy show our clear commitment to the environment.

MANUFACTURING
& LOGISTICS

Optimised production footprint and logistics operations are the expected outcomes, while at the same time taking major consideration to minimising the environmental footprint of our global expansion, such as becoming climate neutral in all our manufacturing operations by 2025.

CONSUMER
EXPERIENCES

Our human centric focus is at the heart of everything we create and an improved customer journey aims to improve the user experience. We will achieve this by advancing on digitalisation and experimenting with new retail concepts as well as provide carefree user experiences and personalised technical services. Beyond the new car sales, we also offer subscription services and a global used car program.



SOCIETY

We work towards contributing to a better society and protecting people and the climate by creating partnerships for sustainable development and promoting traffic safety together with local and international organisations.





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TECHNOLOGY
FUTURE MOBILITY
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INCREASE IN SALES OF ELECTRIFIED VEHICLES

14%

Sales of electrified vehicles increased by 14% compared to last year

RETAIL SALES BY CARLINE



S, 20%
V, 34%
XC, 46%

ONE TEAM – ONE DESIGN

They are separated geographically, but are still close colleagues. Connecting design teams in Sweden, China and the US is key for creating a truly global car, while maintaining a strong base in the Scandinavian heritage.



It is just after lunch in the design studio when Louise Temin, Senior Interior Design Manager at Volvo Cars, picks up a pen, plugs in her headphones and gets to work. She is standing by her desk, sketching, and at first glance she seems to be working on her own. However, designing a Volvo car is anything but a solo act. It is teamwork – in a global sense. The Gothenburg Design Team works in close collaboration with the smaller design studios in Shanghai, China, and Camarillo, the US.

“The other teams’ insights on the local markets are very helpful to us. Even though we always base our work on the Volvo heritage, everyone sees things differently. As a designer, you are inspired by the world around you”, says Louise Temin who was Lead Interior Designer for the S90 and V90.

“Even though we always base our work on the Volvo heritage, everyone sees things differently. As a designer, you are inspired by the world around you.”

LOUISE TEMIN
LEAD INTERIOR DESIGNER FOR THE S90 AND V90 AT VOLVO CARS

Expanding modern Scandinavian experiences

The XC90, S90, V90 and V90 Cross Country are beautiful, elegant and timeless holistic sculptures, enhanced with beautiful detailing. Their features are all results of the dedicated work performed by the Global Design Team described in the beginning of this chapter.

They are what we feel are the true expressions of modern Scandinavian luxury with focus on proportion and calm elegance. With the foundations of a new era of modern Scandinavian luxury design set by the completion of the 90 cluster of cars last year, 2017 has been a time to expand the bandwidth of that vision.







Balancing proportions, technology and materials

The new XC60 brings the outstanding proportions, high level of technology and use of beautiful materials to our largest audience.

This is exemplified with the driftwood interior decoration that embodies the Scandinavian ethos of celebrating natural materials in a clean, modern way. Its exterior design is characterised by strong muscles below its taught surfacing that combines with the SPA platform's strong proportions – with a long hood and short front overhang – to create an athletic new character.

Bringing new expressions to life

Meanwhile the XC40 explores an expansion of possibilities for Volvo Cars. A new segment, a new platform and a new expression. Each of our cars is a different character and with the XC40 we

have really explored beyond our expected boundaries. To do this, it was not the case of being more creative – we always put maximum effort into every project – it was about focusing that effort in a different direction. This is a new member of the Volvo Cars' family that we see more as a cousin than a sibling to our other cars – the same family, but with a different DNA and upbringing.

By contrast the XC40 is visually built up from building blocks both inside and out – each a beautiful object in its own right that combine to give a feeling of strength and quality. If our bigger cars are sculptures, the XC40 is perhaps closer to graphic design. Clear, instantly recognisable elements that can be enhanced with contrasting colours on the exterior and fresh, new materials inside. It is still as much a Volvo car as all the others but we approached it in a different way.



LIFESAVING TECHNOLOGY

They were within a hair's breadth from crashing into another car. Thanks to the safety features in their Volvo car, the braking and stability systems enabled evasive action. Linda Gustafsson and her father made it to Åre without a scratch.



LINDA GUSTAFSSON

It is late at night. Linda Gustafsson and her father are in their car, and have just passed the little village Sveg in northern Sweden. Åre, the classic ski resort, is their final destination. She cannot wait. Suddenly, a car passes them. The road has oncoming traffic, so the other car needs to drive by them fast. When it has passed, the car starts spinning out of control, into the other lane. Just then, a truck rattles by them, extremely fast. Thanks to the braking and stability systems in their car, they made it to Åre that night.

"You could hear the wind draft from that huge truck passing by. I was in shock. We made it", reminisces Linda Gustafsson.

"You could hear the wind draft from that huge truck passing by. I was in shock. We made it."

LINDA GUSTAFSSON
VOLVO CAR DRIVER

The Volvo Cars' approach to safety

Our vision is that no one should be seriously injured or killed in a new Volvo car by 2020. So far, in the last ten years, there has been a 50 per cent reduction in serious injuries for Volvo occupants.

"The guiding principle behind everything we make at Volvo, is and must remain, safety."

ASSAR GABRIELSSON AND GUSTAF LARSON
FOUNDERS OF VOLVO, 1927

OUR OMTANKE COMMITMENT

NO ONE SHOULD BE SERIOUSLY INJURED OR KILLED IN A NEW VOLVO CAR BY 2020

We plan to achieve this vision by drawing on our world-leading expertise and through continuous innovations within vehicle safety.



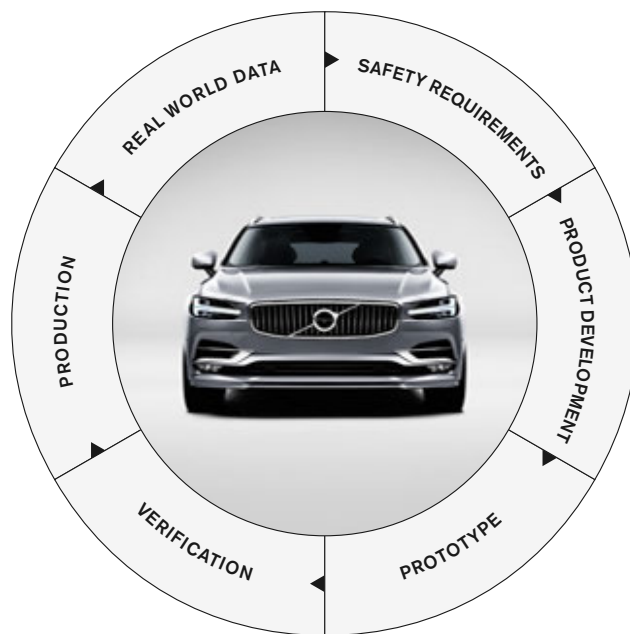
Real-life safety

Volvo Cars has been working with car safety and safety features since the beginning of the company's history. The methodology is called the "Circle of Life" and it is a procedure where real life data from accidents are collected, and analysed, in order to develop cars that are even safer than the ones before.

Real-life data

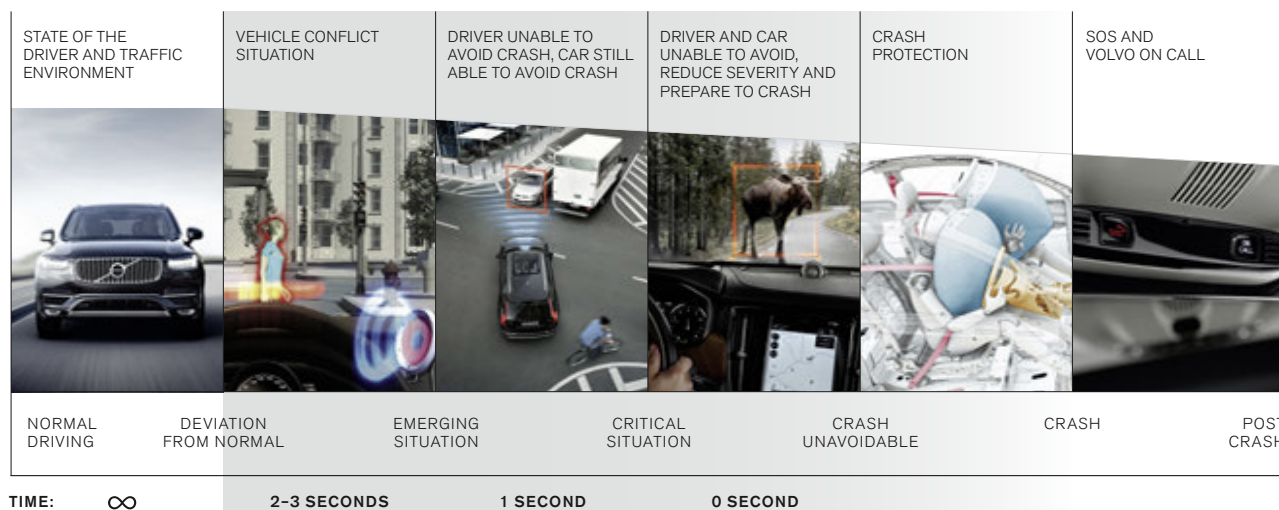
The Volvo Cars Traffic Accident Research Function was established in 1970. The data we have collected over the decades gives us unique insights and detailed knowledge of factors behind crashes, vehicle responses and injuries. This is how we have identified priorities for safety, and focused on protecting lives. We have collected statistical accident data involving Volvo cars in Sweden for over 43,000 accidents involving around 72,000 occupants.

The knowledge gained from accident analyses forms the basis for internal safety requirements. We develop pioneering test methods to reflect different situations and analyse crash data. Designers at Volvo Cars work with these requirements in mind when developing cars, including subsystems and components. Our cars are tested in the lab, with approximately 20,000 computer simulated crash tests and no less than 60 physical crash tests per model, so we are ready to fulfill the requirements even before production. When the new products are on the road our Traffic Accident Research Team follows up and the process continues, improving constantly.



An important part of the working process is to have the possibility to correlate real-world crash data with laboratory data. This enables the evaluation of possible system solutions in the early stage of the development process, and a forecast of real world outcomes.

A HOLISTIC APPROACH TO SAFETY



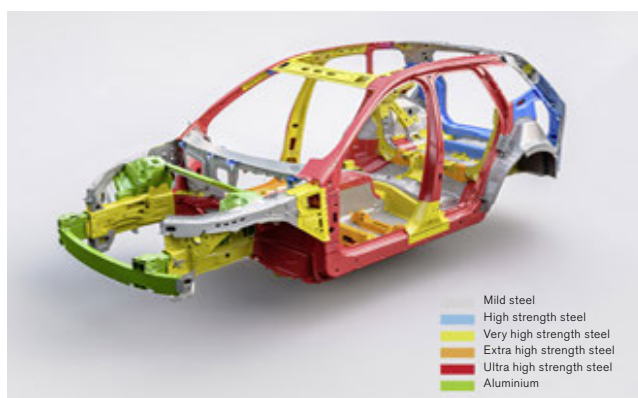


From research to development

The braking system in the Gustafsson family's car and in the new XC60 features, are both results of this methodology. "It is based on what is actually happening out on the roads, when people are driving. What is putting people in dangerous situations and what is harming them? In the research work, we ask ourselves if we have the technology to prevent these situations right now or if we need to define something new. Based on this, the whole team goes to work. The detailed knowledge gives us the edge to further develop our vehicles and find new features", says Malin Ekholm, Vice President Safety Centre at Volvo Cars.

“The detailed knowledge gives us the edge to further develop our vehicles and find new features.”

MALIN EKHOLM
VICE PRESIDENT SAFETY CENTRE AT VOLVO CARS





Innovative safety

We intend to maintain an industry leading position in vehicle safety by developing innovative, smart and integrated traffic safety solutions for both passengers and other road users.

Large animal detection

Fitted as a standard feature in all 90 series cars, the radar/camera unit can detect large animals (such as moose/elks and horses) standing on the road or slowly moving across it from the side. When a large animal is detected, a warning and additional brake pressure is provided to support the driver to avoid crash. This feature is yet another step towards ensuring driver safety and our Vision 2020.

Connected safety information

When the Volvo car is connected to the internet and the cloud, information is presented to the driver via pop-up icons on the driver display warning them of approaching hazards. Slippery Road Alert and Hazard Light Alert are available for Swedish and Norwegian consumers on the 90 cars, the XC60 and the XC40.

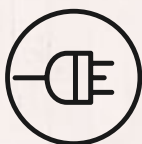
Oncoming lane mitigation

Introduced with the new XC60, this system helps drivers to avoid collisions with vehicles in an oncoming lane. The system works by alerting a driver who has unwittingly wandered out of a driving lane by providing automatic steering assistance, guiding them back into their own lane and out of the path of any oncoming vehicle.

FUTURE MOBILITY

Volvo Cars is shaping the future of changes driven by technology shifts, digitalisation and consumer behaviours. This fast-paced development opens up interesting challenges and opportunities within a range of areas. Volvo Cars will continue to embrace, address, develop and invest in these areas, using our strong heritage in safety, well-founded technology competence, innovativeness and ability to meet current and future consumer needs.





ELECTRIC
- LEADING THE WAY

We are well positioned to lead electrification in the automotive industry. In 2017, Volvo Cars established electrification at the centre of its future business. From 2019, every new Volvo car will be launched with an electric motor, creating a portfolio of electrified cars across the range, embracing fully electric cars, plug-in hybrid cars and mild hybrid cars.



AUTONOMOUS
- AT THE FOREFRONT

We believe that we are at the forefront of AD development, and that we are uniquely positioned in this area. For AD features to be successfully rolled out, it is key for consumers to have complete trust in the car, and we believe leadership in safety is an enabler to be the natural choice for the consumers in search for AD.



CONNECTED
- JOINED FORCES

We are well prepared to meet consumer demands for technology requiring well developed connectivity related solutions. Through Sensus, our entertainment and driver support solution, and smart collaborations with major players in the market, we provide an intuitive in-car control system designed to meet current and future needs of consumers in their search for premium technology experiences.



INITIATIVES FOR THE FUTURE

2017 has been a year in which Volvo Cars has continued to cast its eye forward, pursuing a range of future-facing initiatives particularly related to electric and connected mobility.

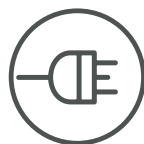


To drive forward some of these initiatives, we have forged an even closer relationship with our parent company Zhejiang Geely Holding Group Ltd. (Geely Holding). As part of this, and to support the coordination of procurement and commonality for shared and existing and future technology, the joint venture **GV Automobile Technology (Ningbo) Co. Ltd. (GV Tech)** was established. It is a 50/50 owned company which aims to deliver economies of scale by facilitating close cooperation between Volvo Cars and Geely Holding. The benefits of this close collaboration are clear, previous joint development projects include the 2016 release of our Compact Modular Architecture (CMA).

We also established **Lynk & Co Investment Co. Ltd.**, a 30/50/20 owned company between the three related parties Volvo Cars/Geely Holding/Geely Automobile Holding Ltd. The company owns, and is responsible for, Lynk & Co's hassle-free,

shareable carline. The cooperation will create economies of scale and value for the owners, while providing Lynk & Co with synergies that will enable it to achieve its full potential.

To support our electrification efforts, Volvo Cars and Geely Holding decided to jointly invest MSEK 6,100 to establish **Polestar** and a top-of-the-line manufacturing plant in Chengdu to support its product, brand and industrial development. These important steps show commitment to China as a manufacturing hub and the set-up will radically shorten the time Polestar needs to commercially launch its cars in China, giving it a strategic advantage. Polestar is a Volvo Cars subsidiary, and will be a stand-alone electric performance brand. Volvo Cars and Polestar will collaborate and both parties will benefit from synergies in the development of next generation technologies, shared procurement costs, joint development processes and economies of scale.



ELECTRIC

LEADING THE WAY

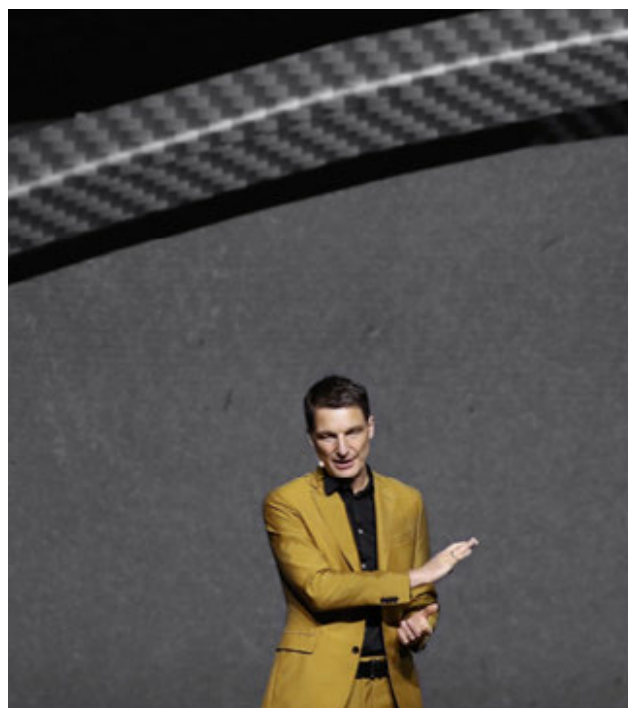
Volvo Cars is well positioned to lead electrification in the automotive industry. We firmly believe that hybridisation and electrification is the way forward. In 2017, Volvo Cars established electrification at the centre of its future business. From 2019, every new Volvo car will be launched with an electric motor, creating a portfolio of electrified cars across the range, embracing fully electric cars, plug-in hybrid cars and mild hybrid cars. The announcement marks the end of cars that only have an internal combustion engine and underlines Volvo Cars' commitment to minimising its environmental impact and low carbon mobility.

Polestar

Polestar will be a stand-alone electric performance brand and will spearhead the development of new technologies and enhance our leadership within the electrification and connectivity spaces. The brand is progressing well towards two launches in 2019 that reflect excellent progress against the electrification strategy we revealed earlier in 2017.

Polestar's first production car, the Polestar 1, will go into production in Chengdu in mid-2019. It will be a 600 hp two-door, four-seater hybrid coupé and its pure electric range of some 150 km is expected to be the longest full electric range of any hybrid car on the market based on currently available information. The Polestar 1 exemplifies the synergies between the Volvo Cars and Polestar brands; around half of the technology is based on our in-house developed SPA platform, while the remaining half is entirely new and bespoke technology created by Polestar engineers working at Volvo Cars' R&D Department.

The Polestar 1 will be closely followed later in 2019 by a second model, the smaller Polestar 2. This vehicle will be our first fully electric car, and the first of fully electric Polestar or Volvo Cars branded vehicles to be launched from 2019.





Volvo Cars was recognised by the United Nations for its ground-breaking electrification strategy in the latest report from the United Nations Global Compact, the world's largest corporate sustainability initiative. Launched at the Global Compact's annual high-level meeting in New York in September 2017, the report focuses on the progress that Global Compact members have made in supporting the delivery of the United Nations Sustainable Development Goals (SDGs). It highlighted 10 CEOs that have taken particularly bold and disruptive action, including Volvo Cars' President and Chief Executive Officer, Håkan Samuelsson.

The announcement also earned us a spot on Fortune Magazine's Change the World list. Fortune highlighted our Electrification Program as an example for the rest of the industry to follow. The 2017 list highlights 50 companies delivering a positive social impact through activities which are part of their core business strategy. Fortune both looks at the companies' measurable social impact and degree of innovation, but also business results and profitability.

Powertrains

Volvo Cars' SPA and CMA platforms have been designed for electrification from the start.

Fully electric: new models of fully electric cars, including Volvo and Polestar, are planned to be rolled out, the first in 2019.

Plug-in hybrids: the twin-engine set-up positions the high voltage battery in the tunnel console for maximum safety, improving the weight distribution while providing an enhanced driving experience.

Mild hybrids: the mild hybrid system uses a combination of a 48 volt battery that stores energy, providing a solution that acts as both the starter, generator and electric motor.

While Volvo Cars is committed to electrification, we will continue to offer internal combustion engines for the near future. However, this will be our last generation of diesel engines. Our non-complex powertrain family consists of 4-cylinder Drive-E powertrains, while we will soon introduce a 3-cylinder variant. Our powertrain technology is focused on delivering responsive power, clean efficiency and an exceptional driving experience. Based on the modularity principle, the compact engines can be effectively combined with driveline electrification on our new platforms.

All of our powertrains are designed to improve fuel economy and reduce emissions.

Infrastructure engagements

We see that a shift towards fully electric cars is already underway, as battery technology improves. However, the charging infrastructure is still limited. We believe that the global automotive industry should strive towards a standardised charging infrastructure for

OUR OMTANKE COMMITMENT

1 MILLION ELECTRIFIED VEHICLES SOLD BY 2025

Our aim is to have put up to 1 million electrified vehicles on the road by 2025. This is an accumulated figure for all our plug-in hybrids and battery electric vehicles sold over time. The milestone will be achieved by offering new electric vehicles, a broader plug-in hybrid offer and by promoting market acceptance.



electric cars. To support this drive, we joined the Charging Interface Initiative (CII), a consortium of stakeholders founded to establish a combined charging system as the standard for charging battery-powered vehicles. The CII is currently drawing up requirements for the evolution of charging related standards and certification for use with carmakers around the globe.



AUTONOMOUS

AT THE FOREFRONT

For nearly 60 years, since the invention of the 3-point safety belt in 1959, our safety innovations have led the industry and saved countless lives. We are continuing that tradition today with the development of our autonomous driving (AD) technology as a key element of our safety innovation work up to, and beyond, our Vision 2020; that nobody should be seriously injured or killed in a new Volvo car by 2020.

We believe that we are at the forefront of AD development, and that we are uniquely positioned in this area. For AD features to be successfully rolled out, it is key for consumers to have complete trust in the car, and we believe leadership in safety is an enabler to be the natural choice for the consumers in search for AD. Furthermore, we are pursuing a strategy to further develop AD and have become the partner of choice in this area. We concentrate our efforts around three pillars; hardware, software and consumers.

Hardware

We work together with Uber to develop new base vehicles with redundant systems able to incorporate the latest developments in AD technologies, up to and including fully autonomous driverless cars. The base vehicles will be manufactured by us and then purchased by Uber. We expect this will in turn lead to increased economies of scale on the SPA platform and position us as a world leader of hardware solutions for AD.

Software

Together with Autoliv, a world leading automotive safety company, we have created a jointly owned company, Zenuity, which will develop next generation AD software. Zenuity has its headquarters in Gothenburg and aims to be a world leading authority in software development for AD, facilitating the faster introduction of new technologies in our cars.

Consumers

As a means to develop our AD-cars, we have help from Swedish families who test cars on the public roads of Gothenburg and feed-back their impressions to Volvo Cars engineers. The first two families have received the Volvo XC90 premium SUVs with which they will support the Drive Me Project. Three more families will follow in 2018 and over the next four years, up to 100 people will be involved in Drive Me. Both families contribute to Drive Me with valuable data by allowing engineers at the company to monitor their everyday use and interaction with the cars as they drive to work, bring the kids to school or go shopping for groceries. Volvo Cars plans to have a fully autonomous car commercially available by 2021 and the data derived from the Drive Me Project will play a crucial role in the development of these autonomous cars.





CONNECTED



JOINED FORCES

Sensus is our entertainment and driver support solution, an intuitive in-car control system. It provides connectivity, premium sound, a navigation system with lifetime map updates, and seamless integration with smartphones and wearables.

In our new cars based on the SPA and CMA platforms, we replaced all the buttons in the control console with a 9-inch tablet-style touch-screen that can be utilised even when wearing gloves. We also teamed up with British audio legend Bowers & Wilkins, to create an industry-leading in-car audio experience. Furthermore, Sensus can integrate seamlessly with Apple CarPlay

and Android Auto, enabling easy access to phone features, such as Spotify, Yelp and Douban FM, directly via the touch-screen.

In 2017, Volvo Cars also provided a first glimpse at the future of its in-car control systems, by announcing a partnership with Google to develop the next generation of Sensus based on Android. Launched in a few years from now, the Android-based system will provide access to the large catalogue of popular Android apps – developed by Google, Volvo Cars, or third party app developers – and will offer connective and predictive services in and around the car.



PROCUREMENT AS KEY ENABLER

Procurement plays a key role in the ongoing and future success of Volvo Cars. Our global manufacturing footprint requires an integrated supply chain, based on the overall principle of “build where we sell, and source where we build”. Furthermore, our collaboration with suppliers from all over the world is key to driving innovation and ensuring our commitments to responsible business practices that flow through our global supply chain. There is power in procurement and as a human centric company, Volvo Cars aim to build long-term relationships with our suppliers.



Procurement related choices impact our ability to contribute to a sustainable environment. In 2017, we hosted our first Supplier Sustainability Day with more than 80 suppliers and internal stakeholders participating. The purpose was to inspire, build and share knowledge, as well as create awareness of risks and opportunities.

The agenda included topics such as conflict minerals, how to get the most out of sustainability audits and collaborations in the future. It became clear to everyone that by collaborating, we can

achieve greater positive impact on society, the environment and the well-being of people – whilst exploring and strengthening business opportunities.

A holistic approach to sourcing

In 2017, Volvo Cars bought goods and services from around 5,000 suppliers. Our overall ambition is to contribute to building a sustainable future in cooperation with our suppliers. This also includes

COLLABORATIONS TO DRIVE SUSTAINABILITY

Volvo Cars Quality Excellence (VQE) Award and Award of Excellence - Since 2012, the VQE monitors suppliers performance in relation to our requirements and expectations, such as delivery performance and quality. An award is acknowledging suppliers that are the most successful in all sets of quality and manufacturing disciplines evaluated. Sustainability will be a requirement in the VQE evaluation, which ultimately indicates that a high sustainability profile will be an absolute criteria to become a successful supplier of Volvo Cars. The VQE sustainability ranking will be based on the Sustainability Self Assessment Questionnaire. The Award of Excellence is a means to recognise and celebrate outstanding performance of our top performing suppliers. The objective is to encourage, inspire and demonstrate good examples in addition to strengthening our supplier relations. The categories are social and environmental responsibility, technology, quality and cost competitiveness.

DRIVE Sustainability - An initiative coordinated by the NGO, CSR Europe, which consists of Volvo Cars and 9 other automotive manufacturers. The initiative aims to enhance sustainable practices in the automotive supply chain by promoting a common approach within the industry, in addition to own

efforts. The initiative is governed by a common set of guiding principles, which outlines the expectations on members and automotive suppliers. During 2017, the guiding principles have been revised to include a number of new expectations, such as responsible sourcing of raw materials. The update demonstrates an enhanced commitment from the automotive industry to move to the next level of sustainability and supply chain management. In 2017, the initiative also established a Raw Material Observatory to assess risks and opportunities of specific raw materials of high relevance to the automotive sector. Other results of the collaboration within Drive Sustainability is the Sustainability Self Assessment Questionnaire and capability building programs for suppliers. Starting from 2012, the members have assessed over 20,000 suppliers and engaged over 1,500 suppliers in capacity building initiatives. The initiative operates under strict anti-trust policies.



social responsibility by caring for people throughout the complete value chain, all in line with our Sustainability Program Omtanke.

High standard business partners...

The basis for our expectations is stated in the Volvo Cars Code of Conduct for Business Partners. It describes our requirements in terms of legal compliance, human rights, basic working conditions, caring for the environment and business integrity. It is part of our contractual agreements and thus a prerequisite to be a supplier of Volvo Cars.

When suppliers sign the contract, they are required to communicate the principles of the Code of Conduct to their employees and sub-suppliers, as well as to ensure they act according to our principles. By doing that, we seek to ensure that sustainability criteria are met upstream the supply chain.

Our general terms and conditions also include a number of other business requirements, such as having a certified management system for quality and environment (ISO9001, TS16949 and ISO14001), reporting materials content to the automotive Interna-

tional Material Data System (IMDS) and to be proactive in addressing issues and driving efficiency.

Quality is one of our core values and Supplier Quality Management (SQM) secures that the supplier base can produce and deliver parts within specification to the required volume in right time. All requirements are communicated through Volvo Cars' Supplier Portal.

...meeting high standard requirements

Before becoming a supplier to Volvo Cars, a company has to go through a Supplier Evaluation Program. All new suppliers delivering vehicle parts and components will be subject to a Supplier Evaluation Model (SEM), where we evaluate the supplier from a broad set of parameters, including financial stability, production set-up and quality assurance. The SEM also includes mandatory parameters regarding sustainability, such as working conditions, business ethics and environment. In line with our sustainability focus, we only consider suppliers who meet these requirements.



Sustainability risks and opportunities

To ensure awareness of supplier risks and help us target risk mitigation tools, we analyse our suppliers according to a Volvo Cars specific risk scoring method. In addition to the scoring method, we have a regular forum to address risks that are identified during the year. We consider a number of risk factors such as financial performance, country risk, certification status and supplier assessments.

The country risk data is based on external sources such as the United Nations Human Development Index and the EIU Democracy Index, which relate to aspects regarding civil and political rights, corruption and living standards. Accordingly, the risk scoring provides the basis for further prioritising and sustainability activities, such as audits and capacity building. During 2017, 5,047 supplier sites were included in the risk scoring which corresponds to 100 per cent of suppliers contracted by Volvo Cars at the time of evaluation.

Supplier sustainability assessments

Volvo Cars is committed to ensure that the people making our products and components, or providing us services, are treated with dignity and respect. Our alignment with suppliers on these principles is essential. In order to enhance sustainability in the

supply chain, we have developed different kinds of sustainability assessments.

The purpose of these assessments is to verify compliance with the Volvo Cars requirements but also to identify improvement areas which could lead to increased sustainable business practices throughout the supply chain.



Supplier Self Assessment Questionnaire

The Self Assessment Questionnaire (SAQ) on CSR/Sustainability for automotive sector suppliers has been developed in conjunction with the automotive industry. The questionnaire applies to both corporate and manufacturing site level and covers several sustainability areas, such as business ethics, human rights, environmental management and responsible sourcing.

Suppliers will complete the SAQ upon request by answering questions on a web-based platform and uploading documents for verification. All answers are validated by an external assessor before the final evaluation is created. Based on the SAQ evaluation, the supplier will be provided with recommendations on how to improve its sustainability performance. The supplier is expected to take actions on identified improvement areas and thereafter update the SAQ for a new evaluation. In this manner, the SAQ drives sustainability in the supply chain. It also enables Volvo Cars to have a dialogue with our suppliers on their performance and compliance with Volvo Cars' requirements.

During the reporting year, 160 supplier sites completed the SAQ for the first time which corresponds to 91 per cent of supplier sites invited during 2017. In total, 784 supplier sites have completed a SAQ evaluation.

Supplier audits

The purpose of Volvo Cars Supplier Audit Program is to make a comprehensive on-site evaluation of a supplier's sustainability per-

formance, based on the Code of Conduct for Business Partners. Volvo Cars audit protocol has been developed to be in line with existing best practice systems. Most audits are conducted by an accredited third party auditor, but we also have qualified in-house capacity to perform supplier audits.

The auditor will collect and assess information on-site from management interviews, document reviews, site walk-through and interviews with employees.

The selection of suppliers to be audited is based on our risk scoring method, with input from various procurement operations to allow for additional business perspectives. The number of audits could hence fluctuate between years. During 2017, we conducted 41 audits prioritised from the list of 721 suppliers receiving a score above 75 per cent in the scoring method considering high volume, spend and sustainability risks. If non-conformities are identified during the audit, the supplier is required to develop a corrective action plan with the support of Volvo Cars.

We will continuously follow up on the improvement progress and the supplier could be subject to a reaudit. Starting from 2015, we are gradually increasing the number of sustainability audits with the aim to identify more improvement areas in our supply chain.

As of 2017, we have addressed over 94 per cent of the improvement findings identified in our audit program for 2016. For the remaining 6 per cent, we continue to work for improvements in close collaboration with our suppliers.



Responsible sourcing of metals and minerals

Volvo Cars recognise that the extraction, handling, processing, transportation and trade of metals and minerals have the potential to contribute to, or result in adverse social and environmental impacts. We are committed to the responsible sourcing of metals and minerals used in the operation of our business, and the manufacture of our products. This includes legally defined conflict minerals, such as tin, tungsten, tantalum and gold, as well as other metals and minerals, such as cobalt. Volvo Cars supports the OECD's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-affected and High-risk Areas.

We aim to identify and mitigate all significant social and environmental impacts of the extraction and processing of raw materials in our supply chain, and we expect suppliers to share similar commitments. Volvo Cars aims to use only minerals and metals whose extraction, processing, trade and transportation has not directly or indirectly resulted in human rights abuses, severe environmental harm or provided funding to conflicts. Our positioning statement on metals and minerals is publically available through our website.

One of the greatest challenges in ensuring the responsible sourcing of minerals, is to establish traceability along the value chain, particularly prior to the minerals reaching smelters and refiners. In order to achieve this and ensure our Code of Conduct for Business is respected, Volvo Cars will continue to work closely with our suppliers, their sub-suppliers and third party auditors. This has the highest priority within our Procurement Function.

During 2017, we joined the Responsible Minerals Initiative (RMI), formerly known as the Conflict Free Smelter Initiative (CFSI). RMI is one of the most utilised and respected initiative addressing responsible sourcing of conflict minerals, gathering more than 350 companies from a range of industries.

We use the Conflict Mineral Reporting Template (CMRT), established under the US Dodd Frank Act, to collect information about conflict mineral smelters, refiners and other entities in our supply chain. As members of RMI, we also gain access to additional data, most importantly audit status, on a high number of smelters upstream the supply chain.

All smelters and refiners within RMI are required to undergo audits, which will determine and validate their compliance with human rights and the OECD Guidance. The aggregated information from RMI and the CMRT accordingly forms our due diligence process for conflict minerals where we identify potential discrepancies and follow up on mitigation action plans.

In addition to our membership in RMI, Volvo Cars has also joined the Responsible Cobalt Initiative (RCI), launched by the Chinese Chamber of Commerce for Metals, Minerals and Chemicals together with importers and exporters of cobalt.

The RCI will specifically address social and environmental risks in the cobalt supply chain. RMI strives to establish a cooperation with important cobalt stakeholders, such as the Government of the Democratic Republic of the Congo from where approximately 60 per cent of the world's cobalt originates.





GET TO KNOW OUR PRODUCTS

The latest addition to our portfolio, completing the lineup of SUVs, is the new XC40, a small SUV big on innovation. With expressive design, ingenious storage and smart technology, it is a fresh and creative new member of the Volvo Cars lineup. It is the first model on Volvo Cars' new Compact Modular Architecture (CMA) platform, which will underpin all other upcoming cars in the 40 series including fully electrified vehicles.

In terms of technology, the XC40 brings the award-winning safety, connectivity and infotainment technologies known from the new 90 and 60 series cars to the small SUV segment. These technologies make the XC40 one of the best equipped small premium SUVs on the market.

"Everything starts with people at Volvo Cars. That is why technology in the Volvo XC40 feels human and natural", says Andreas Ropel, Attribute Leader, Digital User Experience at Volvo Cars.

Safer and smarter

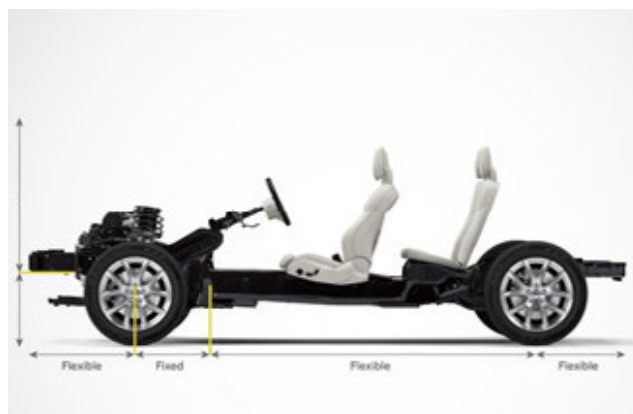
We develop vehicles with improved lifecycle performance and low emissions to ensure they have less impact on our environment. We group our models by model range (40, 60 and 90) as well as body type (Sedan, Estate and SUV). In addition, we offer variants such as R-Design, Inscription, Cross Country, Excellence and Long Wheelbase on certain models to address consumer demands on both driving experience and exterior styling.

Foundation for renewal and growth

The foundation of our product renewal and growth strategy rests on the development of our platforms; the new Scalable Product Architecture (SPA) and the Compact Modular Architecture (CMA).

SPA

SPA is one of the cornerstones of Volvo Cars' product strategy. It was introduced with the XC90 and has since underpinned all other cars in the 90 series and the new XC60. Upcoming cars in the 60 series will also be based on SPA. SPA is highly flexible and allows enhancement of technological features such as driveability, electrification, safety, connectivity and interior space. Furthermore, SPA facilitates the vertical integration and thus economies of scale for our product development; a wide range of cars, powertrains, electrical systems and technologies of differing complexity can be fitted on the same architecture.



CMA

CMA will be the basis for the new cars in the 40 cluster, with the now launched XC40 small premium SUV being the first model on that platform. CMA is developed in collaboration with CEVT and our sister company Geely Automotive. Shared technologies between SPA and CMA will include powertrains (both conventional and new plug-in hybrid variants), as well as the infotainment, climate and safety systems.

Environmental efficiency

The lifecycle performance of our products

We care about reducing the impact our products have on our planet, providing people with more sustainable mobility solutions. Volvo Cars takes a lifecycle perspective in this aspect. For us, it is not only about tail-pipe emissions and energy efficiency, but also about being a company at the forefront of embracing health (for example interior environment) and resource efficiency (for example sustainable materials and remanufacturing).

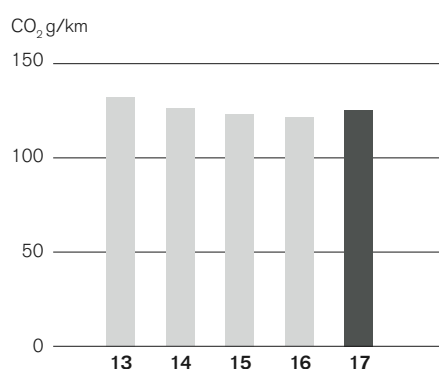
We have a long history in carrying out environmental analyses with a holistic perspective. This work has shifted focus over the years to fit business purposes, and has been strengthened in recent years. We carry out Lifecycle Assessments (LCAs) on all our models and we continuously develop and improve our methods for the calculation. Additionally, we participate in several research projects and networks and have recently engaged with the Swedish Lifecycle Centre.

CO₂ emissions and renewable fuels

Limiting CO₂ emissions is a challenge for the entire automotive industry. We keep ahead of current and future emission standards in all our markets by developing efficient technological solutions and a thorough bi-annual follow-up of legal compliance. EU CO₂ standards, which are among the most stringent in the world, are utilised as benchmark for our overall global vehicle CO₂ standards.

Our EU fleet average CO₂ emissions in 2017 was 125 g/km. We track our improvements annually and we are on course to meet the 2020 EU target of 95 g/km. We also offer vehicles that can be driven on natural gas/biogas, and have one of the broadest ranges of plug-in hybrid models.

CO₂ EMISSIONS - EU FLEET AVERAGE VOLVO CARS



OUR OMTANKE COMMITMENT

CLEANZONE LEADERSHIP

We aim to be a leader in customer well-being by offering industry leading air delivery solutions and materials. We will achieve this commitment through innovations in filters and materials, as well as providing visualisation tools to enhance the customer experience.



In 2017, we continued the roll-out of our electrification strategy with the start of sales of the S90, V90 and XC60 Twin Engine variants.

Resource efficiency

Our long-term objective is to increase the quantity of materials in our products that are sustainable. We are working to increase the amount of renewable and recycled non-metallic materials in our vehicles and reduce the quantity of virgin materials. Examples of this was the introduction of textile made from recycled PET-bottles in the new XC40 as well as carpet in-lays made from recycled fishing nets in the specially designed V90 Cross Country Volvo Ocean Race.

The Volvo Cars Exchange System remanufactures replaced parts to their original specifications to realise both environmental and financial savings. In total, around 15 per cent of Volvo Cars' spare part sales consist of parts from the Volvo Cars Exchange System. A remanufactured part requires up to 85 per cent less raw materials and 80 per cent less energy compared to a new part. In 2017, the system saved approximately 542 tonnes of steel and 265 tonnes of aluminium. The energy saved corresponds to a carbon dioxide emission reduction of 2,961 tonnes a year. In terms of recyclable materials, we design our cars so that 95 per cent of the materials can be recovered and 85 per cent can be recycled at the end of the car's useful life.

Customer experience and health

We work to protect the customer's health and, thereby, improve the customer experience. This is done by improving the environment within our vehicles, with the aim of ensuring that the air within a Volvo car meets our strict air quality standards and is cleaner than the air outside.

Customer well-being is also related to the materials we select for the interior of our cars. This involves careful selection to minimise odour and other potential allergens from materials such as textiles, plastics and metals.





MANUFACTURING & LOGISTICS

Volvo Cars is in the middle of an unprecedented expansion of its global manufacturing footprint, developing from a Europe-only manufacturing operation, to a network with manufacturing plants and factories in three continents.

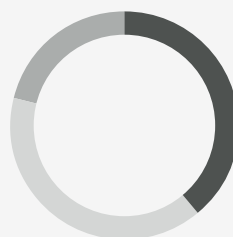
Optimised production footprint and logistics operations are the expected outcomes, while at the same time taking major consideration to minimising the environmental footprint of our global expansion, such as becoming climate neutral in all our manufacturing operations by 2025.

GLOBAL ENERGY SAVINGS IN MANUFACTURING

67 GWH

Equivalent to annual energy consumption of 20,000 (13,000) households

CARS PRODUCED BY COUNTRY



Sweden, 39%
Belgium, 40%
China, 21%

EXPANDING OUR GLOBAL FOOTPRINT

We continued to expand our global manufacturing footprint. Our operations have developed from being Europe centric to becoming a global network with manufacturing plants and factories in three continents – the facilities in Europe, China and the US embody that network, all of them delivering on our strategy to becoming truly global.



The manufacturing plant in Charleston, South Carolina is the latest addition to Volvo Cars' portfolio of factories around the world. It is our first ever manufacturing plant in the US. The decision to choose South Carolina was taken as a result of its easy access to international ports and infrastructure, a well-trained labour force, an attractive investment environment and experience in the high-tech manufacturing sector.

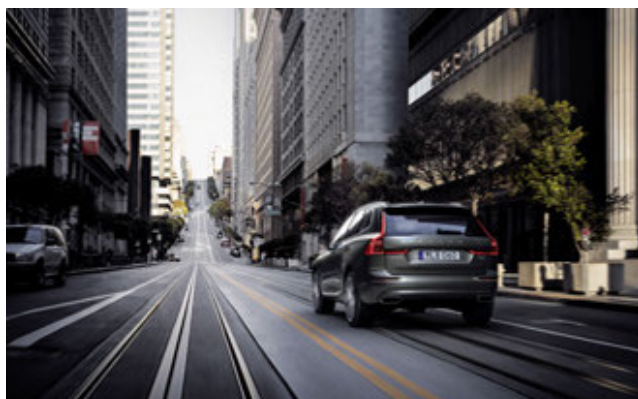
The plant's manufacturing building was finalised in 2017. Production of the new S60 will start in 2018 and the next generation of XC90 will be produced here, starting in 2021. The Charleston factory is built to be a resource efficient manufacturing plant, with the ambition to become Volvo Cars' first LEED certified facility.

Executing on plan

The continued expansion of our plant in South Carolina underlines our commitment to the US market. Our targeted total investment of around MSEK 1,100 will raise the total of new jobs created at the Charleston site to nearly 4,000 – solid grounds ahead of pro-

“Our goal is to be one of the most sustainable automotive plants in the US. Environmental care is indeed a part of our core values, but I also believe in it personally.”

ÅKE LARSSON
REGIONAL FACILITY MANAGER AND DIRECTOR
OF BUILDING CONSTRUCTION AT VOLVO CARS



duction of the new S60 and XC90 in 2018 and 2021 respectively. The manufacturing plant in Charleston will serve both the US and international markets, and forms a strong foundation for our future growth in the Americas and globally.

In addition to our US expansion, we are delivering on the manufacturing strategy for China; increasing production capacity and developing in the country as a global manufacturing export hub. Our top-of-the-range S90 as well as S90L cars are being built in Daqing in northern China, while the S60L and XC60 are built in Chengdu. In the Luqiao factory, 350 km south of Shanghai, Compact Modular Architecture (CMA) cars will be built, starting production in 2019.

While the US and China facilities deliver on our aim of creating a global manufacturing network, the Sweden and Belgium plants and factories continue producing major part of our yearly volumes.

In the Torslanda plant in Sweden we are building the V90, V90 Cross Country, XC60 and XC90 on our SPA platform and in 2018 we will start production of the new V60 and V60 Cross Country. In Belgium we are building the classic V40, V60 and S60 models (including the Cross Countries), as well as the small premium XC40 SUV, the first car on the CMA platform.

PRODUCTION IN BRIEF

APRIL

Start of production of the new XC60 in Torslanda, Sweden

MAY

Start of production of the S90 and S90L Luxury Sedan in Daqing, China

NOVEMBER

Start of production of the new XC40 small premium SUV in Ghent, Belgium

NOVEMBER

Start of production of first new XC60 in Chengdu, China



Resource efficient operations

Volvo Cars is committed to minimising its impact on the environment, and contributing to global efforts to combat climate change. As part of this commitment, we are working continuously to reduce our plants' energy and water usage, as well as improve our waste management processes. Our total impact on energy, water, waste, resources and emissions increases with increased production volumes. We work continuously to make our production more efficient in order to reduce our impact per produced vehicle. The environmental performance of our new and existing operations is managed by our ISO14001 Environmental Management System, which involves third party certification, regular environmental risk analyses and continuous improvement.

Towards climate neutral operations

As part of our Sustainability Program Omtanke, we aim to be climate neutral (in terms of CO₂) in all our manufacturing operations by 2025. In Europe we have successfully reduced our CO₂ emissions over a number of years, and they continued to fall in 2017.

However, since 2015, total CO₂ emissions from our operations have risen due to our Chinese production sites coming on-line with a subsequent increase in production. Despite the current challenges in purchasing certified renewable-sourced energy in China, we are continuing to investigate opportunities to reduce our carbon footprint there, and reach our global long-term objective. We are making steady progress in the region. In 2017, carbon emissions per vehicle produced in our Asian plants reduced by 12 per cent.

Ongoing climate neutral initiatives

Our global objective is to improve our energy efficiency and reduce our overall energy use. We are also actively investigating climate neutral electricity and heating solutions. As an example of progress made, thanks to initiatives taken until 2017, Volvo Cars' engine factory in Skövde, Sweden, became the company's first climate neutral manufacturing plant, having switched to renewable heating as of January 1st, 2018.

Energy consumption

Our direct use of energy is in the form of natural gas, Liquefied Petroleum Gas (LPG) and oil, and indirectly in the form of purchased electricity and district heating. Thanks to cross-functional work on our sites and the focus on energy efficiency and climate impact throughout the company, we achieved global energy savings of 67 GWh in 2017 (equivalent to annual consumption of 20,000 households, World Energy Council global average). Each plant has annual energy reduction targets, which are regularly monitored. Volvo Cars started focusing on energy savings in 2007 and has worked with structured energy saving projects since 2010. This has resulted in both direct and indirect accumulated savings of MSEK 460.

Managing other emissions

We work to minimise emissions of Volatile Organic Compounds (VOCs) and greenhouse gases. Our paint shops in Torslanda, Sweden and Ghent, Belgium are among the most advanced in the world, with emissions over four times less than the EU standards require.

Water management

We focus our freshwater management efforts on the sites we have identified as having water scarcity issues. The total water consumption at our plants in Asia is increasing due to a ramp up in production. However, the water consumption per produced car in Asia is decreasing; 8.3 m³/vehicle in 2017, compared to 9.8 m³/vehicle in 2016. Water consumption in Europe has stayed approximately the same in 2017 as in 2016 at 1.4 m³/vehicle.

Waste management

We work to reduce waste by applying our waste management hierarchy in decision making. Our largest waste stream is metal from car production, which is entirely recycled. This amounts to 5,000 tonnes of metal scrap for recycling per year at our European

OUR OMTANKE COMMITMENT

CLIMATE NEUTRAL OPERATIONS BY 2025

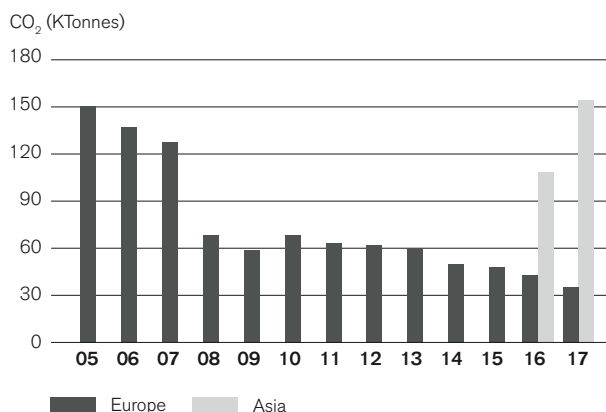
We aim to be climate neutral (in terms of CO₂) in all our own manufacturing operations by 2025. This is a global commitment that we will achieve through energy efficiency and by securing climate neutral energy supplies.



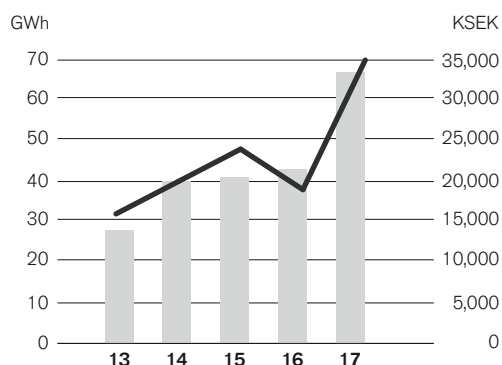
plants, and 14,000 tonnes at our Asian plants. Furthermore, initiatives were launched to reduce the amount of used metals within the body components plant in Sweden.

Volvo Cars continuously works to increase the amount of recycled waste at our production sites and decrease the amount of waste that is landfilled or incinerated.

NET CO₂ EMISSIONS - MANUFACTURING OPERATIONS



ENERGY EFFICIENCY SAVINGS



SMART LOGISTICS

Volvo Cars is the first automaker in the world to export cars made in China to European customers by train via China's new "One Belt, One Road" trade initiative, departing from Daqing. Currently, S90 cars manufactured in China are being exported by train driving down waiting times for customers. Rail is also a smarter choice in terms of the environmental impact of logistics operations. Given the same distance, the CO₂ emissions per tonne/km are reduced by a third by choosing rail over sea transport.

The Daqing-built S90s were spread across 41 containers before they reached Zeebrugge in Belgium ahead of further transportation to European customers. The transport from China to Belgium was a train voyage of 8,000 km. From Zeebrugge, the S90 cars will be further distributed to various destinations in Europe.

As part of our commitment to our Sustainability Program Omtanke, we are actively working to reduce the environmental footprint of our logistics operations.

One way of doing this is to make greater use of rail. The China manufactured S90s exported by train to Europe via China's new "One Belt, One Road" trade initiative mentioned above, is one example. Also, at our Torslanda plant in Sweden we have begun loading new cars directly onto rail wagons to be sent to markets by train. Increased efficiency, improved local air quality and reducing overall carbon emissions, are the expected outcomes.

As we are expanding our business it is challenging to reduce carbon emissions. However, as well as looking to optimise transport efficiency throughout our network, we are also investigating renewable transport solutions, for example those powered by electrification or sustainable renewable.

In 2017 we started to closely monitor our road transport operations. This is a start of a journey in order to improve the performance and conditions of the complex transport market. The purpose of the control program is to improve environmental performance, road safety and working conditions.

Logistics - by assembly in cooperation

Volvo Cars started vehicle assembly operations in India in 2017, positioning our company for further growth in the fast expanding premium car segment in India. The assembly operations are located near Bangalore in southern India and focus on models based on Volvo Cars' SPA platform. The first Volvo car model assembled in Bangalore was the XC90. We are working together with Volvo Group, the truck, bus and construction equipment manufacturer, making use of Volvo Group's existing infrastructure and production licenses near Bangalore. As well as a sign of the company's strong commitment to India, marketing the vehicles as "Made in India" fits well with a similarly named initiative launched by the national government several years ago, which seeks to highlight and promote Indian manufacturing prowess.



“Transporting cars from Daqing to Europe by train has an advantage over maritime transport as the travelling time is shortened from over 60 days to around 23 days.”

PIETERJAN LANDUYT
OUTBOUND LOGISTICS AND PROJECT MANAGER
FOR THE NEW RAIL CONNECTION AT VOLVO CARS GHENT







CONSUMER EXPERIENCES

Our human centric focus is at the heart of everything we create and an improved customer journey aims to improve the user experience.

We will achieve this by advancing on digitalisation and experimenting with new retail concepts as well as provide carefree user experiences and personalised technical services.

Beyond the new car sales, we also offer subscription services and a global used car program.

RECORD SALES

572K

With 571,577 cars sold, 2017 sets a new annual sales record

RETAIL SALES BY MARKET



- Europe, 50%
- China, 20%
- US, 16%
- Other, 14%

NEW WAYS TO CONSUMERS

Everything we do starts with people. We understand people.
We protect what is important to them and want to make them feel special.
We innovate to make people's lives better and less complicated.



JENNIE SUNDSTRÖM

In the sprawling suburb Haninge, a thirty-minute commute from Sweden's capital Stockholm, Jennie Sundström fastens her safety belt, checks the children in the rear-view mirror and starts the engine. After dropping the kids off at school, she drives the fifteen kilometres north where she earns her living as a childcare worker.

Jennie Sundström is a soon-to-be mother of four, juggling her work, the children's activities and household tasks on a daily basis. She is also one of Sweden's first Care by Volvo customers.

"I really need to feel that I can rely on my car. I take my children to school, commute to work and shop groceries almost every day. Given how much I drive, I need to know that things will be taken care of if something should happen to my car", she says and adds;

"With the limited time that I have, it feels good that everything about my car is hassle free".

**"With the limited time
that I have, it feels good
that everything about
my car is hassle free."**

JENNIE SUNDSTRÖM
CARE BY VOLVO CUSTOMER

A human centric focus

Our human centric focus is at the heart of everything we create and an improved customer journey aims to improve the user experience. We will achieve this by advancing on digitalisation and experimenting with new retail concepts as well as provide carefree user experiences and personalised technical services. Beyond the new car sales, we also offer subscription services and a global used car program.

Holistic consumer approach

Volvo Cars' approach to consumers goes full circle, aiming to optimise the experience throughout the entire journey from awareness to usage and repurchase. Consumers need to get the same experience regardless if we meet them in real life, online, in our advertising or through our products. As consumers, we do not divide

experiences by channel – every touchpoint with us needs to be part of the unique Volvo Cars consumer journey.

Progressive digitalisation

Volvo Cars continues to invest in areas to improve the customer journey which is becoming more and more digital. In addition to dealer visits, car buyers do their research online. As a consequence, the car configurator is considered to be a key factor in making a new car purchase decision. In 2017, Volvo Cars completed the roll-out of our new configurator to more than 50 markets, containing significantly improved image quality that brings the car to life, simple user experience compatible with all devices, as well as enhanced functionality for sharing with friends, family and the dealer.





Seamless consumer journeys

In 2017 we started to implement a new Retail and Consumer Experience Platform that will empower all consumer interactions online and in the dealerships, globally. The aim is to improve the consumer journey between online to physical touchpoints, creating seamless and personalised experiences for our customers.

Consumer interaction at consumer premises

We have shifted our focus from being where the automotive industry is, to being where consumers are. We spend less time at big global automotive fairs, and more time interacting with people where they naturally are. Our retail partners continue to be our most important consumer touchpoint. We provide new brand experience solutions like Volvo Studio, pop-up stores and test-drive centres, combining physical and digital experiences along with experimental marketing like virtual and augmented reality. In addition to the exhibition of cars and technology, our pop-up stores are supplemented with a modern Scandinavian living room, to anchor the Nordic elements of our brand.





“Care by Volvo is an easy way to have a car, where the driver feels extra taken care of. We want to change the way people think with this new and exciting subscription service.”

EMELIE ÖHRSTIG

DIRECTOR CUSTOMER EXPERIENCE AND RETAIL AT VOLVO CARS

Carefree with Care by Volvo

When more and more consumers prefer car access over ownership, Care by Volvo is one of our services which addresses that need. With the new subscription service, customers are able to focus exclusively on using the car.

Care by Volvo is a new way of having a car – instead of the traditional process of buying and owning the vehicle, customers pay a ready-negotiated monthly fee. The concept differs from private leasing in the sense that Care by Volvo offers extra services, such as fueling, cleaning, service pick-up and delivery of online purchases to the car. Customers are also able to temporarily switch to another car model if desired, and they can share their car with friends and family with a new digital key technology. Every two years, they are provided a new car.

Emelie Öhrstig, Director Customer Experience and Retail at Volvo Cars, has been a part of the development team from the very start and is responsible for the concept at Volvo Car Sweden. “Care by Volvo is an easy way to have a car, where the driver feels extra taken care of. We want to change the way people think with this new and exciting subscription service. Not only is it easy to have a car, but also to order it. We have made a promise to give back one week’s quality time per year to our customers, and this is an important step towards that promise. In addition to our other customer categories, we have the ambition to reach new customer groups with Care by Volvo. We are creating a need customers might not be aware of yet. The automotive industry is very traditional and has worked in the same way for a very long time. Volvo Cars can – and should – think outside the box.”

Shared mobility services

Shared mobility is expected to see strong growth driven by changing consumer preferences, urbanisation, technology advancements/digitalisation and political forces. This alternative to vehicle ownership will become more solid and reliable, and the number of users are anticipated to increase.

We have established a new business unit, Volvo Car Mobility, to develop a product offering in this area. We are not starting from scratch, this is an expansion of the Group's existing car-sharing and mobility strategy. Sunfleet, who pioneered car-sharing in 1998 is part of this business unit. Based in Sweden, Sunfleet has around 64,000 subscribers generating approximately 350,000 transactions per year in more than 50 Swedish cities.

"Thanks to Sunfleet, we have a lot of business insight that gives us a head start. Now, we will be developing a new brand and a product offer for global consumers. The way they will perceive our brand is mostly through our digital interface and access to the cars and the services we will provide. And this is a service business, with direct customer relations and a fully digitalised business model", says Bodil Eriksson, Volvo Car Mobility.

"Thanks to Sunfleet, we have a lot of business insight that gives us a head start. Now, we will be developing a new brand and a product offer for global consumers."

BODIL ERIKSSON
VOLVO CAR MOBILITY

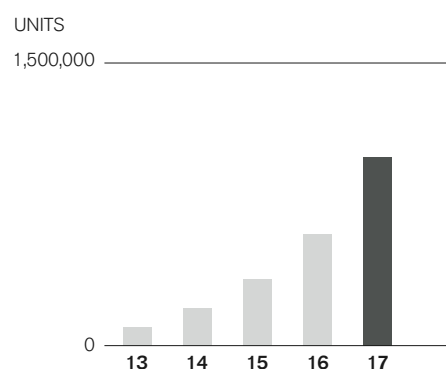




Connected experiences and aftersales

Sprung out of our mission to make life less complicated for our customers and out of our Designed Around You brand strategy, it is clear that time is a key consumer benefit. Our ambition is to give back one week of quality time to our customers by 2025. We see connectivity as a great means to transform the in-car and ownership experiences for our customers. We also provide personalised technical support and attractive financing and insurance offers to our customers, and operate a used car program globally, extending our ownership management to the used Volvo cars.

CONNECTED CARS - VOLVO ON CALL



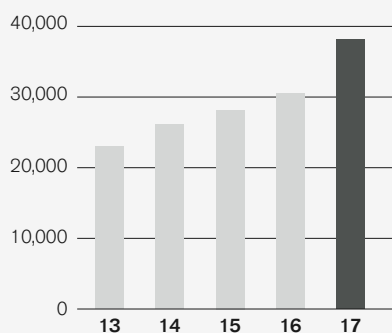




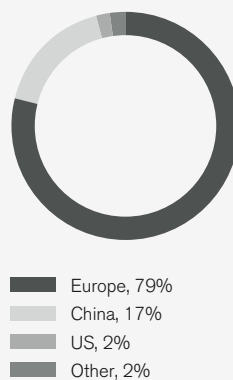
PEOPLE

We put people at the heart of everything we do. Our culture, our products and our commitments to employees, consumers and environment make us unique and attractive, and are reasons to why people want to join our exciting journey and work at Volvo Cars.

**AVERAGE NUMBER OF
EMPLOYEES**



**EMPLOYEES BY
PRESENCE**



EMPLOYER OF CHOICE

Our global and diverse human capital is core to maintaining the strong Volvo Cars culture. In addition to our ability to market it as part of the products and services we offer and sell, attracting new talent all over the world is just as important. Developing strong leadership, skills and competencies help bring out the best in people and positively impact our business, which is crucial if we are to remain a leading player in the highly competitive premium automotive industry. Therefore one of our corporate objectives is to be an Employer of Choice.

Volvo Cars employs around 38,000 people and the last year we have expanded our workforce by adding 7,600 people, or 25 per cent, to the organisation globally. In 2017, for the first time in its history, Volvo Cars was ranked as the number one employer of choice among bachelor engineering professionals. The result was

an outcome of the Karriärbarometern by Universum survey, an annual research study in which 26,000 professionals and 22,000 university and college students speak out about the most attractive employers in Sweden.



"We are a company with purpose, we want to make a difference. Our commitment to save lives and increase the number of electrified cars sold, together with the launches of our new products and services, have increased our attractiveness as an employer. To be regarded as the Employer of Choice, hence valued so highly by both current and future engineers in Sweden is fantastic, not in the least because we will continue to depend on attracting the best talents to secure our continued growth", says Hanna Fager, Senior Vice President Human Resources at Volvo Cars.

"To be regarded the Employer of Choice, hence valued so highly as a company, is fantastic."

HANNA FAGER
SENIOR VICE PRESIDENT HUMAN RESOURCES AT VOLVO CARS

A diverse culture...

We have a unique and open culture, constantly striving to be a truly global company by promoting inclusiveness and diversity. Diversity and inclusiveness is about attracting and retaining people from different cultures with different competencies, backgrounds, gender, experiences and personalities. These components build an innovative company able to deliver competitive products and services for continued growth.

...that attracts and retain

We attract and retain employees through our spirit, our products and our commitments. We firmly believe in the importance of attracting top talent, supporting us to continuously innovate and develop cutting-edge technologies.



LOUISE LINDBERG,
VOLVO CARS ENGINEERING GRADUATE PROGRAM:

"Moving forward, my grandchildren will probably laugh at me when I tell them our generation were forced to drive their cars themselves!"



CARL FREDRIK OLSSON
DIRECTOR GROUP FINANCIAL PLANNING AT VOLVO CARS:

"After working for 13 years at Volvo Cars, I believe some credibility follows when I say that Volvo Cars is able not only to attract talented people, but also to develop and retain them. It is actually quite simple – when you feel the company commits to you, you also commit to the company. And when you do, great things happen."



FERNANDO LOPEZ
VOLVO CARS GLOBAL GRADUATE PROGRAM:

"The mantra "Designed Around You" applies as much to the Graduate Program as it does to Volvo Cars' products. This means the more commitment and initiative you demonstrate, the more you get back. A lot is up to you, but there are almost no limits to what you can get involved in and experience."

Leading by example...

Volvo Cars and its leaders strive to bring out the best in everyone, building on each individual's strengths, allocating the right people to the right tasks in order for everyone to address and work with challenges they are most passionate about. We are curious and

we get stronger by cooperating, and we have the ability to make a difference. This is the essence of Volvo Cars' culture, guiding leaders and employees, throughout the whole organisation.



"I am convinced we have the right size and attitude to become winners in this change."

ÖDGÅRD ANDERSSON
VICE PRESIDENT VEHICLE SOFTWARE AND
ELECTRONICS AT VOLVO CARS

"My background is 20 years within the telecommunications field working in Sweden and Silicon Valley in the US, with a global footprint of customers. During that time I have went through massive transformation from hardware products to services made up by software. I am hoping to put some of those learnings and experiences into use within Volvo Cars. I want to contribute to making awesome cars, not only at launch – the car experience should get better every day. All of this require that we work differently and that we lead differently to create diverse teams of multiple competencies that are able to create quickly."



"I believe in joining forces to making life less complicated for our customers."

KAJSA DAHLBERG GARDINER
VICE PRESIDENT DIGITAL ACTIVATION AT VOLVO CARS

"Before joining Volvo Cars, I spent 12 years driving the digital agenda on behalf of my former employer. By accelerating digital initiatives in a number of European markets, I gained a lot of experience that I can use within Volvo Cars. By providing new solutions to owning a car, I can contribute to make customers' lives less complicated and give time back. To achieve that, I believe in joining forces since it will be extremely important to succeed. The collaboration between several advanced technologies to make for example AD technology work, and the potential in actually reduce accidents and saving lives, is massive and very exciting!"

...making a difference in people's life

Electrification, AD and connectivity. Car owners and drivers around the world ask for increasingly advanced products and services. The new digital era requires Volvo Cars to secure the motivation,

skills and competencies of our employees to innovate in that direction, so we can adhere to new consumer demands, making a difference in their lives.



"I get to contribute to the next generation of a luxury brand."

SOHINI ROY CHOWDHURY
DEEP LEARNING ENGINEER AT VOLVO CARS
US RESEARCH AND DEVELOPMENT TECHNOLOGY CENTRE

"The idea of contributing to a well-known brand is very appealing to me. Ideas are welcome here and we get to test our concepts within a considerably short time span. My work is primarily related to developing new features for AD/ADAS systems and so far I have been involved in three activities. First, the development of automated detection/segmentation algorithms that rely on deep learning models; second, building machine learning intelligence for the road friction information project; and third, investigate research collaborations with local universities."



"Being part of a global team, delivering true top user experiences to the Chinese customers, is really exciting."

BAOJUN XIE
SENIOR MANAGER DRIVER INTERACTION, INFOTAINMENT
AND ACCESSORIES AT VOLVO CARS CHINA

"I was attracted to Volvo Cars for mainly two reasons; the beautiful cars with the elegant design as well as the inclusive and human centric culture. One interesting assignment I have contributed to, is related to the infotainment system iCUP, a China-unique navigation and speech system. It is really exciting to be part of delivering game changing solutions!"

A responsible business

Our people strategy ensures that we secure health and safety, that diversity is encouraged, labour rights are adhered to and that we are embodying ethics and human rights.

Health and safety

A sustainable work life

As a human centric company, our aim is to offer a safe, motivating and attractive workplace where people are able to grow and contribute to the company's development. Sustainable work life is about addressing the life balance and occupational health for everyone working at Volvo Cars to ensure that we are motivated in our work and can retire with a healthy mind and body.

Our approach to health and safety

Regardless of geographic location, health and safety transcends our entire organisation. All our operations, employees and contractors are governed by global standards.

Health and safety specialists work strategically within all work organisations according to Volvo Cars Work Environment Directive. During 2017, we continued to implement the Volvo Cars Health and Safety Global Procedures in our Chinese and US operations, and continued improvements of risk observation and safe behaviour.

We have promoted our safety culture through Lean Leadership Training. We continued the implementation of our online accident and incident reporting tool in new operations, as well as working with continuous improvement of the tools. Finally, a global health promotion program based on our people strategy has been developed and will be implemented in 2018.

OUR OMTANKE COMMITMENT

NO FATALITIES OR SERIOUS INJURIES AT VOLVO CARS

We are committed to ensuring there are no work related fatalities or serious injuries involving any of our employees or contractors. We will achieve this commitment by implementing proactive tools and initiatives, and by promoting a greater safety culture.

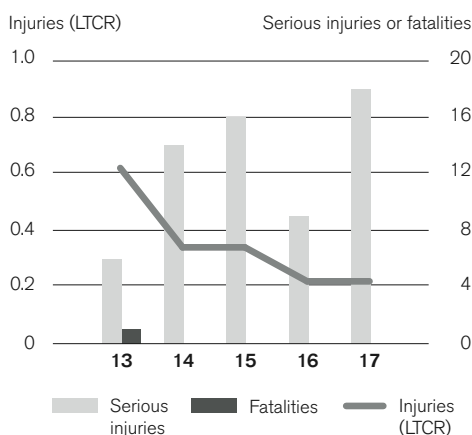


Diversity

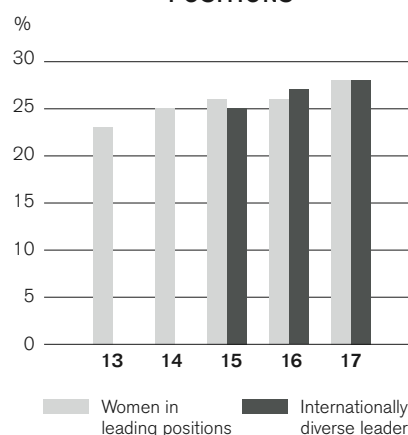
A diverse and inclusive culture

We have an open and inclusive culture and strive to be a truly global and diverse company by promoting inclusiveness and leading by example. Diversity and inclusion is about attracting and leveraging people with different competencies, backgrounds, culture, gender, experience and personalities. This helps build an innovative, ethical and inclusive global culture and organisation and supports our objective of being the employer of choice.

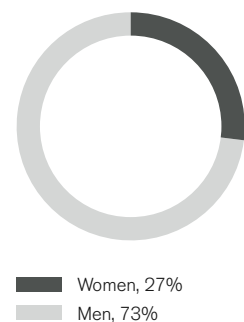
FATALITIES AND INJURIES



DIVERSITY IN LEADERSHIP POSITIONS



GENDER DISTRIBUTION - ALL EMPLOYEES





“What makes me proud of working for Volvo Cars is the standard and image the company has set since 1927 – from my perspective the number one focus is still safety and I appreciate the concern for people.”

TAMARA THOMPSON
AUDIT TEAM MEMBER AT VOLVO CARS US CHARLESTON PLANT

“I notice the safety culture in my daily work. Every morning we have start-up meetings in which we share safety tips. We have standards that we follow which play a big part within safety since they prevent incidents and accidents. One interesting assignment I have had is related to on-boarding, creating presentations containing efficient information for the new hires. Another is developing schedules in order to keep up to the standards within our working shops.”

Diversity governance

Volvo Cars' People Policy outlines the values and expectations that we have for diversity and equal opportunities. Our Global Diversity and Inclusion Council in each function serve as the governance body to ensure continuous improvement. In 2017, a new proactive approach of working with diversity and inclusion was established, following updated legislation in Sweden. This involves analysing the working environment and conditions from more aspects than previously. This will help in deciding which measures we need to undertake to further improve our overall performance. The work is conducted in close cooperation with union representatives and is followed up on a yearly basis in the Global Diversity and Inclusion Council.

Promoting inclusiveness, gender balance and international experience

We work actively in promoting inclusiveness so that everyone working at Volvo Cars is respected for who they are. During the year, we have conducted an extensive Training Program on Discrimination, Harassment and Bullying throughout the organisation.

In our annual employee survey (Global People Survey), awareness of what constitutes harassment scored second and third

OUR OMTANKE COMMITMENT

**35% INTERNATIONALLY
DIVERSE LEADERS**

**35% FEMALE LEADERS
BY 2020**



highest of all areas. The survey also indicated that 79 per cent of Volvo Cars' employees consider the organisation to value diversity (e. g. gender, gender identity or expression, ethnicity, religion or other belief, disability, sexual orientation and age), an increase of 8 per cent from 2016.

Furthermore we are conducting an Inclusive Leadership Program for all leaders in the Torslanda manufacturing plant to be finalised in June 2018.

Volvo Cars takes particular care in ensuring that parents can balance work with their family life. In 2017 we received recognition for this approach by the Swedish trade union Unionen, when awarded the most parent friendly employer, beating more than 40 other companies participating in the Golder Pacific Award.

During 2017, the internal LGBTQ+ network Pride@Volvo Cars was established. It is an employee resource group open to anyone interested in LGBTQ+ issues and does not require any formal affiliation. The purpose of the network is to be an open and inclusive network for LGBTQ+ employees at Volvo Cars, to act as a resource group for them, as well as provide support to the company in its effort to increase diversity and attract the best talent.

We are also working to improve our gender balance by attracting new female employees through our career site, targeted job

adverts and recruitment events. Internally, we are developing strategic succession planning, female leadership mentoring programs and strengthening our internal and external communication on diversity and inclusion. We are dedicated to creating a diverse and multi-cultural Top Management Team where international experience brings a global perspective with varied competencies, backgrounds and cultures that are valued in industry leading, innovative and customer focused teams. We encourage diversity and international experience through recruitment, job rotation, exchange programs and international assignments. At the end of 2017, about 28 per cent of our top 300 managers were non-Swedish and 28 per cent of our leading positions were held by females.

Fair and equal pay

An important aspect of diversity is to ensure fair and equal pay to all employees. To ensure this, we have implemented clear remuneration principles and a structured salary process. According to our People Policy, wages and benefits shall always be at least equivalent to legal or industry standards.



CASE STUDY ON SETTING CLEAR GOALS AND ENSURING FOLLOW THROUGH

For many years, our Torslanda manufacturing plant in Gothenburg, Sweden, had around 15-20 per cent female employees. To achieve a better gender balance at all levels, clear goals were set and progress was tracked monthly. One focus area related to hiring. The recruiting agencies were asked to always ensure at least 50 per cent of candidates called for interview were female. Where needed, supporting measures were also implemented, e.g. through a partnership with the Swedish Labour Office, a fork lift education program specifically for women was established. Internally, the gender balance initiative was supported using various communication channels, including the internal website and magazines, town hall meetings, leadership training, and introduction programs for new employees. Between 2015 and 2017, the share of female employees increased from 19.8 to 30.8 per cent, and for leaders the share increased from 18.9 to 23.8 per cent.



Labour rights

Our people policy

Our People Policy is applied globally and is the baseline for Volvo Cars' responsibility to ensure that we provide a sustainable working environment with fair terms of employment for all our employees, as well as our expectations on employees on all levels to act in line with the company values. The policy is guided by international human rights standards, including the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the United Nations Global Compact.

Following areas are included:

- Human rights
- Non-discrimination and equal opportunities
- Child labour
- Forced labour
- Freedom of association and collective bargaining
- Health and safety
- Drugs, alcohol and smoking of tobacco substances
- Total remuneration and working hours

Freedom of association and social dialogue

Our People Policy clearly states that all employees have the right to form or join labour organisations of their choosing and to bargain collectively. Volvo Cars encourage a sound dialogue with the employees in issues connected to the relationship between the employer and the employees, either by cooperation with the unions, other employee representatives or employees directly. Approximately 75 per cent of our workforce is covered by collective labour agreements.

For many years, union representatives have been on the Volvo Cars Board of Directors, showing our commitment to our employees and their labour rights. The social dialogue between the company and the unions regarding information and consultation, is considered to be well functioning. Globally, entities with established unions or work councils in general have a good social climate, although with some challenges along the way in 2017.

The Volvo Cars Ghent plant for example experienced a short strike in autumn due to work pressure, but strong actions were taken from both Management and unions in alignment to increase trust and communication throughout the organisation. Efforts have been made to catch up for the lost volumes.

Zero tolerance towards harassment and discrimination

We have zero tolerance towards harassment and discrimination as defined in our People Policy. All our plants have designated employees who are trained to provide harassment and discrimination support. Training for managers was rolled out globally in collaboration with the Diversity and Inclusion Champions in 2016 with ongoing trainings taking place during 2017. In 2017, very few cases of suspected discrimination and 38 cases of harassment were reported globally. All cases were investigated, and proper corrective and supportive actions were taken in all instances.

People Policy Assessment

In order to further strengthen our commitment to and ensure compliance with our People Policy, we decided to carry out the People Policy Assessment, which started during 2017 and is ongoing.

The assessment is supported by independent external experts and has so far covered our plants in China and Malaysia. The remaining plants are planned to be assessed during 2018, and lessons learned will be used to build procedures for risk identification and remediation in the future.

This process is in line with the United Nations Guiding Principles on Business and Human Rights. It assesses both potential and actual human rights impacts. The assessment involves desk-top assessments; interviews conducted with key external and internal stakeholders such as plant management teams, union representatives, employees, non-governmental organisations, relevant authorities, on-site contractors, as well as service providers and their employees; on-site verification and assessment of risks; analysis of impacts and creation of action plans.



CASE STUDY ON BUILDING A SAFETY CULTURE IN THE APAC REGION

By employee engagement and leadership support:

- Our Zhangjiakou plant has reached more than 1,500 days without any Lost Time Case, a significant result within the organisation
- Our R&D Centre in Shanghai and our Chengdu plant were certified to OHS18001 in 2017
- Employees at our Daqing plant participated in innovative ways of raising safety awareness and knowledge, such as technical competitions and different testing of our operators
- At our plant in Malaysia, health and safety campaigns were organised that engaged all employees in promoting a safety mindset. This included a lot of exercises such as a 1,000 steps health walk, road safety awareness and emergency response drills



The assessment has so far identified the following key risk and impact areas:

- On-site contractors and service providers; employment terms and conditions and health and safety standards
- Groups such as foreign or internal migrants and interns whom may be taken advantage of
- Health and safety; excessive outside temperature and nearby traffic conditions
- Discrimination and harassment; low diversity awareness
- Working hours, leave and rest periods; challenging to balance overtime
- Environmental and social impacts; e. g. hazardous waste management and risk of corruption

At the end of each plant assessment, a report has been developed, including proposed actions to prevent, mitigate and remediate negative risks and impacts. In connection with each assessment, awareness training activities have been carried out in close collaboration with local management. Furthermore, actions have been initiated based on short- and long-term action plans. The Compliance and Ethics Office is monitoring and following up with local Management and other responsible actors on progress of actions.

These actions include:

- Improved purchasing processes to strengthen adherence with Volvo Cars' Code of Conduct for Business Partners
- Establishment of a global process to assess a living wage in each location
- Drafting of updated procedures to further strengthen the rights of groups, such as foreign or internal migrants
- Increased temperature control and continuous improvements of health and safety aspects
- Improved training and on-boarding programs in company culture, diversity, discrimination and harassment for managers and employees
- Improved systems for monitoring of individual overtime
- Increasing awareness of hazardous waste management when leaving our premises

Compliance and ethics

Embodying ethics and human rights

Embodying ethics and human rights is a broad expression of our contribution to society and to responsible business conduct. Our heritage and culture is the foundation for our approach to ethical leadership, care for the environment, fighting corruption, protecting human rights and promoting responsible business conduct throughout the value chain. Volvo Cars also supports the United Nations Global Compact Initiative, which is a global strategic business initiative on corporate responsibility. Conducting business in a responsible manner is an enabler for sustainable profitability and growth.

We therefore strongly believe in ethical leadership and one of our sustainability commitments is to develop leaders that are role models for ethical behaviour and professional integrity, who help us send the right tone from the top.

Leaders are supported in this role by the Compliance and Ethics Office, whose mission is to manage the Compliance and Ethics Program with initiatives and controls that aim to prevent, detect and mitigate legal and ethical risks in the areas of anti-corruption, anti-trust, data protection, human rights and trade sanctions and export control as further outlined in the Corporate Governance Report on page 109.

A risk-based approach to compliance

A regular compliance risk assessment allows us to identify and understand the main risk fields to which we are exposed and, in each of these fields, the high-risk areas. Furthermore, our Compliance and Ethics Office continuously assess which parts of the Volvo Cars business are exposed to which risks in respect of the different risk areas identified, including but not limited to anti-corruption, competition law, data protection, human rights and export control. The assessments serve as the basis for identifying the appropriate improvement and mitigation measures and ensures that our Compliance and Ethics Program is customised to address the areas where our main compliance risks are to be found.

Compliance and Ethics Framework

The Volvo Cars Code of Conduct is at the heart of our Compliance and Ethics Program. It is based on Volvo Cars' strong values and our commitment to conduct business in an ethical and compliant manner, as well as on the relevant international conventions and standards. It describes what is expected from Volvo Cars' employees when performing their work by summarising Volvo Cars' corporate policies and directives. It is our way of ensuring that business is conducted in a responsible way.



Our corporate policies and directives set forth the principles that apply to all employees in their daily business. They are supplemented by specific guidelines that explain how the principles stated in the policies and directives can be implemented.

We also expect that our business partners follow the same or similar principles and, for this purpose, we have developed a specific Code of Conduct for Business Partners that outlines Volvo Cars' requirements, in particular regarding human rights and working conditions, caring for the environment and business integrity including zero tolerance for bribery and corruption.

The Code of Conduct as well as the corporate policies, directives and guidelines are available to all employees. The Code of Conduct for Business Partners is contractually binding upon our business partners.

Reported code of conduct violations

During 2017, 72 suspected violations against our Code of Conduct and our policies were reported to our Compliance and Ethics Office. Following investigations, 26 of these reports were substantiated, and disciplinary actions were taken in 24 cases, including employee dismissals and termination of supplier contracts.

Compliance and ethics training

Another key to the Compliance and Ethics program, is the training and internal communications aiming at embedding our ethical business approach. During the past year, a number of e-learning have been launched and face-to-face trainings on topics such as Business Ethics, Anti-corruption, Fraud Prevention, Information Security, Data Protection, Trade Sanctions and Export Control, Competition Law, People Policy and Conflict of Interest have been conducted.

More than 1,500 employees were trained on our Code of Conduct – The Way We Act, which is a concept based on Volvo Cars' values and includes the "Dilemma Game" as an engaging way of discussing behaviour and ethics.

New managers and leaders are also trained, via the leadership programs, to develop their ethical behaviours and culture of ethics, so as to remain role models, and to promote a speak up culture. More than 850 managers have been trained since the launch of the leadership programs and we will continue to focus on these trainings in 2018.

In 2017, more than 8,700 production employees received a training on business ethics, including an introduction to the Code of Conduct, the Tell Us Reporting Line, and the responsibilities of being an employee at Volvo Cars.

Moreover, at all levels of the company, we deliver specific face-to-face trainings in areas such as Anti-corruption, Anti-trust, Trade Sanctions and Export Control and Data Protection. These trainings target groups of employees who have been identified as being most exposed to these areas.

In parallel to the face-to-face trainings, more than 17,000 employees have been trained in the following areas via e-learning; Code of Conduct, Anti-bribery and Conflict of Interest. These e-learning are mandatory for all non-production employees, including new employees. In 2017, we also launched a Data Protection E-learning that is compulsory for all non-production employees. 14,000 employees have so far completed the e-learning.

OUR OMTANKE COMMITMENT

ETHICAL LEADERSHIP FOR RESPONSIBLE BUSINESS

We are committed to responsible business conduct and fighting corruption wherever we operate through ethical leadership. This involves our leaders setting the standard and being role models for ethical behaviour and professional integrity.



Continuous improvement of Volvo Cars Compliance and Ethics Program

During 2017, our main focus was to enhance our Data Protection Compliance Program, in order to adapt our requirements for the protection of personal data with a view to comply with the new data protection regulations coming into force during 2018.

As part of our continuous improvements, a People Policy Assessment was initiated. Also, an external assessment of our Anti-corruption Program was initiated. The outcome of these assessments led to actions in 2017 and will also drive actions for the upcoming year.

In 2017, Volvo Cars was recognised as one of the World's Most Ethical Company® by the Ethisphere Institute. The assessment report made by the Ethisphere Institute also gave us guidance of improvement opportunities.







SOCIETY

We work towards contributing to a better society and protecting people and the climate by creating partnerships for sustainable development and promoting traffic safety together with local and international organisations.

JOBS CREATED WORLDWIDE

7,600

During 2017 Volvo Cars employed an average of 38,000 (30,400) people

PARTNER IN SUSTAINABLE DEVELOPMENT

We are working to ensure that our company contributes to global and national efforts towards a better and more prosperous society, as well as protecting people and our climate. We do this in several ways, including through creating partnerships with national and local organisations. Our people also deliver local projects which aim to improve the quality of life in the communities in which we operate.

Engage in corporate partnerships

We will continue to cooperate and partner with key organisations on a global or national level, such as the United Nations Global Compact, with the objective of promoting sustainable development. Volvo Cars supports projects, initiatives and events to improve the quality of life in the communities in which we operate, by:

- Enhancing social inclusion and promoting equality, including through increasing employability.
- Promoting international and local environmental initiatives.
- Knowledge sharing to improve traffic safety.

We want to help create a better world, but we are limited in what we can achieve by ourselves. By forming partnerships we can increase the impact of our efforts. In 2017, we continued to strengthen our partnerships and deepened our engagement.

OUR OMTANKE COMMITMENT

ENGAGE IN CORPORATE PARTNERSHIPS

We will continue to cooperate and partner with key organisations on a global or national level with the objective of promoting sustainable development.



United Nations Global Compact

We are a founding member of the United Nations Global Compact, the world's largest corporate sustainability initiative, focused on ensuring that business supports the delivery of the Sustainable Development Goals (SDGs).

Volvo Cars is an active member of the Compact's Nordic Network and hosted its high level meeting in May 2017 at our headquarters in Gothenburg with over 190 participants from 100 different Nordic companies and organisations. The theme of the meeting was how business can work together with the public sector and civil society to help build sustainable cities. Eight CEOs spoke at the event, including Håkan Samuelsson.

In 2017, we also joined two of the United Nations Global Compact's Action Platforms; one focused on ensuring that companies can make a meaningful contribution to the targets set under the Paris Climate Change Agreement, and the second on taking action

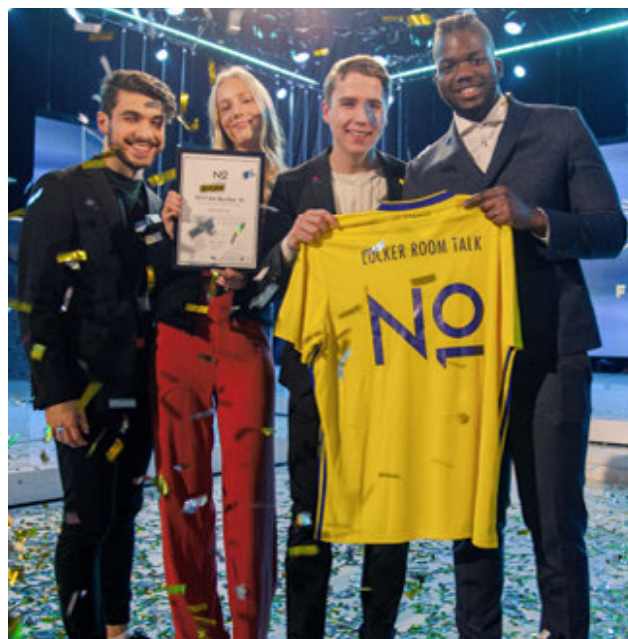
to advance decent work in global supply chains. In both, Volvo Cars is working with like-minded companies and specialists to demonstrate leadership on these issues. In recognition of this heightened engagement, and our industry leading electrification strategy, the United Nations Global Compact awarded Volvo Cars LEAD Member status. This is granted to the most committed, engaged and ambitious companies within the Global Compact. Volvo Cars is one of only 44 LEAD companies out of a total of 9,500 members – and one of only two car makers.



Enhancing social inclusion and promoting equality

During 2017, a project was initiated with the aim of reducing social segregation within the Gothenburg area, and broadening the future talent base for recruitment. The objective is to increase interest among youth and young adults to work in the automotive industry, motivate young people to enter higher education, as well as increase diversity and inclusion within local society. Some examples of activities are listed below.

- Volvo Experience Program (VEP) – a 7-month work experience internship program open to long-term unemployed people in Sweden between the ages of 18 and 24. 215 people have participated in the program since 2013.
- Mentor programs ("Mitt Liv" and "Öppet Hus") – social enterprises that support recent immigrants to Sweden by helping them integrate into the local job market. The programs have been active since 2010 and we have allocated approximately 100 mentors in total.
- Cooperation with targeted secondary schools – Volvo Cars employee role models have inspired and motivated students through school visits.
- Volvo Cars summer jobs - jobs have been offered exclusively to youth from socio-economically disadvantaged areas.
- Homework and study support – Volvo Cars employees have helped local children in their educational development.
- Number 10 - Volvo Cars has been a national partner for the Swedish Football Association since 2010. In 2017, we launched the "Number 10" initiative together, which is an annual award



designed to recognise and support people or organisations helping developing Swedish football at the grassroots level. Our ambition is to play a part in shaping the future of Swedish football, based around the Volvo Cars' values of equality, diversity and care for people. The Swedish football legend Zlatan Ibrahimovic is Number 10's patron and MSEK 1 is presented to each award winner. The organisation Locker Room Talk received the first grant in recognition of their excellent work in promoting gender equality and respect within Swedish football.

Promoting international and local environmental initiatives

Volvo Ocean Race Science Program

Volvo Cars will donate EUR 100 from sales of each of the 3,000 V90 Cross Country Volvo Ocean Race cars it plans to build for the Volvo Ocean Race Science Program - a total donation of EUR 300,000.

The Science Program equips boats in this year's race with a variety of sensors that will capture data from some of the remotest parts of the world's oceans. This includes temperatures, barometric pressure, currents and wind speed, which will help contribute to more accurate weather forecasts and climate models used by scientists globally.

Furthermore, the boats will measure levels of salinity, dissolved CO₂ and algae in the sea water around them. Combined with other data on micro-plastics, these measurements will help create a more complete picture of the scale of plastic pollution and its impact on ocean life. The Program's science partners include the National Oceanic and Atmospheric Administration (NOAA).

Volvo Cars Beach Clean Up

In support of the United Nations Environment's Clean Seas campaign to tackle marine plastic pollution, our CEO, Håkan Samuelsson, set out a challenge to all employees to go out in their teams and clean local beaches and shorelines for the duration of the Volvo Ocean Race. Volvo Cars is proud to be the first global company to mobilise our workforce in support of the Clean Seas initiative.



The Volvo Cars Beach Clean Up campaign was launched in October in Alicante ahead of the start of the Volvo Ocean Race and involved over 100 Volvo Cars employees, as well as Håkan Samuelsson and Lisa Svensson, Director of Ocean and Marine Programs at United Nations Environment. So far over 350 employees from three continents have cleaned their local beaches. Further beach cleanups are planned for in 2018 at both Volvo Ocean Race stop-overs as well as at local Volvo Cars facilities.



Knowledge sharing to improve traffic safety

Safer by sharing – we continue to actively cooperate and partner with key organisations and society that help to share our knowledge on traffic safety. Our work with traffic safety goes beyond the occupants in our cars and other road users, such as pedestrians and cyclists. It is also about knowledge transfer. We share our real-life safety perspective, our experiences and our unique way of working in partnership with stakeholders. Our approach benefits both international and national authorities as well as the societies that have a need for development in this area.

Global promotion

Our collaboration with the Swedish Transport Administration, based on an agreement signed in 2008, has made significant progress in terms of using a holistic approach to traffic safety and how to divide the responsibilities between vehicle manufacturers and public authorities responsible for the infrastructure. In 2017, the template created in this cooperation has successfully been cascaded to other government and multilateral organisations working on traffic safety.

The view created by this cooperation has also been used by the organisations pushing for traffic safety in the developing world as an example on how to improve safety using a systematic approach. These include the United Nations World Health Organisation (WHO) and their Decade of Action for Road Safety Organisation, as well as the OECD's International Transport Forum (ITF).

Additionally, in 2017, we became a partner company of the OECD's ITF and our CEO, Håkan Samuelsson, gave a key note address and participated in a panel discussion at their annual meeting in Leipzig on May 31st, 2017.



OUR OMTANKE COMMITMENT

KNOWLEDGE SHARING TO IMPROVE TRAFFIC SAFETY

We will continue to actively cooperate and partner with key organisations and society that help to share our knowledge on traffic safety.



Child car safety awareness in China

In 2015, Volvo Cars launched an initiative with the Chinese Office of the United Nations Decade of Action for Road Safety (CATARC) to raise awareness of child car safety and promote the use of child car seats in China. This Volvo Cars-funded initiative is directed at families with babies and young children aged 0–6 years old, and engages with parents from pregnancy. In 2017, 2,200 Chinese families took part in this initiative, bringing the total to 9,000 families.

Responsible business

Creating jobs worldwide

In 2017, Volvo Cars employed on average approximately 38,000 (30,400) full-time employees. Furthermore, the Group employed on average approximately 4,200 (4,200) consultants. The increased number of employees mainly relates to higher production volumes, the ramp up in China, the construction of the Charleston manufacturing plant in the US, as well as the continuous development of future car models. Furthermore, our expansion of operations is expected to generate even more local jobs, at our joint ventures, our suppliers and other local businesses.

Our approach to tax

We encourage ethical and transparent business practices and comply with the OECD Transfer Pricing Guidelines. We do not employ legal entities solely for purposes of tax planning and we report and disclose our tax positions in accordance with applicable regulations and requirements. Volvo Cars' Tax Policy was approved in 2017 by the Volvo Cars Board of Directors.





MARKET HIGHLIGHTS

By selling 571,577 (534,332) cars in more than 100 countries worldwide, we delivered a global growth of 7.0 per cent. Hereby 2017 was made the fourth consecutive year of record sales, China and Other Markets being the main contributors with 25.8 and 10.0 per cent of growth respectively.

MARKET HIGHLIGHTS

| MARKET | INDUSTRY DEVELOPMENT | SALES PERFORMANCE |
|---------------|---|--|
| EUROPE | Sales of passenger cars in Europe (EU28 + EFTA) increased by 3.3 per cent, reflecting growth in the major markets; Sweden, Germany, France and Italy. The UK however decreased due to higher taxes, lower consumer confidence and drop in diesel sales. | Despite UK market conditions, we increased our market share there by 5 per cent. Retail sales in Sweden reached all-time-high levels. Overall sales in Europe was supported by stronger demand for the 90 series as well as the XC60, and the introduction of the new XC60, taking us to a growth of 2.8 per cent. |
| CHINA | The China passenger car market grew by 1.4 per cent, SUVs and New Energy Vehicles (NEVs) being the main contributors; the latter positively impacted by government incentives. Sales in other segments declined however, mainly due to vehicle sales tax implemented in the beginning of the year. | With a growth of 25.8 per cent, we outperformed the overall market. Strong increase in demand for the S90 and solid demand for the XC90 and XC60, were the main drivers, the XC60 being the most popular Volvo Car model in China. |
| US | Sales in the overall US market for light vehicles declined by 1.8 per cent. The demand for SUVs, crossovers and pickups remained strong, however growing at the expense of other segments. | Despite the downturn in the overall market, our retail sales declined slightly less, by 1.5 per cent. Our total sales figures were impacted by delivery constraints in the beginning of the year, although this was offset by sales growth for the last quarters and in the fourth quarter we saw a sales increase of 1.4 per cent, the XC90 being the best-selling model, followed by the XC60. |
| OTHER | During 2017 the Russian light vehicle market grew by 11.9 per cent. The market in Canada grew 4.5 per cent reaching a new record level at over 2 million units, with SUVs performing particularly strong. The Japanese market grew by 5.8 per cent ending on a strong note. In South Korea, a slower first half led the market to shrink by 1.7 per cent. | Other Markets contributed to the overall growth with a 10.0 per cent increase. Japan, Russia, Korea and Canada were the main contributors demonstrating demand for the S90 and V90, as well as the XC60 Classic together with the new XC60. |

GLOBAL GROWTH

+ 7.0%

571,577 (534,332) units

EUROPE

+ 2.8%

298,948 (290,925) units

US

- 1.5%

81,504 (82,726) units

CHINA

+ 25.8%

114,410 (90,930) units

OTHER

+ 10.0%

76,715 (69,751) units



BOARD OF DIRECTORS REPORT

The Volvo Car Group

Volvo Car AB (publ.), with its registered office in Gothenburg, is majority owned (99%) by Geely Sweden Holdings AB, a subsidiary of Shanghai Geely Zhaoyuan International Investment Co., Ltd., registered in Shanghai, China, with ultimate majority ownership held by Zhejiang Geely Holding Group Co., Ltd, registered in Hangzhou, China.

Volvo Car AB (publ.) holds shares in its subsidiary Volvo Car Corporation and provides the Group with certain financing solutions. Volvo Car AB (publ.) indirectly, through Volvo Car Corporation and its subsidiaries, operates in the automotive industry with business relating to the design, development, manufacturing, marketing and sales of cars and thereto related services. Volvo Car Group and its global operations are referred to as "Volvo Cars".

Volvo Cars sales development

For the full year 2017, Volvo Cars' global retail sales increased by 7.0 per cent to 571,577 (534,332) units. 2017 represents our fourth consecutive year of record sales. Wholesale increased by 9.2 per cent to 585,334 (536,211) units in the same period. Sales of the new XC60 and the 90 series were the main drivers. The new XC60, together with the XC60 Classic, was the best-selling model, followed by the V40.

Europe

Sales of passenger cars in Europe (EU+EFTA) increased by 3.3 per cent in 2017, reflecting growth in the major markets: overall car sales in Sweden increased by 1.9 per cent, Germany 2.7 per cent, France 4.7 per cent and Italy 7.9 per cent. Sales in United Kingdom, however, decreased by 5.7 per cent. This was the first annual decline in the UK since 2011 as higher taxes, lower consumer

confidence and a significant drop in diesel sales hit demand. Despite the market conditions, Volvo Cars increased its market share by 5 per cent in the UK.

Volvo Cars reported a retail sales increase of 2.8 per cent to 298,948 (290,925) units in the full year 2017 supported by all-time-high volumes in Sweden. Sales were supported by stronger demand for the 90 series, as well as the XC60, and the introduction of the new XC60 in the second quarter of 2017.

China

The Chinese passenger car market grew by 1.4 per cent in the full year 2017. SUV sales increased by 13.3 per cent in the same period, while sales in other segments declined. A vehicle sales tax increase implemented in the beginning of 2017, impacted the overall demand during the year. The NEV (New Energy Vehicles) market benefited from government incentives with sales increasing by 53.3 per cent in the full year.

With double digit growth of 25.8 per cent in 2017, Volvo Cars' outperformed the overall market. The increase contributed to total retail sales of 114,410 (90,930) units. Growth was driven by a stronger increase in the demand of the S90 and the solid demand for the XC90 and XC60. The latter was the most popular Volvo Car model in China.

US

For the full year 2017, sales in the overall US market for light vehicles declined by 1.8 per cent, after seven consecutive years of growth. Still, 2017 saw the fourth best full-year sales level in US history reflecting a solid macro-economic performance and good consumer confidence. The demand for SUVs, crossovers and pickups remained strong, growing at the expense of other segments.

| Key ratios, MSEK | Full year 2017 | Full year 2016 | Full year 2015 | Full year 2014 ²⁾ | Full year 2013 ¹⁾ |
|-----------------------------------|----------------|----------------|----------------|------------------------------|------------------------------|
| Net revenue | 210,912 | 180,902 | 164,043 | 137,590 | 122,245 |
| Operating income, EBIT | 14,061 | 11,014 | 6,620 | 2,128 | 1,919 |
| Net Income | 10,225 | 7,460 | 4,476 | 508 | 960 |
| EBITDA | 26,159 | 21,541 | 16,019 | 9,491 | 9,057 |
| Operating and investing cash flow | -3,800 | 6,515 | 7,234 | -4,766 | 109 |
| EBIT margin, % | 6.7 | 6.1 | 4.0 | 1.5 | 1.6 |
| EBITDA margin, % | 12.4 | 11.9 | 9.8 | 6.9 | 7.4 |
| Equity ratio, % | 28.7 | 26.8 | 26.2 | 27.8 | 28.1 |
| Net cash ³⁾ | -12,513 | -18,873 | -7,721 | 856 | 2,607 |

1) Not restated after the acquisitions of the Chinese industrial entities in 2015.

2) The comparative figures for 2014 are restated to include the new Volvo Car Group structure including the acquired Chinese industrial entities.

For further descriptions refer to the Volvo Car Group's annual report 2015.

3) If negative, the performance measure is referred to as net cash and if positive the performance measure is referred to as net debt

Volvo Cars' retail sales declined by 1.5 per cent in the full year 2017, slightly less than the overall market. Total sales figures were impacted by delivery constraints in the beginning of the year, although this was offset by sales growth in the final three quarters.

Other

In other markets, Volvo Cars' retail sales increased by 10.0 per cent to 76,715 (69,751) in 2017, supported by demand for the S90 and V90, as well as the XC60 Classic together with the new XC60. In Japan, Volvo Cars registered a retail sales increase of 8.3 per cent during the year, reflecting strong sales of both the V90 and the new XC60, which was awarded Car of the Year in Japan 2017. In Russia, the sales growth of 23.1 per cent was driven by the recovery of the Russian car market and increased sales of the 90 series. In Korea, the introduction of the 90 series, a strengthened dealer network and growing demand for imported brands, contributed to growth of 27.4 per cent in the year. In Canada, Volvo Cars recorded a sales increase of 16.3 per cent as a result of good growth in the overall market, strong sales of the S90 and V90.

| Retail sales, number of cars sold | 2017 | 2016 | Change % |
|--------------------------------------|----------------|----------------|------------|
| Europe | 298,948 | 290,925 | 2.8 |
| China | 114,410 | 90,930 | 25.8 |
| US | 81,504 | 82,726 | -1.5 |
| Other | 76,715 | 69,751 | 10.0 |
| Total | 571,577 | 534,332 | 7.0 |

| Retail sales by model (units) | 2017 | 2016 |
|-------------------------------|----------------|----------------|
| XC60/XC60 Classic | 184,966 | 161,092 |
| V40/V40 Cross Country | 95,370 | 101,380 |
| XC90 | 87,518 | 92,449 |
| S60/S60L/S60 Cross Country | 54,197 | 61,941 |
| V60/V60 Cross Country | 51,911 | 60,637 |
| V90/V90 Cross Country | 50,575 | 7,674 |
| S90/S90L | 46,602 | 7,383 |
| XC40 | 96 | — |
| Other (discontinued models) | 342 | 51,776 |
| Total | 571,577 | 534,332 |

| Top 10 Retail sales by market (units) | 2017 | 2016 |
|---------------------------------------|---------|--------|
| China | 114,410 | 90,930 |
| US | 81,504 | 82,726 |
| Sweden | 74,397 | 70,268 |
| UK | 46,089 | 46,722 |
| Germany | 40,364 | 39,434 |
| Belgium | 19,094 | 20,271 |
| France | 16,263 | 15,385 |
| Italy | 17,628 | 18,004 |
| Japan | 15,751 | 14,543 |
| Norway | 11,615 | 8,808 |

Significant events

Acquisitions, divestments and joint developments

Volvo Cars and Geely invest in Polestar

Volvo Cars and Zhejiang Geely Holding affiliates announced they will make a joint investment of MSEK 6,100 to establish a jointly owned company which will include a Polestar manufacturing facility in Chengdu, China, which is consolidated into Volvo Cars. Volvo Cars' first installment of MSEK 631 was carried out during the fourth quarter, and will support the initial phase of Polestar's electrified product, brand and industrial development.

Volvo Cars invests in LYNK & CO

Following the agreement with Geely Automobile Holding Co., Ltd. and Geely Holding Group Co., Ltd. in the third quarter to form a separate company, Lynk & Co Investment Co., Ltd, Volvo Cars acquired 30 per cent of the new company's shares.

Acquisition of Amtek Components Sweden AB

In July, Volvo Cars acquired 100 per cent of the shares in Amtek Components Sweden AB, renamed to Automotive Components Floby AB. The acquired company consists of the Floby plant that supplies vehicle components to Volvo Cars as well as other external customers.

Products & Technology

Electrification strategy announced

Volvo Cars announced that every Volvo launched from 2019 will have an electric motor. The portfolio will include electrified cars across the model range; fully electric, plug in hybrids and mild hybrid cars.

Other events during the year

Launch and start of production of the new XC40

By launching the new XC40, the SUV line up is complete. Production started in the Ghent plant in Belgium in November 2017 and the XC40 is the first model on the new Compact Modular Architecture (CMA).

New bond issue

Volvo Cars raised MEUR 500 via a new bond issue under its newly established Euro Medium Term Note program. The issue further improves the company's financial flexibility and diversifies its funding sources. The bond is listed on the Luxembourg Stock Exchange and the proceeds will be used for general corporate purposes, which may include refinancing of existing debt.

Upgraded credit rating

Volvo Cars' credit rating was upgraded in May by Standard & Poor's (S&P's). The global credit rating agency upgraded Volvo Cars from BB with a positive outlook to BB+ with a stable outlook.

Volvo Cars and Geely form technology sharing JV

Volvo Cars and Ningbo Geely Automobile Research & Development Co., Ltd. established, during the third quarter, a new joint venture to coordinate procurement and commonality for shared existing and future technology. The new joint venture, GV Automobile Technology (Ningbo) Co. Ltd, is 50/50 owned by Volvo Cars and Ningbo Geely Automobile Research & Development Co., Ltd.

First fully electric car to be built in China

It was announced in April that Volvo Car Group will build its first fully electric car in China. The all new model will be based on the Compact Modular Architecture (CMA) for smaller cars, and will be available for sale in 2019 and exported globally from China.

Joint Venture with Autoliv operational

Zenuity AB, a new joint venture developing software for autonomous driving and driver assistance systems, started its operation in April when all approvals from relevant competition authorities were received and closing of the agreement took place.

Furthermore, Volvo Cars, Autoliv, the world leading automotive safety company, and NVIDIA, the AI and visual computing company, are teaming up to develop advanced systems and software for self-driving cars. The three companies will work together with Zenuity.

Launch and production start of the new XC60

The new premium SUV was revealed in March at the Geneva Motor Show, replacing the highly-successful original XC60. The model represents the first 60 cluster car produced based on SPA. Production of the new XC60 started in April at the Torslanda plant, Sweden.

Changes in Board of Directors and the Executive Management Team

New appointments to the Executive Management Team

During the year the following appointments to the Executive Management Team have been made;

- Mårten Levenstam, Senior Vice President Product, Strategy and Business Ownership
- Anders Gustafsson, Senior Vice President Volvo Americas
- Lex Kerssemakers, Senior Vice President EMEA
- David Ibison, Senior Vice President Corporate Communications
- Martina Buchhauser, Senior Vice President Procurement
- Xiaolin Yuan, Senior Vice President Asia Pacific

Significant events after the reporting period

In January 2018, the loan from China Development Bank was partly repaid as a further step towards an optimised financing structure of Volvo Cars involving continuous assessments of alternatives. The repayment of MSEK 5,790 was financed partly by cash and partly by the proceeds from the Euro Medium Term Note program in November, where the proceeds was to be used for general corporate purposes, including refinancing of existing debt.

Research and development

Volvo Car Group continues to invest steadily in research and development in order to strengthen the product portfolio to meet customer demand and stricter legislation. Volvo Cars has technical centres for research and development in Sweden, China and the US, employing about 7,000 people, most of them qualified engineers. Thanks to world-leading R&D capabilities Volvo Cars has developed its own platform technology and three and four-cylinder engine family.

Volvo Cars is leading in safety and autonomous driving technology and is introducing several of these safety features as standard in the coming cars as a step towards the vision that no one shall be killed or seriously injured in a new Volvo car by 2020. In co-operation with other companies and institutions Volvo Cars has also developed a new platform for the C-segment, a three-cylinder engine, new connectivity and on-demand solutions.

Environment

Volvo Cars has a longstanding commitment in being a responsible company with a clear focus on sustainable development. This commitment is reflected throughout the Annual Report in line with international reporting guidelines set out in the Global Reporting Initiatives (GRI). All our businesses have permits regulating the environmental impact of their operations. Continuous reporting on this impact is undertaken according to guidelines and requirements submitted by local and national environmental authorities.

Employees

During the year Volvo Cars employed on average approximately 38,000 (30,400) full-time employees. Furthermore, on average approximately 4,200 (4,200) consultants were employed. The total increase relates mainly to higher production volumes, the ramp up in China, the construction of the US manufacturing plant, as well the continuous development of future car models.

Proposed distribution of non-restricted equity

The parent company

The following funds are at the disposal of Annual General Meeting (AGM):

| | | |
|-----------------------------------|------------|----------------------|
| Share premium reserve | SEK | 11,405,115,511 |
| Retained earnings brought forward | SEK | -5,375,115,307 |
| Net income for the year | SEK | 1,350,269,802 |
| At the disposal of the AGM | SEK | 7,380,270,006 |

The Board proposes the following allocations of funds:

| | | |
|--|------------|----------------------|
| To the preference shareholders, a dividend of SEK 126,71 per share | SEK | 63,355,000 |
| Carried forward | SEK | 7,316,915,006 |
| Total | SEK | 7,380,270,006 |

ENTERPRISE RISK MANAGEMENT

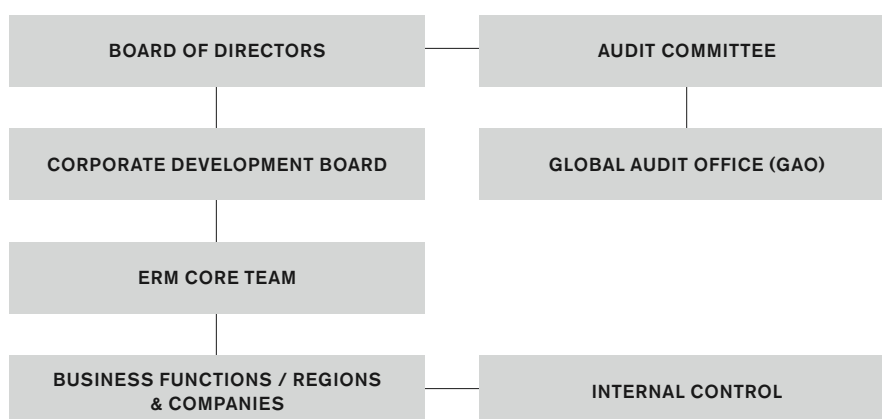
Enterprise Risk Management is performed to protect and increase the value of Volvo Car Group. It creates awareness and preparedness for business decisions and activities.

Enterprise Risk Management Governance

The Enterprise Risk Management top risks, the risks that are considered to best reflect the current risk situation for Volvo Car Group, are presented to the Board of Directors and Audit Committee twice every year. Risks are categorised based on the timing of their potential occurrence. The top risk report is based on input

from each Business function/region, led by an executive team member. The Enterprise Risk Management top risk report is approved by the Corporate Development Board. The Enterprise Risk Management Governance structure is described below.

Volvo Car Group ERM Governance



The transformation of the automotive industry is ongoing. It is based on customer expectations and political decisions. It affects every aspect of Volvo Car Group's business, globally. Business decisions and strategies are accompanied by risks as well as opportunities. Timing, investment and new competence needs, are parameters that are crucial to address in order to embrace the opportunities and deliver on our strategies. The risk identification reflects this situation in combination with the risks that the present business contains. The following are the main risk areas for Volvo Car Group.

| Risk area | Mitigation |
|---|---|
| <p>DATA PRIVACY</p> <p>The Group is subject to more and more stringent data protection and privacy laws and regulations relating to the collection and use of personal data.</p> <p>The Group collects and otherwise makes use of personal data relating to various categories of individuals; candidates, employees, customers, prospects, dealers, importers, suppliers etc.</p> <p>Such collection and use of personal data by the Group, are subject to comprehensive data protection laws and regulations that have been enacted to protect the privacy of individuals.</p> <p>Stricter data protection and privacy laws have been recently enacted, involving e. g. the European General Data Protection Regulation (GDPR) that will come into force as of May 2018. These laws raise significantly the amount of fines in case of breaches and reinforce the general requirements related to the collection and use of personal data, and strengthens the individual's rights and the security of personal data.</p> | <p>The Group's Protection and Privacy Council is an advisory forum on data protection related matters that has been active since 2014. A Data Protection Officer (DPO) was also hired in the beginning of 2016.</p> <p>The Group launched a GDPR compliance project gathering representatives from all functions and lines of business within the Group a, as compliance with data protection and privacy laws is a cross-functional effort. The objective of this project is to enhance and update the measures in place with a view to comply with the GDPR which, to date, is the most progressive legislation in the area of data protection and privacy. This project is lead by a team at corporate level, whose role is to provide functions and lines of business with common roadmap and capabilities, as well as with guidance on data protection compliance.</p> <p>The Compliance and Ethics Office is responsible for overseeing compliance with data protection and privacy laws and regulations; the Compliance and Ethics Office includes the DPO, whose role is to:</p> <ul style="list-style-type: none"> - Inform and advise the Group and its employees about their obligations to comply with data protection laws and regulations. - To monitor the Group's compliance with data protection requirements. - Be the first point of contact for Data Protection Authorities and for individuals whose personal data is processed by the Group. <p>The functions and lines of business remain responsible for implementing adequate measures in order to be compliant with applicable data protection and privacy laws.</p> |
| <p>CONNECTED CAR</p> <p>Unauthorised control or manipulation of cars' systems may cause them to operate improperly or not at all.</p> <p>The Group's information technology networks and communications with the Group's cars may be vulnerable to interception, manipulation, damage, disruption or shutdown due to attacks by hackers or breaches due to errors by personnel who have access to the Group's networks and systems. Any such attacks or breaches could result in unexpected and unauthorised control of or changes to the functionality of the Group's cars, user interface and performance characteristics.</p> <p>A secure solution today might be insecure tomorrow due to the rapidly changing landscape of threats.</p> <p>The main risk areas that might be affected are traffic safety and customer privacy.</p> | <p>The Group's cars are technologically advanced, requiring the inter-operation of numerous complex and evolving hardware and software systems. The Group has designed, implemented and tested security measures to prevent unauthorised access to its cars and their systems. There are security mechanisms implemented in order to secure the communication channels to and from the cars, security design in Sensus Cloud, security design in the communication units in the car and processes implemented to support security. There are ongoing risk mitigating activities in order to keep up the security needed as well as effort to increase Incident Response Readiness capabilities. A security framework is being implemented throughout the Connected Car organisation in order to increase the overall level of security. The framework supports us in having a structured approach in the system development cycle, e.g. secure: requirements, design, implementation, test and operation.</p> |

Risk area

Mitigation

AUTONOMOUS DRIVING (AD)

AD will change the requirements on cars and business models.

Three factors are considered with regards to AD: technical development, legislation and consumer acceptance. The coinciding timing of these three, or more correctly the lack of, is a risk factor in itself.

The AD is characterised by rapid technological change and evolving government regulation and industry standards. It will require new expertise, attract competitors from outside the automotive industry and shift supply chains. Government regulations related to autonomous cars are evolving and unsettled. In the United States, there is a lack of federal guidelines for the testing, certification and regulation of autonomous cars. In Europe, multiple countries have launched national initiatives to support AD, and these efforts remain ongoing.

Autonomous cars, more specifically, robo-taxis have the potential to significantly change the future automotive industry.

Our corporate vision is that no one should be seriously injured or killed in a new Volvo car by 2020. To reach that vision, clear strategies and strategic focus areas have been lined out and progress is closely monitored; build on our safety heritage and human centric values when developing AD Level 4 features (high automation, unsupervised AD, car responsible during AD mode); leverage our strong position in Advanced Driver Assist Systems when developing to bring AD Level 4 to market.

ATTRACT AND RETAIN TALENTED PEOPLE

The Group's success depends upon its ability to attract, retain and motivate highly skilled employees. If the Group cannot attract, train and retain qualified personnel, it may be unable to expand its business in line with its strategy, compete for new customers or keep existing customers, which could adversely affect its business.

A concrete example of this risk is how the Group can attract personnel with experience in software engineering, to help the Group adapt to technological changes. Due to several factors, including the rapid growth of autonomous drive programmers and the increasing number of companies entering the automotive industry, there is aggressive competition for experienced engineers.

The Group believes that its growth and future success depends in large part on the skills of its people.

Our Brand, Volvo and its fundament - human centric, is the core of all strategies and our company culture. This is one of the Group's strengths. Based on that our People strategy and the Group's objective to become "Employer of Choice" include strategies and activities to attract, retain and motivate highly skilled employees. Some examples are:

- Set up of new companies within the Group.
- Joint Ventures.
- A geographically global organisation.
- New recruitment solutions.
- Competence transfer tools for planned replacement of key employees.

NEW BUSINESS MODELS

The Group's continued success depends on its ability to meet changing consumer demands that cannot be predicted with certainty, are subject to rapid change, and that are requiring us to evaluate and refine current business models.

Consumers are seeking alternatives to traditional car ownership. Therefore short term use, Car-as-a-Service (CaaS), becomes a preferred model of consuming mobility. Furthermore, the development of urban mobility drives a need for Mobility-as-a-Service (MaaS). Although the increased use of car sharing concepts and new city-based car rental schemes create opportunities for new business models in which the Group could participate in the future, they also reduce dependency on private automobiles that needs to be approached.

All strategies and activities within the Group are preceded by an opportunity and risk assessment. A content and market timing evaluation of all our products and services are done to meet consumer demands. Global market research, trend analysis, strategic scenario planning, customer clinics, cooperation with universities, partners and suppliers as well as "think tank" input, are used as input. To meet a number of changing consumer demands, we have created the business unit Volvo Car Mobility, which includes our already existing Sunfleet operations. The team is working on a strategy to accelerate our presence in the mobility market. Our cooperation with Uber, the launch of Care by Volvo and the fact that our Polestar products and services will be sold through the web, are examples of how the Group is adjusting to new business models as a complement to the traditional way of buying and owning a car.

Risk area

Mitigation

PROPULSION SHIFT**Adjusting the business to a rapid propulsion shift within the industry; product development, procurement, manufacturing, sales and services.**

An increase in battery electric vehicle car demand, driven by reduced total cost of ownership, increased supply of different types of battery electric vehicles, simplified usage (including charging) and/or regulatory action. Infrastructure in place to serve increased demand and cities implementing laws/taxes favourable to electrified vehicles sooner than expected. Consumer demand for all forms of internal combustion engine cars is reduced due to low competitive power compared to battery electric vehicles.

This in combination with a complex diesel market. A couple of cities in Europe and some markets have proposed diesel bans. In other markets the diesel is still valid and in a few markets considered a "green" alternative.

Our electrification strategy is clear; from 2019, all internal combustion engines in new Volvo cars will be supplemented with electric propulsion in the form of mild or plug-in hybrid powertrains, or to be fully electric.

Some of the Group's activities and investments, to be prepared, are:

- Supply of battery cells.
- Competence shift.
- Software development.
- Charging availability.
- Shift from diesel to petrol engines.
- Manufacturing set up.

SUSTAINABILITY - BRAND**The Volvo brand has a very strong, positive connection to all parts of sustainability.**

The Group is strongly committed to driving a sustainable business which is clearly reflected in our vision, corporate objectives and strategies.

The connection between our brand and sustainability commitment expose us to risk. Any negative occurrences, publicity or expectations that are not met, even if we are not directly involved, i.e. involving our partners and suppliers, can potentially hurt our brand and the value of our company, more than it would hurt our competitors.

Our brand position in relation to our sustainability commitment could potentially be hit if the overall perception change in the automotive industry or if we chose partners whose sustainability ambition is too far off our own ambition.

The Group's sustainability commitment "OMTANKE" includes our view of the overall impact of our company, products and services and our role in society. The Volvo Car Sustainability Board assures that "OMTANKE" is integrated in our business strategies and business plans.

The Group's policies, Code of Conduct and "core value statements" supports the sustainability ambition, internally and together with suppliers and partners.

NEW OR CHANGING LAWS**New or changing laws, regulations and government policies.**

The Group's products and services, including related creation processes, are subject to comprehensive and constantly changing laws, regulations and policies throughout the world. The Group expects the number and extent of legal and regulatory requirements and the related costs of changes to its product portfolio to increase in the future. The imposition of any additional taxes and levies designed to limit the use of automobiles could adversely affect the industry and potentially demand for the Group's cars and its results of operations.

Changes in corporate and other taxation policies as well as changes in export and other incentives given by various governments or import or tariff policies could also adversely affect the Group's results of operations. Such government actions may be unpredictable and beyond the Group's control, and any adverse changes in government policy could have a material adverse effect on the Group's business, results of operations and financial condition.

Legal awareness and preparedness in all areas that might affect the Group. With regards to the law "World Harmonized Light Vehicle Test Procedure" (an EU law measuring CO₂ emissions) that will affect the vehicle industry already now but even more so in 2021 and beyond, is a challenging target to reach. The Group is working on compliance through a number of different activities, for example:

- Car efficiency: weight, aerodynamics, rolling resistance and friction/losses.
- Share of electrification.
- Increased long term focus on the post 2021 legislation.

With regards to import, export, tax and duty reforms the Group has an ongoing dialogue with legislators with regards to unforeseen consequences while closely following the development of the proposal and simultaneously develop mitigating actions.



CORPORATE GOVERNANCE REPORT

Executive Summary of Volvo Car Group's Corporate Governance

The purpose of corporate governance in Volvo Cars is to create a good foundation for active and responsible ownership, a proper distribution of responsibility between the different Company bodies, as well as good communication with all of the Company's stakeholders. The corporate governance principles adhered to by Volvo Cars are based on Swedish law (Swedish Companies Act and Swedish Annual Accounts Act). Volvo Cars applies the principles of sound corporate governance and responsible business practice and has decided to follow relevant part of the Swedish Code of Corporate Governance (the "Code"). Being a company not listed on the stock market, Volvo Cars acknowledges it is not required to do so, and that some principles are not relevant to Volvo Cars.

The shareholders execute their influence at the shareholders' meetings, the highest decision-making body of the Company, where an annual general meeting shall be held at least once a year within six months after the end of the financial year. The shareholders' meeting (among other things) (i) elects a Nomination Committee which nominates members to the Board of Directors of the Company (the "Board" or the "Volvo Cars Board"), (ii) decides upon members of the Board, based on suggestions by the Nomination Committee, (iii) elects external auditors, (iv) decides the

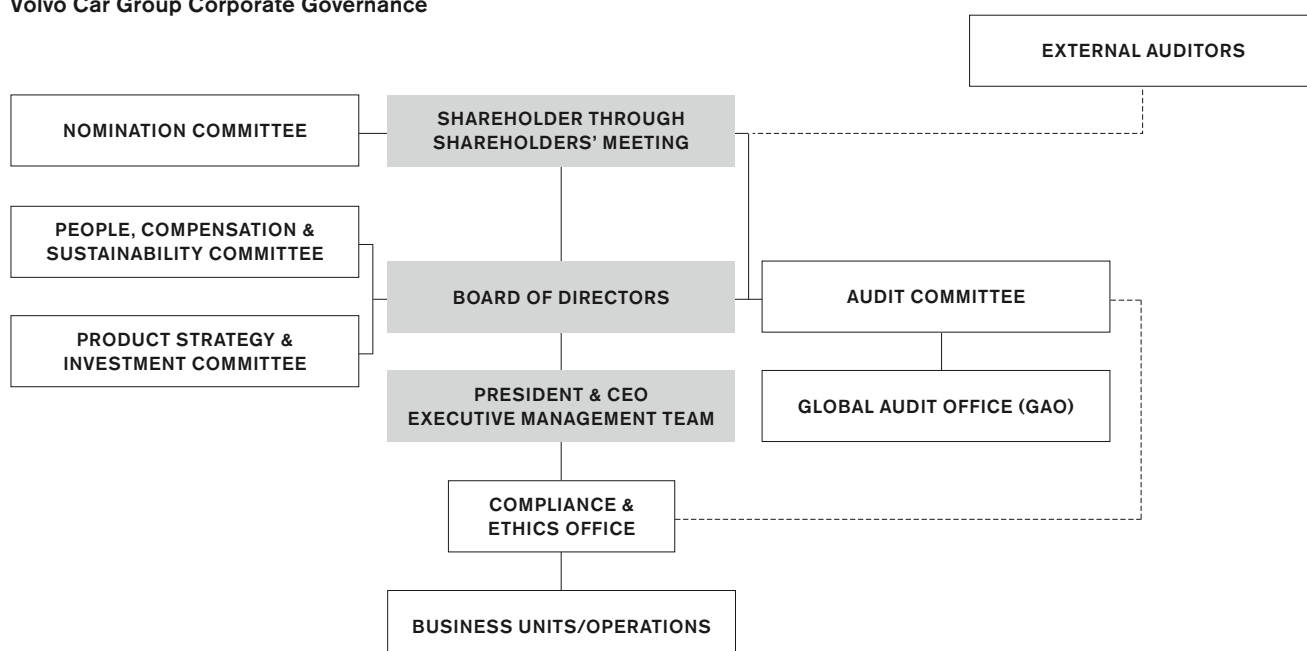
distribution of dividends and (v) decides upon amendments to the Articles of Association.

The Board is responsible for the organisation of Volvo Cars and the management of its business worldwide and is obliged to follow directives provided by the shareholders' meetings. The Volvo Cars Board may appoint committees with specific areas of responsibility and furthermore authorise such committees to decide specific matters in accordance with regulations established by the Volvo Cars Board. Currently, the Volvo Cars Board has established the Audit Committee, the People, Compensation and Sustainability Committee and the Product Strategy and Investment Committee. The Chairman of the Board shall with the support of the Vice Chairman direct the work of the Board and monitor that the Board fulfils its obligations. The Board annually adopts the Regulations for the work of the Volvo Cars Board, which sets out the principles as regards the governance of the Board, see below under the heading "Board" for further information.

The President of the Company, who is also Chief Executive Officer (CEO), is appointed by the Board to handle the day-to-day management of Volvo Cars and to lead the Executive Management Team (EMT) as overseen by the Board. EMT's role is to assist the CEO in the operation of Volvo Cars' business. The EMT has appointed boards of the EMT to assist in carrying out decisions and actions, but the CEO will retain responsibility for the actions of the boards of the EMT.

The above mentioned corporate governance functions can be described in the below model:

Volvo Car Group Corporate Governance



Nomination Committee

The shareholders' meeting has elected a Nomination Committee, which shall nominate members to the Volvo Cars Board, set the appropriate remuneration principles for the Volvo Cars Board and on a yearly basis propose the remuneration and other terms for the Volvo Cars Board. Please see the table under Board, regarding relevant remuneration for 2017. Any changes to the Nomination Committee's duties are subject to approval at a shareholders' meeting. Appointment or removal of a member of the Volvo Cars Board shall be proposed by the Nomination Committee but is subject to the approval of the shareholders' meeting. The Nomination Committee shall consist of at least two representatives. Currently Li Shufu and Mikael Olsson are members of the Nomination Committee.

The Nomination Committee has adopted a framework for nomination of members to the Board, which stipulates that the composition of the Board shall be diverse in terms of gender, nationality, professional background and other competences to ensure that the Board has the appropriate balance of expert knowledge, which matches the scale and complexity of Volvo Cars, supports a sustainable development and meets the independency requirements of Volvo Cars. It is Volvo Cars' aim to have a balanced composition when it comes to gender and by 2020 it is the ambition that each gender shall have a share of at least some 40 per cent of the Board members elected by the shareholders' meeting. The Unions represented in the Volvo Cars Board shall be encouraged to apply the corresponding goal when appointing their representatives.

The Nomination Committee evaluates the performance of the members of the Board once a year.

Board

The Volvo Cars Board has held eleven meetings during 2017, of which eight were ordinary and three extraordinary.

At all times, the Board shall consist of a minimum of three and a maximum of twelve members and in addition thereto the number of employee representatives as is required under Swedish law. Each new Board member is provided with an introduction program to learn about the Volvo Car Group and the Board visits at least once every year a Volvo Car Group site other than the headquarters.

The Regulations for the work of the Board stipulates that the majority of Volvo Cars Board members shall be independent of Volvo Cars and the management and at least two of these independent members shall also be independent of the shareholders. At the end of December 2017, the Board (excluding the employee representatives) consisted of ten members as further detailed below as well as in Note 9 - Employees and remunerations. No member of the management other than the CEO is a member of the Board and the Board members shall immediately disclose to the Chairman and/or the Vice Chairman if they find themselves to have a conflict of interest.

The table below shows the Board members' attendance to the Board meetings in addition to their independence according to the requirements of the Code in relation to (i) the Company and (ii) the shareholders. Details of the remuneration principles can be found in Note 9 - Employees and remunerations.

The Volvo Cars Board is according to the Regulations for the work of the Board expected to meet four to eight times per year at venues to be agreed by the Volvo Cars Board. The Volvo Cars Board will

| Name of the Board members | Independence in relation to the company/senior management | Independence in relation to the major shareholder of the company | Attendance at meetings of the Board | Attendance at meetings of the Committees | Remuneration Board and Committees ¹⁾ TSEK |
|--|--|---|---|--|---|
| Members elected by the Shareholder's Meeting | | | | | |
| Li Shufu (Chairman of the Board) | | | 6/11 | 0/5 | — |
| Mikael Olsson (Vice Chairman of the Board) | * | * | 11/11 | 4/5 | 2,400 |
| Winnie K.W. Fok | * | * | 11/11 | 4/5 | 775 |
| Lone Fønss Schrøder | * | * | 10/11 | 4/5 | 850 |
| Håkan Samuelsson (CEO) | | | 10/11 | 5/5 | — |
| Dr. Peng Zhang | * | | 11/11 | 5/5 | — |
| Li Donghui | * | | 9/11 | 4/5 | — |
| Carl Peter Forster | * | | 11/11 | 5/5 | — |
| Thomas Johnstone | * | * | 11/11 | 9/10 | 875 |
| Betsy Atkins | * | * | 9/11 | 3/5 | 750 |

1) Remuneration for Board and Committees on a yearly basis as agreed at the Annual Shareholders' Meeting 2017.

meet the statutory auditor at least once a year without the CEO or any other member of EMT present. In addition, the Volvo Cars Board will hold non-executive meetings with regular intervals.

The Board continuously monitors Volvo Cars' performance, evaluates Volvo Cars' strategic direction and business plan as well as other aspects such as Volvo Cars' adherence to responsible business conduct, sustainability and its Code of Conduct. Volvo Cars' sustainability program (Omtanke) is the framework for Volvo Cars sustainability work and the frame for the short and long term sustainability plan and serve as the guidelines for Volvo Car Group's conduct in society.

The Board conducts a yearly survey regarding its board work. Based on the result of the survey the Board will evaluate the performance and identify possible areas of improvements. In addition, the Vice Chairman conducts meetings with the individual Board members during the year.

Audit Committee

The Board of Volvo Cars has assigned an Audit Committee to oversee the corporate governance, financial reporting, risks and compliance with external and internal regulations. The Audit Committee has held five meetings during 2017, whereof four ordinary and one extraordinary interim meeting.

The Audit Committee is responsible for identifying and reporting relevant issues to the Volvo Cars Board within the Audit Committee's areas of responsibility. The Audit Committee shall monitor the integrity of Volvo Cars' financial reporting system, internal controls, operation procedure and enterprise risk management framework, recommend to the Volvo Cars Board the appointment, removal and remuneration for the statutory auditors (subject to approval at the shareholders' meeting) in accordance with the Companies Act, monitor the independence of the statutory auditors and review the effectiveness of the internal audit and Compliance and Ethics' function. Lone Fønss Schrøder (Chairman), Winnie K.W. Fok and Li Donghui are currently members of the Audit Committee.

People, Compensation and Sustainability Committee

The Board has assigned a People, Compensation and Sustainability Committee to determine the remuneration to the CEO and the EMT members. The People, Compensation and Sustainability Committee has held five meetings during 2017, whereof five ordinary.

The duties of the People, Compensation and Sustainability Committee are to prepare, propose and/or decide and present to the Volvo Cars Board matters related to remuneration, remuneration principles, performance and succession planning of the CEO and the Executive Management and other matters related thereto. The Committee is also responsible for supervising and providing guidance with regard to the People strategy. Furthermore, during 2017 the Board of Directors decided to increase Volvo Cars' focus on sustainability matters and therefore added sustainability to the agenda for the People, Compensation and Sustainability Committee twice a year, in addition to the Board's review of sustainability matters. Hence, sustainability has also been added to the name of the Committee and the Committee is responsible for supervising

Volvo Cars' Sustainability strategy. Mikael Olsson (Chairman), Li Shufu, Dr. Peng Zhang and Thomas Johnstone are currently members of the People, Compensation and Sustainability Committee.

Product Strategy and Investment Committee

The Board has assigned a Product Strategy and Investment Committee to oversee Volvo Cars' product strategy and the investments linked to it. The Product Strategy and Investment Committee has held five meetings during 2017, whereof five ordinary.

The purpose of the Product Strategy and Investment Committee is to review Volvo Cars' product strategy, cycle plan and product programs to confirm that the strategy and the plans as well as programs fit the overall strategy, meet customer demand and market development and addresses new technology and business opportunities in all segments relevant to Volvo Cars. The duties of the Product Strategy and Investment Committee are furthermore to ensure that the changes in society, peoples view on mobility and cars as well as changes in the automotive market are reflected in Volvo Cars' strategic product plans and when choosing technologies. Thomas Johnstone (Chairman), Carl Peter Forster, Betsy Atkins together with Håkan Samuelsson are part of the Product Strategy and Investment Committee.

Global Audit Office

Volvo Cars has an independent Internal Audit department with the assignment to determine whether Volvo Cars' governance, internal control and risk management processes, as designed, operated and represented by management, are adequate and effective. The scope for the internal audit is determined by means of a risk assessment process and any additional requirements by the Board. The head of the Internal Audit function reports to the Audit Committee.

Corporate Compliance and Ethics Office

The Corporate Compliance and Ethics Office supports the business operations in conducting business in a responsible and ethical manner, by developing, implementing and maintaining Volvo Cars' Compliance and Ethics Program. This Program consists of ten elements designed on the basis of guidelines describing "effective compliance program" and "adequate procedures", such as the US sentencing Guidelines and the UK Bribery Act Guidance (supporting respectively the Foreign Corrupt Practices Act and the UK Bribery Act) as well as guidance from Anti-Trust Offices throughout Europe. Among these ten elements are: a regular risk assessment that leads to identify, understand and prioritise the main risk fields to which Volvo Cars is exposed, so as to customised the Compliance and Ethics Program with a view to minimise the Group's exposure to risks; implementation of a Compliance and Ethics framework (Code of Conduct and Corporate Policies, Directives and Guidelines); Compliance and Ethics training, awareness and communication; Internal reporting and investigations; and monitoring and assessment with a view to continuously improve the Compliance and Ethics Program.

The Chief Compliance and Ethics Officer reports to the SVP Group Legal and Corporate Governance and further continuously reports on compliance issues to the Global Compliance Commit-

tee. The Chief Compliance and Ethics Officer also reports to the Audit Committee of the Board of Directors and provides compliance training to the Board of Directors.

The Global Compliance Committee is chaired by the SVP, General Counsel and the other members are the SVP Human Resources, the CFO and SVP Finance, the SVPs heading the regions (APAC, EMEA and Americas), and the Head of Internal Audit (Secretary).

External Auditors

Volvo Car Group's external auditors are elected by the Annual Shareholders' Meeting. Deloitte AB was appointed auditor in Volvo Car Group in the financial year 2010. The Annual Shareholders' Meeting has then re-elected Deloitte AB, and the current audit engagement period is ending at the 2018 Annual Shareholders' Meeting. Lead Audit Partner is the authorized public accountant Jan Nilsson. The external auditors discuss the external audit plan, audit findings and risk management with the Audit Committee. The auditors present their findings from their review for the period January 1 to September 30 to the Audit Committee in December, and their findings from the financial year audit to the Audit Committee and the Board of Directors at meetings after year-end. The auditors review the interim report for the period January 1 to June 30 and audit the Annual Report of the parent company and the consolidated financial statements. When Deloitte is asked to provide services other than the external audit, it is done in accordance with general independency rules. Annually Deloitte assures its impartiality and independence in writing to the Audit Committee in accordance with the Swedish Companies Act and ISA 260.

Internal control over financial reporting

According to the Swedish Companies Act, the Board is ultimately responsible for ensuring that an effective internal control system exists within the Group. In order to assist the Board and management in their internal control responsibilities, Volvo Cars has implemented an internal control function over financial reporting, with the purpose to ensure that the external financial reporting is reliable and that the financial reports follow generally accepted accounting principles. The Internal Control function is reporting to the Audit Committee on a periodic basis.

Volvo Cars builds its internal control on the framework for internal control issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and its five components; Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring activities.

Control Environment

The foundation of Volvo Cars' control environment is the Volvo Cars' Code of Conduct, which is the guiding principle of Volvo Cars and consists of the Group's corporate policies, directives and guidelines. The foundation of the control environment over financial reporting are further based upon functional policies, directives and guidelines and the Delegation of Authority directive.

Risk assessment

Each entity and function is responsible for identifying risks, which are then consolidated and reported within the Enterprise Risk Management process, see page 104. Additionally, on a yearly basis, the functions of Internal Control and Internal Audit jointly perform a risk assessment to evaluate and determine if and how risks identified and reported should be addressed for the coming year. Risk reporting is conducted to the Audit Committee on a periodic basis.

Control activities

Control activities are the procedures that help to ensure that Volvo Cars' policies, directives and instructions are implemented. Control activities are performed throughout the organisation, at all levels, and in all functions to manage risk and to detect and correct errors in the financial processes. Control activities are documented in the Volvo Cars Internal Control framework.

Information and communication

The information and communication component within Volvo Cars includes the systems and processes that support the identification, capture and exchange of information that enable personnel to carry out their responsibilities and that financial reports are generated completely and accurately.

Information around the planning, risk areas and results of the self-assessment and internal control reviews are communicated to the Internal Control Committee and Audit Committee on a periodic basis.

Monitoring

In addition to the Internal Audit function described above, a separate Internal Control function performs internal control reviews and coordinates evaluation activities through the annual self-assessment program. This assessment program focuses on management and transaction levels as well as self-assessments of IT general controls.

When control deficiencies are identified through self-assessments, regular operations, internal or external audits, such deficiencies are tracked and appropriate corrective actions undertaken to resolve these deficiencies.

The Head of the Internal Control reports directly to the SVP Finance and Chief Financial Officer, as well as periodically to the Audit Committee.

Volvo Cars' approach to sustainability management

Volvo Cars is committed to protecting and improving the environment and wider society, as well as the lives of our own customers and employees. Volvo Cars' sustainability program (Omtanke) and commitments guide the strategic and operational decisions. Volvo Cars has a clear governance structure to ensure that the company is delivering on these commitments, and take actions in order to improve the performance. Volvo Cars is always looking to identify new ways to measure sustainability performance and seek out strong external partnerships that will improve the performance. We realise that our existing customers, and potential customers, expect us to deliver on our commitments. We are determined to

not let them down. Finally, Volvo Cars recognise that a sustainable approach not only brings environmental and social benefits, but also enhances the appeal of our products, enhances profitability, engages employees and helps attract the best talent.

International commitments

Volvo Cars is proud of the fact that it was a founding member of the UN Global Compact in 2000. Since then, Volvo Cars has endeavoured to observe the Ten Principles of the Global Compact. This includes Principle 7, the adoption of a precautionary approach to environmental challenges. Furthermore, Volvo Cars is committed to supporting the Sustainable Development Goals (SDGs), which guide our sustainability approach.

In addition to the UN Global Compact, our own Code of Conduct reflects the following international conventions and guidelines:

- The eight core conventions of the UN agency, ILO (the International Labour Organization):
 - Child Labour (138 and 182),
 - Forced Labour and Compulsory Labour (29 and 105),
 - Equal Remuneration and Discrimination (100 and 111),
 - Freedom of Association and Collective Bargaining (87 and 98)
- The 10 principles of the Global Compact
- The Universal Declaration of Human Rights
- UN Convention on the Rights of the Child
- OECD Guidelines for Multinational Companies
- UN Guiding Principles on Business & Human Rights

Sustainability Governance

Volvo Cars has a clear governance structure to monitor both our progress against our sustainability commitments, and develop our existing program. This includes the designation of an Executive Management Team (EMT) member responsible for the delivery of each of our Omtanke commitments.

The Sustainability Board

Sustainability at Volvo Cars is governed by the Sustainability Board, which is a decision making body responsible for directing and monitoring the delivery and communication of our sustainability program. The Board members also ensure that our sustainability program is aligned with the corporate strategy and the Volvo Cars business plan, and that the company operates in accordance with Volvo Cars' values and Code of Conduct. The Board consists of the President and CEO as well as a number of EMT members. The Board is chaired by the Senior Vice President and General Counsel, Group Legal and Corporate Governance.

The Sustainability Working Group

The Sustainability Working Group consists of the operational leads responsible for the delivery of our Sustainability Program, Omtanke. It meets fortnightly to discuss emerging opportunities and challenges, and share best practice and ongoing initiatives. The Working Group is chaired by the Director, Sustainability and reports to the Sustainability Board.

The Global Compliance Committee

The Global Compliance Committee consists of members of the EMT and oversees the effectiveness and continuous improvement of Volvo Car Group's Compliance Program. It also reviews policies, directives and other procedures related to compliance and ethics and the commitment embodying ethics and human rights. The Committee supervises the Corporate Compliance and Ethics Office.

Sustainability reporting

Volvo Cars has been reporting on environmental, health and safety aspects of its products and production since it signed the UN Global Compact in 2000. In 2003, the company produced its first Sustainability Report in line with the international reporting guidelines from the Global Reporting Initiative (GRI). By applying and living up to the GRI's international guidelines for sustainability reporting, Volvo Cars aims to ensure transparent reporting based on content that is relevant to its stakeholders.

The 2017 report is prepared in accordance with GRI Standards accordance level Core. Volvo Cars reports on an annual basis, and this report covers the period January 1 to December 31 2017.

Volvo Car Group's sustainability report has been prepared to meet the statutory requirements in accordance with ÅRL 6 chap. 11§. The content of the sustainability report is shown in the GRI index presented on pages 184-185 in this document.

Definitions regarding boundaries as well as measuring techniques and calculations for each performance indicator are given in respect to the indicator concerned. No significant changes occurred during the reporting period or from previous reporting periods.

The sustainability elements of the 2017 Annual Report has not been verified by a third party. However, the 2018 report will be externally verified. As a signatory to the UN Global Compact, the Sustainability Report is also our Communication on Progress.

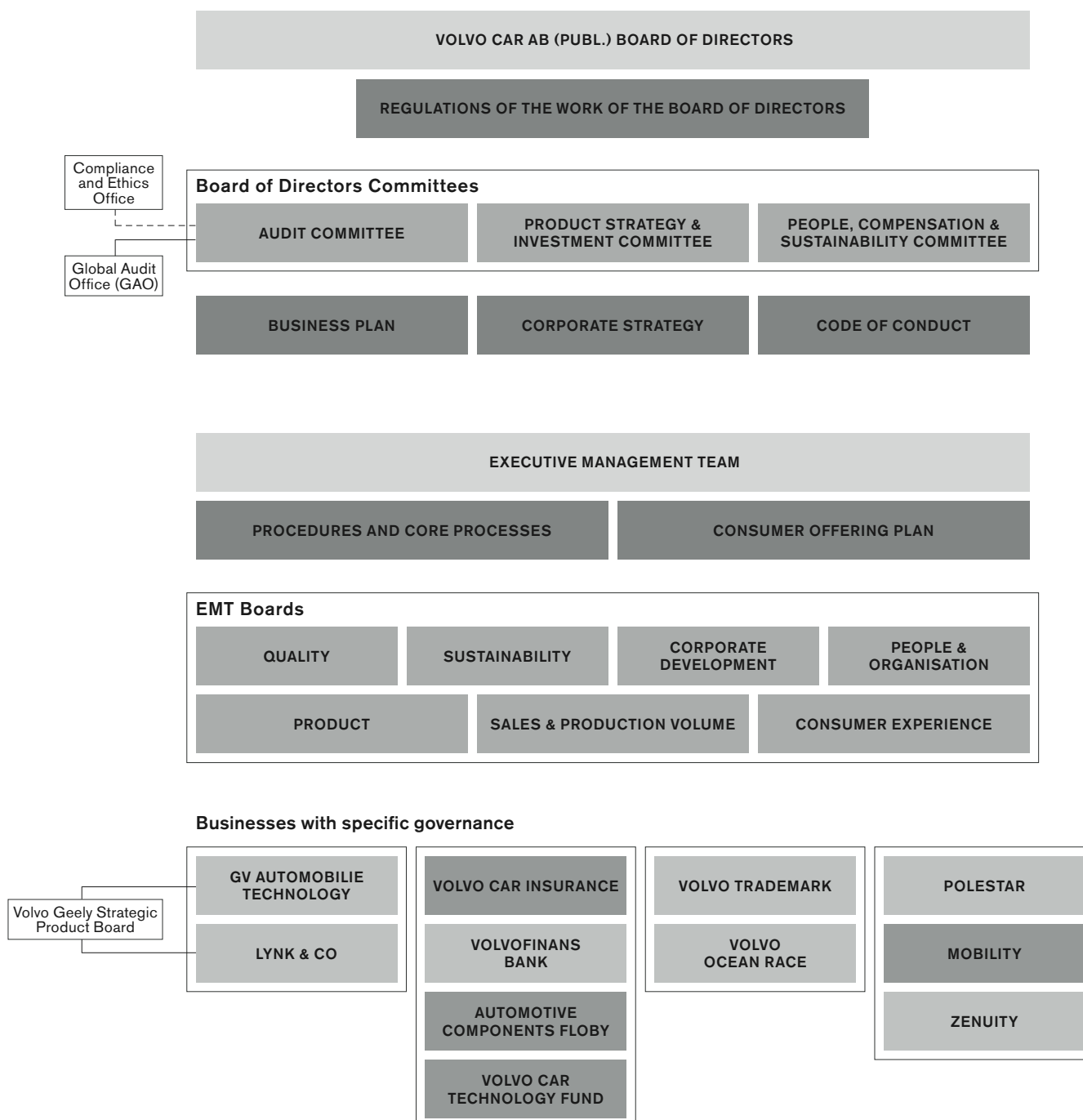
Stakeholder Engagement and Materiality Analysis

Our stakeholder involvement provides guidance on how we should develop and communicate our sustainability work. One indicator of our success, is whether our stakeholders chose to buy our products and/or do business with us. We have an open dialogue with our major stakeholders not only through networks, conferences, our website or at citizen@volvocars.com, but also through deeper interviews, surveys and analysis.

Over the past few years, we have gathered analysis and input from our stakeholders and aligned them with our internal strategies, together with the Sustainability Board, in order to define what we consider to be our most relevant material aspects. The Sustainability Board then developed the structure and focus areas of our Sustainability Program – Omtanke, with clear priorities and commitments.

In 2017, we continued to promote our Sustainability Program to our stakeholders through press releases, updated websites, presentations at conferences and in individual meetings. We will carry on doing so in 2018, as well as conduct a new stakeholder survey to receive feedback on our program and current direction.

CORPORATE GOVERNANCE STRUCTURE





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CONSOLIDATED INCOME STATEMENTS

| MSEK | Note | 2017 | 2016 |
|--|-----------------|---------------|---------------|
| Net revenue | 3 | 210,912 | 180,902 |
| Cost of sales | 4 | -164,254 | -142,220 |
| Gross income | | 46,658 | 38,682 |
| Research and development expenses | 4, 16 | -10,187 | -10,174 |
| Selling expenses | 4 | -15,266 | -11,992 |
| Administrative expenses | 4, 6 | -8,182 | -6,471 |
| Other operating income | 7 | 3,054 | 2,412 |
| Other operating expenses | 7 | -2,216 | -1,861 |
| Share of income in joint ventures and associates | 14 | 200 | 418 |
| Operating income | 5, 8, 9, 10, 11 | 14,061 | 11,014 |
| Financial income | 12 | 355 | 218 |
| Financial expenses | 13 | -1,269 | -1,711 |
| Income before tax | | 13,147 | 9,521 |
| Income tax | 15 | -2,922 | -2,061 |
| Net income | | 10,225 | 7,460 |
| Net income attributable to | | | |
| Owners of the parent company | | 7,960 | 5,944 |
| Non-controlling interests* | | 2,265 | 1,516 |
| | | 10,225 | 7,460 |

* The non-controlling interest related to the consolidated Chinese entities refer to Zhejiang Geely Holding Group Co., Ltd, which is also the ultimate parent company of the Volvo Car Group.

JANUARY–DECEMBER 2017 INCOME AND RESULT

Volvo Cars generated Net revenue of MSEK 210,912 (180,902)¹⁾²⁾, an increase of 16.6 per cent, reflecting continued strong growth of Volvo Cars core business. The increase was a result of a positive sales volume development, where wholesale increased by 9.2 per cent to 585,334 (536,211) units, making 2017 the fourth consecutive year of record sales for Volvo Cars. The increase was also a result of an improved sales mix (driven by XC60, S90 and V90 sales), sold licenses and acquired business (First Rent A Car Group), which was partly offset by negative currency effects. Cost of sales increased by MSEK 22,034 to MSEK -164,254 (-142,220)¹⁾³⁾. The increase was attributable to higher sales volume, improved sales mix as well as moving production of the S90 series to Daqing and general ramp-up in production, including depreciation and amortisation. Gross income increased to MSEK 46,658 (38,682). Gross margin increased to 22.1 (21.4) per cent.²⁾ Volvo Cars is continuously investing in new technologies and new car models while meeting the increase in demand by ramping up production. This planned growth translates into increased expenses, where research and development, selling and administrative expenses increased to MSEK -33,635 (-28,637)³⁾. The increase also reflects a larger number of employees (see Note 9 – Employees and remuneration), higher marketing and event expenses due to the launch of new car models as well as advertising campaigns and increased IT expenses as a part of Volvo Cars' focus on digitalisation. Research and development expenses has increased but has been partly offset by received government grants. For details regarding research and development expenses, see table below. Other operating income and expense, net, increased to MSEK 838 (551)¹⁾²⁾, mainly relating to received government grants, partly offset by negative translation exchange effects on operating assets and liabilities. Operating income (EBIT) increased to MSEK 14,061 (11,014).

The improvement was largely a result of the positive gross income development related to increased volumes, positive sales mix and sold licenses.²⁾ The improvement was partly offset by increased selling and administrative expenses together with a negative foreign exchange effect of MSEK 1 595. This has resulted in an EBIT margin of 6.7 (6.1) per cent. Net financial items amounted to MSEK -914 (-1,493), mainly relating to decreased interest expenses and other financial expenses as well as increased interest income on cash and short term investments. The income tax increase is related to increased profit and withholding tax. Net income increased by 37.1 per cent to MSEK 10,225 (7,460).

| Research and development spending, MSEK | 2017 | 2016 |
|---|----------------|----------------|
| Research and development spending | -13,665 | -12,288 |
| Capitalised development costs | 7,639 | 6,177 |
| Amortisation and depreciation of Research and development ⁴⁾ | -4,161 | -4,063 |
| Research and development expenses | -10,187 | -10,174 |

- 1) Prior year Net revenue and Cost of sales have been restated to hedged currency rates. Total effect amounts to MSEK -471 (175) for Net revenue and MSEK 288 (262) for cost of sales, see Note 1 – Accounting principles.
- 2) Sold licenses have been reclassified from Other operating income to Net revenue. The comparative period has been restated. Total effect amounts to MSEK 4,023 (55), see Note 1 – Accounting principles.
- 3) During 2017 costs have been reclassified from cost of sales to research and development. The comparative period has been restated. Total effect amounts to MSEK 830 (800).
- 4) Includes amortisation of capitalised development cost and a portion of depreciation of other intangible assets, see Note 10 – Depreciations.

CONSOLIDATED COMPREHENSIVE INCOME

| MSEK | Note | 2017 | 2016 |
|--|------|---------------|---------------|
| Net income for the year | | 10,225 | 7,460 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to income statement:</i> | | | |
| Remeasurements of provisions for post-employment benefits | | -422 | -1,422 |
| Tax on items that will not be reclassified to income statement | | 62 | 265 |
| <i>Items that may be reclassified subsequently to income statement:</i> | | | |
| Translation difference on foreign operations | | -318 | 514 |
| Translation difference of hedge instruments of net investments in foreign operations | | -121 | -159 |
| Change in cash flow hedge | 23 | 4,453 | -3,941 |
| Tax on items that may be reclassified to income statement | | -953 | 902 |
| Other comprehensive income, net of income tax | | 2,701 | -3,841 |
| Total comprehensive income for the year | | 12,926 | 3,619 |
| Total comprehensive income attributable to | | | |
| Owners of the parent company | | 10,777 | 2,070 |
| Non-controlling interests | | 2,149 | 1,549 |
| | | 12,926 | 3,619 |

NET FINANCIAL POSITION AND LIQUIDITY

Cash flow from operating and investing activities amounted to MSEK -3,800 (6,515). Cash flow from operating activities amounted to MSEK 24,530 (26,861). The change is due to an increased operating income amounting to MSEK 14,061 (11,014), adjusting for depreciation and amortisation, an additional MSEK 12,098 (10,527) was contributed. A positive change in working capital contributed with MSEK 2,816 (7,656) which was offset by income tax paid of MSEK -3,471 (-1,705). The positive effect in working capital is mainly related to increased accounts payables, primarily due to increased production volume. Furthermore, there are positive cash flow effects from provisions and other working capital assets and liabilities, partly offset by negative effects from inventory and accounts receivables. The change in inventory is due to production related seasonality, product mix and ramp-up of production in Daqing. The change in accounts receivables is explained by increased sales.

Cash flow from investing activities amounted to MSEK -28,330 (-20,346). Investments in tangible assets amounted to MSEK -16,634 (-12,669), following the ongoing construction of the US plant and special tool investments related to new car models, such as the new XC60 and XC40. Investments in intangible assets amounted to MSEK -9,651 (-6,394) as a result of continuous investments in new and upcoming car models and new technology. Investments in shares and participations amounted to MSEK -2,081 (-1,280) primarily attributable to the 2,838 MSEK investment in Lynk & Co Investment Co., Ltd.

Cash flow from financing activities amounted to MSEK 1,333 (5,792). The change is mainly attributable to proceeds from bond issuance of MSEK 4,914 (7,579), withdrawal of credit facilities of MSEK 1,291 (1,696) and matured marketable securities of net MSEK 785 (-1,189). The positive change in financing activities was partly offset by repayment of liabilities to credit institutions of MSEK -3,658 (-7,634) and dividends paid of MSEK -2,188 (-). Cash and cash equivalents including marketable securities decreased to MSEK 39,394 (43,373). Net cash decreased to MSEK -12,513 (-18,873). Including undrawn credit facilities of MSEK 15,203 (6,305), liquidity is at MSEK 54,597 (49,678).

Total equity increased by MSEK 11,350 to MSEK 54,660 (43,310), resulting in an equity ratio of 28.7 (26.8) per cent. The change is attributable to the positive net income of MSEK 10,225 and positive effects in other comprehensive income. The latter is related to change in cash flow hedge reserve of MSEK 3,473 mainly due to fluctuations in dollar, partly offset by negative translation effect of net investments in foreign operations, including hedges, of MSEK -412 and remeasurement of post-employment benefits of MSEK -360. The acquisition of Polestar increased the non-controlling interest with 631 MSEK. A dividend of MSEK -2,188 has been paid to the shareholders, whereof MSEK 65 was distributed to the holders of preference shares.

CONSOLIDATED BALANCE SHEETS

| MSEK | Note | Dec 31, 2017 | Dec 31, 2016 |
|---|--------|----------------|----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 16 | 29,157 | 25,368 |
| Property, plant and equipment | 8, 17 | 55,245 | 45,468 |
| Assets held under operating leases | 8, 17 | 2,577 | 2,483 |
| Receivables on parent company | | 54 | 54 |
| Investments in joint ventures and associates | 14 | 5,480 | 2,498 |
| Other long-term securities holdings | | 80 | 79 |
| Deferred tax assets | 15 | 4,558 | 4,112 |
| Other non-current assets | 18 | 3,704 | 2,013 |
| Total non-current assets | | 100,855 | 82,075 |
| Current assets | | | |
| Inventories | 19 | 30,655 | 21,198 |
| Accounts receivable | 5, 20 | 10,832 | 8,717 |
| Current tax assets | | 463 | 293 |
| Other current assets | 20 | 7,955 | 5,757 |
| Marketable securities | 22 | 3,992 | 4,738 |
| Cash and cash equivalents | 22 | 35,402 | 38,635 |
| Total current assets | | 89,309 | 79,338 |
| TOTAL ASSETS | | 190,164 | 161,413 |
| EQUITY & LIABILITIES | | | |
| Equity | | | |
| Equity attributable to owners of the parent company | 23 | 48,729 | 39,536 |
| Non-controlling interests | | 5,931 | 3,774 |
| Total equity | | 54,660 | 43,310 |
| Non-current liabilities | | | |
| Provisions for post-employment benefits | 24 | 6,525 | 6,348 |
| Deferred tax liabilities | 15 | 1,977 | 1,209 |
| Other non-current provisions | 25 | 7,600 | 6,995 |
| Liabilities to credit institutions | 26 | 6,622 | 13,910 |
| Bonds | 21, 26 | 12,735 | 7,699 |
| Other non-current liabilities | 5, 26 | 3,660 | 5,818 |
| Total non-current liabilities | | 39,119 | 41,979 |
| Current liabilities | | | |
| Current provisions | 25 | 19,084 | 15,371 |
| Liabilities to credit institutions | 26 | 7,426 | 2,813 |
| Advance payments from customers | | 657 | 652 |
| Accounts payable | 5 | 38,536 | 30,508 |
| Current tax liabilities | | 1,380 | 626 |
| Other current liabilities | 27 | 29,302 | 26,154 |
| Total current liabilities | | 96,385 | 76,124 |
| TOTAL EQUITY & LIABILITIES | | 190,164 | 161,413 |

CHANGES IN CONSOLIDATED EQUITY

| MSEK | Share capital ¹⁾ | Share premium | Other contributed capital | Currency translation reserve | Other reserves ²⁾ | Retained earnings | Attributable to owners of the parent | Non-controlling interests | Total |
|--|-----------------------------|---------------|---------------------------|------------------------------|------------------------------|-------------------|--------------------------------------|---------------------------|--------|
| Balance at January 1, 2016 | — | 6,509 | 8,034 | -319 | 871 | 17,455 | 32,550 | 2,085 | 34,635 |
| Net income for the year | — | — | — | — | — | 5,944 | 5,944 | 1,516 | 7,460 |
| Other comprehensive income | | | | | | | | | |
| Remeasurements of provision for post-employment benefits | — | — | — | — | — | -1,422 | -1,422 | — | -1,422 |
| Translation difference on foreign operations | — | — | — | 481 | — | — | 481 | 33 | 514 |
| Translation difference of hedge instruments of net investments in foreign operations | — | — | — | -159 | — | — | -159 | — | -159 |
| Change in cash flow hedge, recognised in other comprehensive income | — | — | — | — | -3,941 | — | -3,941 | — | -3,941 |
| Tax attributable to items recognised in other comprehensive income | — | — | — | 35 | 867 | 265 | 1,167 | — | 1,167 |
| Other comprehensive income | — | — | — | 357 | -3,074 | -1,157 | -3,874 | 33 | -3,841 |
| Total comprehensive income | — | — | — | 357 | -3,074 | 4,787 | 2,070 | 1,549 | 3,619 |
| Transactions with owners | | | | | | | | | |
| Acquisition of non-controlling interest ³⁾ | — | — | — | — | — | — | — | 140 | 140 |
| Bonus issue | 50 | — | — | — | — | -50 | — | — | — |
| New issue of preference shares ⁴⁾ | 1 | 4,915 | — | — | — | — | 4,916 | — | 4,916 |
| Transactions with owners | 51 | 4,915 | — | — | — | -50 | 4,916 | 140 | 5,056 |
| Balance at December 31, 2016 | 51 | 11,424 | 8,034 | 38 | -2,203 | 22,192 | 39,536 | 3,774 | 43,310 |
| Net income for the year | — | — | — | — | — | 7,960 | 7,960 | 2,265 | 10,225 |
| Other comprehensive income | | | | | | | | | |
| Remeasurements of provision for post-employment benefits | — | — | — | — | — | -422 | -422 | — | -422 |
| Translation difference on foreign operations | — | — | — | -202 | — | — | -202 | -116 | -318 |
| Translation difference of hedge instruments of net investments in foreign operations | — | — | — | -121 | — | — | -121 | — | -121 |
| Change in cash flow hedge, recognised in other comprehensive income | — | — | — | — | 4,453 | — | 4,453 | — | 4,453 |
| Tax attributable to items recognised in other comprehensive income | — | — | — | 27 | -980 | 62 | -891 | — | -891 |
| Other comprehensive income | — | — | — | -296 | 3,473 | -360 | 2,817 | -116 | 2,701 |
| Total comprehensive income | — | — | — | -296 | 3,473 | 7,600 | 10,777 | 2,149 | 12,926 |
| Transactions with owners | | | | | | | | | |
| Capital contribution from non-controlling interest ^{4) 5)} | — | — | — | — | — | — | — | 631 | 631 |
| Issue of preference shares ⁴⁾ | — | -19 | — | — | — | — | -19 | — | -19 |
| Dividend to shareholders ⁶⁾ | — | — | — | — | — | -1,565 | -1,565 | -623 | -2,188 |
| Transactions with owners | — | -19 | — | — | — | -1,565 | -1,584 | 8 | -1,576 |
| Balance at December 31, 2017 | 51 | 11,405 | 8,034 | -258 | 1,270 | 28,227 | 48,729 | 5,931 | 54,660 |

1) Share capital amounts to SEK 50,500,000 (50,500,000).

2) For specification of Other reserves, see Note 23 – Equity.

3) For further information, see Note 31 – Business combinations.

4) For further information, see Note 23 – Equity.

5) For further information, see Note 8 – Participation in subsidiary (Parent company).

6) For further information, see Note 5 – Related parties.

CONSOLIDATED STATEMENT OF CASH FLOWS

| MSEK | Note | 2017 | 2016 |
|--|--------|----------------|----------------|
| OPERATING ACTIVITIES | | | |
| Operating income | | 14,061 | 11,014 |
| Depreciation and amortisation of non-current assets | 10 | 12,098 | 10,527 |
| Interest and similar items received | | 303 | 218 |
| Interest and similar items paid | | -1,016 | -953 |
| Other financial items | | -383 | -418 |
| Income tax paid | | -3,471 | -1,705 |
| Adjustments for items not affecting cash flow | 30 | 122 | 522 |
| | | 21,714 | 19,205 |
| <i>Movements in working capital</i> | | | |
| Change in inventories | | -9,524 | -231 |
| Change in accounts receivable | | -1,474 | 730 |
| Change in accounts payable | | 8,220 | 4,023 |
| Change in items relating to repurchase commitments | | 235 | -342 |
| Change in provisions | | 3,432 | 3,497 |
| Change in other working capital assets/liabilities | | 1,927 | -21 |
| Cash flow from movements in working capital | | 2,816 | 7,656 |
| Cash flow from operating activities | | 24,530 | 26,861 |
| INVESTING ACTIVITIES | | | |
| Investments in shares and participations, net | 14, 31 | -2,081 | -1,280 |
| Dividends received from joint ventures and associates | 14 | 37 | 5 |
| Investments in intangible assets | | -9,651 | -6,394 |
| Investments in property, plant and equipment | | -16,634 | -12,669 |
| Other | | -1 | -8 |
| Cash flow from investing activities | | -28,330 | -20,346 |
| Cash flow from operating and investing activities | | -3,800 | 6,515 |
| FINANCING ACTIVITIES | | | |
| Proceeds from credit institutions | 26 | 1,291 | 1,696 |
| Proceeds from bond issuance | 21 | 4,914 | 7,579 |
| Proceeds from issuance of preference shares, net | 23 | -82 | 4,979 |
| Repayment of liabilities to credit institutions | 26 | -3,658 | -7,634 |
| Dividend paid to shareholders | 5 | -2,188 | — |
| Investments in marketable securities, net | 22 | 785 | -1,189 |
| Other | 30 | 271 | 361 |
| Cash flow from financing activities | | 1,333 | 5,792 |
| Cash flow for the year | | -2,467 | 12,307 |
| Cash and cash equivalents at beginning of year | 22 | 38,635 | 25,623 |
| Exchange difference on cash and cash equivalents | | -766 | 705 |
| Cash and cash equivalents at end of year | | 35,402 | 38,635 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All amounts are in MSEK unless otherwise stated.

Amounts in brackets refer to the preceding year.

NOTE 1 – ACCOUNTING PRINCIPLES

Basis of preparation

The financial statements of Volvo Car AB (publ.) and its subsidiaries (the "Volvo Car Group") have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the European Union. This Annual Report is prepared in accordance with IAS 1 Presentation of Financial Statements and 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. RFR 1 specifies mandatory additions to the IFRS disclosure requirements in accordance with the Swedish Annual Accounts Act.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are carried at fair value, as explained in the accounting policies below.

Preparing the financial reports in compliance with IFRS requires that Management makes judgements and estimates as well as assumptions that affect the application of accounting principles and amounts recognised. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates have significant impact on the consolidated financial statements are disclosed in Note 2 – Critical accounting estimates and judgements.

As required by IAS 1, the Group companies apply uniform accounting rules, irrespective of national legislation, as defined in the Group Finance Manual, which is in compliance with IFRS. The principles stated below have been applied consistently for all periods, unless otherwise indicated below.

For information on new standards, see the section below on new and amended standards adopted by the Group.

Basis of consolidation

The consolidated accounts have been prepared based on the principles set forth in IFRS 10 – Consolidated financial statements. The Volvo Car Group includes Volvo Car AB (publ.) and its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Volvo Car Group consist of, in addition to wholly owned subsidiaries, certain companies owned to 50 per cent, mainly in China that are consolidated as subsidiaries (see Note 8 – Participation in subsidiary, for the parent company). In those cases, an assessment has been made whether the group has control based on, in addition to the ownership, contractual arrangements between the owners. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations – IFRS 3

Volvo Car Group applies IFRS 3, Business Combinations, for acquisitions. All business combinations, except for common control transactions, are recognised in accordance with the acquisition method. Volvo Car Group measures acquired identifiable assets and liabilities at fair value. Any surplus amount from the purchase price, possible minority interest and fair value of previously held equity interests at the acquisition

date compared to the Volvo Car Group's share of acquired net assets is recognised as goodwill. Any deficit amount (bargain purchase), so called negative goodwill, is directly recognised as income in the income statement. In step acquisitions, a business combination occurs only on the date control is achieved. Transactions with the minority are recognised as equity as long as control of the subsidiary is retained.

All acquisition-related costs are expensed. Companies acquired 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. Intercompany transactions, balances and unrealised gains or losses on transactions between group companies are eliminated.

Common control transactions

Common control transactions are acquisitions where the acquired company has the same final parent company as the acquiring entity. Common control transactions are not explicitly regulated under IFRS and therefore the company needs to apply a principle that is considered to best reflect the transaction. Volvo Car Group has elected to apply predecessor accounting, meaning that the acquirer incorporates predecessor carrying value. These are the carrying values that are related to the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared. When applying predecessor accounting Volvo Car Group has chosen to include acquired entities under common control for the entire period. An adjustment have also been made of the comparative period. This means that the consolidated financial statements include the acquired entity's results as if both entities (acquirer and acquiree) had always been combined. The consolidated financial statements will reflect both entities' full year's results, even though the business combination have occurred part way through the year. The corresponding amounts for the previous years also reflect the combined results of both entities, even though the transaction did not occur until the current year. The effect in the opening balance of the comparative period due to this application of predecessor accounting is accounted for directly in equity.

This principle was applied when Volvo Cars during 2015 gained control over the Chinese industrial entities Daqing Volvo Car Manufacturing Co., Ltd, Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd and Shanghai Volvo Car Research and Development Co., Ltd through an acquisition of an additional 20 per cent, creating a 50 per cent ownership in these companies. Additionally, Daqing Volvo Car Manufacturing Co., Ltd acquired 100 per cent in three other companies, among them Volvo Car (Asia Pacific) Investment Holding Co., Ltd which holds 100 per cent of Zhongjia Automobile Manufacturing (Chengdu) Co., Ltd. After the acquisitions, Volvo Car Group holds 50 per cent of Volvo Car's Chinese industrial entities and has been assessed to have gained the power to control these entities based on the ownership and shareholder agreements. Those entities are therefore classified as subsidiaries within Volvo Car Group and thus fully consolidated.

Balances and transactions with Zhejiang Geely Holding Group Co., Ltd and its subsidiaries, companies that are not part of the Volvo Car Group, are classified in the consolidated financial statements as balances and transactions with related companies.

Joint ventures and associated companies

Joint ventures refer to joint arrangements whereby the Volvo Car Group together with one or more parties that have joint control, have rights to the net assets of the arrangements.

Associated companies are companies in which Volvo Car Group has a significant but not controlling influence, which generally is when Volvo Car Group holds between 20 and 50 per cent of the shares, but it also includes investments with less participation if significant influence is proven.

Investments in joint ventures and associated companies are reported in accordance with the equity method and are initially recognised at acquisition cost. The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the group does not recognise further losses unless it has incurred legal or constructive obligations in relation to the associate or joint venture.

Foreign currency

Translation of foreign group entities

The primary economic environment is the one in which a group company primarily generates and expends cash. Normally the functional currency is the currency of the country where the company is located. Volvo Car Group's and Volvo Car AB's (publ.) presentation currency is Swedish krona (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. Currently none of the entities within Volvo Car Group operates in a hyperinflationary economy. Balance sheet items are translated into SEK using exchange rates at year-end (closing rate). Exchange differences arising are recognised 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.

Receivables and liabilities in foreign currency

Receivables and liabilities in currencies other than the functional currency (foreign currencies) are translated to the functional currency using the balance sheet closing rate. Exchange rate differences arising from translation of currencies are reported in the income statement, except when deferred in other comprehensive income as net investment hedges.

Translation differences on operating assets and liabilities are recognised in Operating income, while translation differences arising in financial assets and liabilities are recognised in financial income and expenses. The main exchange rates applied are shown in the table below:

Exchange rates

| Country | Currency | Average rate | | Close rate | |
|---------------|----------|--------------|-------|------------|-------|
| | | 2017 | 2016 | 2017 | 2016 |
| China | CNY | 1.26 | 1.29 | 1.26 | 1.30 |
| Euro zone | EUR | 9.62 | 9.44 | 9.84 | 9.55 |
| Great Britain | GBP | 11.02 | 11.65 | 11.09 | 11.19 |
| United States | USD | 8.56 | 8.54 | 8.20 | 9.06 |
| Japan | JPY | 0.08 | 0.08 | 0.07 | 0.08 |

Segment reporting

Operating segments are defined as components of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making

group, in deciding how to allocate resources and in assessing performance.

Volvo Car Group, as a whole, operates in the automotive business. The automotive business includes all activities related to development, design, manufacturing, assembly and sale of vehicles, as well as sale of related parts and accessories from which the Group derives its revenues.

The regional organisation implemented in 2015 is not considered to constitute reporting segments. The main purpose of the regional organisation is to emphasise the responsibility for the regional market from a sales perspective, with an increased focus on sales with more direct involvement from Group Management. All substantial decisions regarding allocation of resources as well as the assessment of the performance is based on the group as a whole. Therefore Volvo Car Group is considered to have only one operating segment, why no separate segment report is given. For further information see Note 32 – Segment reporting.

Accounting principles

Revenue recognition

Volvo Car Group's recognised Net revenue mainly consists of sales of goods and services. Gross revenue is reduced by discounts and returned goods. Revenue from the sale of goods is recognised when substantially all risks and rewards are transferred to the customer (generally dealers and distributors). However, if the sale of vehicles is combined with a repurchase agreement, the transactions are accounted for as operating lease contracts. Revenues related to an operating lease arrangement are recognised straight-line over the lease period.

Revenue from sale to an external party, subject to a subsequent issuance of a residual value guarantee to an independent financing provider, is recognised at the time of sale and a provision is made for the estimated residual value risk, provided that significant risks related to the vehicle have been transferred to the customer.

When extended services have been contractually agreed with the customer in addition to the sale of a vehicle, such as warranty extensions over a fixed period, the related revenue is recorded on a linear basis in the income statement over the contract period.

From the third quarter 2017, income from sold licenses related to intellectual property (IP) and other developed technology has been reclassified from Other operating income to Net revenue. The reclassification is made as sale of licenses has become a recurring part of Volvo Car Group's business, and has therefore been assessed to be a part of the Group's core business activities. Prior year comparative figures have been restated. See also Note 3 – Net revenue.

Interest income is recognised using the effective interest method. The calculation is made on the basis of the return on underlying assets in accordance with the effective interest method. Dividend income is recognised when the right to receive dividend is obtained. Royalties are recognised in accordance with the substance of the relevant agreement, generally on an accrual basis.

Leases

Any lease agreements in which the risks and rewards associated with ownership have been essentially transferred to the related company are classified as a finance lease. Other leased assets where ownership is retained by the lessor are classified as operating leases.

Volvo Car Group as lessor

Volvo Car Group currently has no finance leases as a lessor per the closing date. Transactions that include repurchase agreements (see above section Revenue recognition) are recorded as operating leases. Operating lease contracts with a term of 12 months or less are classified as inventory. Assets related to contracts with a term exceeding 12 months are classified as tangible assets as assets under operating lease.

Revenue from operating leases is recognised on a straight-line basis over the leasing period. Depreciation of the asset occurs on a straight-line basis under the terms of the commitment and the residual values are adjusted to conform to the estimated realisable value when the commitment expires. The estimated realisable value at the commitment termination is evaluated continuously.

Volvo Car Group as lessee

In the case of finance leases, the asset is recognised at the inception of the lease period as a current or non-current asset at the lower of fair value or the present value of the minimum lease payments. The asset is depreciated using the straight-line method over the asset's useful life or over the term of the lease if this is shorter. The commitment to pay future lease payments are discounted to net present value and recorded as a current or non-current liability in the balance sheet. The lease payments made are allocated between amortisation of liabilities and interest expense.

For operating leases, i.e., when the risks and rewards associated with the ownership of the asset have not been transferred to Volvo Car Group, lease and rental payments are expensed as arisen on a straight-line basis over the lease contract period.

As stipulated in IFRIC 4, an arrangement that is not in the legal form of a lease is still accounted for as a lease, if the arrangement conveys the right to control the use of the underlying asset.

Government grants

A government grant is recognised when there is reasonable assurance that Volvo Car Group will comply with the conditions attached to the grant and that the grant will be received. Government grants are recorded in the financial statements in accordance with their purpose, either as reduction of expense or a reduction of the cost of the capital investment. Government grants are recognised in the income statement on a systematic basis over the periods necessary to match them with the related expenses that they are intended to compensate. Government grants related to assets are deducted from the carrying amount of the asset and are recognised in the income statement over the life of a depreciable asset as a reduced depreciation expense. In cases where the received government grant is not intended to compensate any expenses or acquisition of assets the grant is recognised as other income. Government grants for future expenses are recorded as deferred income.

Income taxes

Volvo Car Group's tax expense consists of current tax and deferred tax. Taxes are recognised in the income statement except when the underlying transaction is recognised directly in equity or other comprehensive income, whereupon related taxation is also recognised in equity or other comprehensive income.

Current tax is tax that must be paid or will be received for the current year. Current tax also includes adjustments to current tax attributable to previous periods. Deferred tax is calculated according to the balance sheet method for all temporary differences, with the exception of goodwill, that arise between the tax value and the carrying amount of assets and liabilities.

Deferred tax assets and liabilities are measured at the nominal amount and at the tax rates that are expected to apply when the asset is realised or the liability is settled, using the tax rates and tax rules that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets relating to deductible temporary differences and loss carry forwards are recognised to the extent it is probable that they will be utilised in the future. Deferred tax assets and deferred tax liabilities are offset when they are attributable to the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis and the affected company has a legally enforceable right to offset tax assets against tax liabilities.

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

Classification of current and non-current assets and liabilities

An asset is classified as a current asset when it is held primarily for the purpose of trading, is expected to be realised within twelve months after the balance sheet date or consists of cash or cash equivalents, provided it is not subject to any restrictions. All other assets are classified as non-current assets. A liability is classified as a current liability when it is held primarily for the purpose of trading or is expected to be settled within twelve months after the balance sheet date. All other liabilities are classified as non-current liabilities.

Non-current assets held for sale and discontinued operations

Volvo Car Group applies IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. When the criteria for being classified as a non-current asset held for sale are fulfilled and the asset or group of assets are of significant value, the asset or group of assets and the related liabilities are recognised on a separate line in the balance sheet. The asset or group of assets are tested for impairment and, if impaired, measured at fair value after deductions for selling expenses. Per December 31, 2017, there are no such assets.

Intangible assets

An intangible asset is recognised when the asset is identifiable, the Volvo Car Group controls the asset and it is expected to yield future economic benefits. Intangible assets comprise product development, licenses and patents, trademarks, goodwill, dealer network and investments in IT-systems and software. Intangible assets such as trademarks, goodwill and dealer networks are normally identified and measured at fair value in connection with business combinations.

Both acquired and internally generated intangible assets are recognised at acquisition cost, less accumulated amortisation (with the exception of goodwill and trademark) and any impairment loss. When applicable, internal costs directly related to the development of intangible assets are included in the value of the intangible asset. Borrowing costs are included in the cost of assets that take a substantial period of time to get ready for its intended use. Subsequent expenditure on intangible assets increases the cost only if it is likely that the Volvo Car Group will have future economic benefit from the subsequent expenditure. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Capitalised product development costs

Volvo Car Group's research and development activities are divided into a concept phase and a product development phase. Costs incurred during the concept phase are normally research costs for developing new products at an early stage, where the outcome of the project is still uncertain and where for example different options and alternatives are still evaluated. Research costs during the concept phase are expensed as incurred.

When a research and development project has developed to the extent that there is a definable future product that are assessed to generate future economic benefits, the project is considered to be in the development phase. In practise, this means that capitalisation of costs starts at the time a project reaches Program Approval. Costs for development of new products, production systems and software are recognised as an asset if certain conditions under IAS 38 - Intangible Assets are met. Capitalised development costs comprise all expenditures that can be directly attributed to the development phase and that

serve to prepare the asset for use. All other development costs are expensed as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs incurred by the Volvo Car Group that are contractually shared with other parties and where the Volvo Car Group remain in control of a share of the developed product, either through a license or through ownership of patents, are accounted for as intangible assets, reflecting the relevant proportion of Volvo Car Group interests, to the extent they are: part of the asset controlled by the Volvo Car Group, are incurred in the product development phase and the conditions for capitalisation are met.

Development costs that are incurred on behalf of another party, charged to the other party including a margin, and do not constitute the share of the developed product controlled by the Volvo Car Group are accounted for as service revenue. The revenue is presented as Other operating income in the income statement since it is not considered part of the course of the ordinary activities of the Group, such as are presented in the item Net revenue. Development costs that will be charged to another party as Other operating income are accounted for as Research and development expenses. The income from the development services contract is recognised through the percentage of completion method. The degree of completion is based on costs incurred to date.

Amortisation methods for intangible assets

Intangible assets with definite useful life are amortised on a straight-line basis in the income statement over their respective expected useful life and are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period for contractual rights such as licenses does not exceed the contract period. All intangible assets are considered to have a definite useful life, with the exception of goodwill and trademarks. Trademarks are assumed to have indefinite useful lives since the Volvo Car Group has the right and the intention to continue to use the trademarks for the foreseeable future, while generating net positive cash flows for the Volvo Car Group.

The useful lives are to a large extent based on historical experience, expected application as well as other individual characteristics of the asset. The following useful lives are applied:

| | |
|--------------------------------------|------------|
| Dealer network | 30 years |
| Software, mainframe | 8 years |
| Product development costs | 3–10 years |
| Patents, licences and similar rights | 3–10 years |
| Software, PC | 3 years |
| Software, cloud | 5–7 years |

Amortisation is included in cost of sales, research and development expenses as well as selling or administrative expenses depending on where the assets have been used.

Property, plant and equipment

The Volvo Car Group applies the cost method for measurement of tangible assets. Cost includes expenditure that can be directly attributed to the acquisition. Borrowing costs are included in the acquisition value of an asset that takes more than twelve months of time to get ready for its intended use or sale, a so called qualifying asset. Tangible assets are recognised at acquisition cost, less accumulated depreciation and potential impairment loss.

Subsequent expenditure on property, plant and equipment increases the acquisition value only if it is probable that the Volvo Car Group will have future economic benefit from the subsequent expenditure. Carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation methods for tangible assets

Depreciation according to plan is based on the acquisition value. Tangible assets are systematically depreciated over the expected useful life of the asset.

Each part of an item of property, plant and equipment, with a cost that is significant in relation to the total cost of the item, is depreciated separately when the useful life for the part differs from the useful life of the other parts of the item. Land is assumed to have an indefinite useful life and is not depreciated. The following useful lives are applied:

| | |
|-------------------|---------------|
| Buildings | 14.5–50 years |
| Land improvements | 30 years |
| Machinery | 8–30 years |
| Equipment | 3–20 years |

Depreciation is included in cost of sales, research and development expenses as well as selling or administrative expenses depending on where the assets have been used.

Impairment of assets

The carrying amounts of intangible and tangible assets as well as all shareholding investments are tested regularly to assess whether there is an indication of impairment. Intangible assets that have an indefinite useful life as well as assets that are not yet available for use are not subject for amortisation and are tested for impairment annually or whenever there is an indication of decline in value. The carrying amount of tangible and intangible assets with definite useful lives is tested whenever events or changes in circumstances indicate that the value of the asset is reduced and there might be an impairment loss.

In performing this impairment test, the asset's recoverable amount is calculated. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Value in use is defined as the present value of the future cash flows expected to be derived from an asset. For the purpose of assessing impairment, assets are grouped in cash-generating units (CGUs).

When an indication of impairment is confirmed, an impairment loss is recognised to the extent that the carrying amount exceeds its recoverable amount. Previously recognised impairment loss is reversed, with the exception of goodwill, if reasons for the earlier impairment no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount after reversal does not exceed the carrying amount, net of amortisation, which would have been reported if no impairment loss had been recognised in prior years.

Financial assets and liabilities

Financial instruments are any form of contract that gives rise to a financial asset in one company and a financial liability or equity instrument in another company. For further information regarding financial instruments refer to Note 21 – Financial risks and financial instruments.

Financial assets in the consolidated balance sheet encompass interest-bearing investments (marketable securities), accounts receivables, other financial assets, derivative assets and cash and cash equivalents. Derivative instruments include forwards, options and swaps used to cover exposure for currency risks, interest risks and price fluctuations on electricity.

Financial liabilities in the consolidated balance sheet mostly consist of liabilities to credit institutions, issued bonds, accounts payables, other financial liabilities and derivative liabilities, including issued warrants related to share-based incentive program (see Note 9 – Employees and remuneration).

Classification of financial assets and liabilities

The Group classifies its financial assets in below categories. Classification takes place at initial recognition.

- Financial assets carried at fair value through profit and loss
- Loans and receivables
- Held to maturity investments. Currently there are no such assets within Volvo Car Group
- Available-for-sale assets. Refers to Other long-term securities holdings, MSEK 80 (79). Recorded at cost with reference to IAS 39 46 c)

The Group classifies its financial liabilities in below categories. Classification takes place at initial recognition

- Financial liabilities carried at fair value through profit and loss
- Other financial liabilities

Initial recognition and final derecognition of financial assets and liabilities

Financial assets and liabilities are recognised in the balance sheet when the Volvo Car Group becomes a party to the contractual terms and conditions, i.e. at the transaction date.

A financial asset or a portion of a financial asset is derecognised in the balance sheet when all significant risks and benefits linked to the asset have been transferred to a third party. Where Volvo Car Group concludes that all significant risks and benefits have not been transferred, the portion of the financial assets corresponding to Volvo Car Group's continuous involvement continues to be recognised.

A financial liability or a portion of a financial liability is derecognised from the balance sheet when the obligation in the contract has been fulfilled, cancelled or has expired.

Financial assets are initially recognised at fair value plus transaction costs, except for those financial assets carried at fair value through the income statement. Financial assets carried at fair value through the income statement are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial liabilities are initially recognised at fair value less transaction costs, except for those financial liabilities carried at fair value through the income statement. Financial liabilities carried at fair value through the income statement are initially recognised at fair value, and transaction costs are expensed in the income statement.

Invoiced sales are sometimes subject to contracts for factoring with a third party (bank or financial institution). This enables Volvo Car Group to receive payment for its accounts receivable within a few days after billing and thus free liquidity at an earlier stage. If the criteria for derecognition of accounts receivable are not fulfilled, the receivable remains on the balance sheet.

Financial assets and liabilities carried at fair value through profit and loss

In Volvo Car Group's balance sheet, financial instruments reported at fair value through profit or loss consists of derivatives, including issued warrants related to share-based incentive program (see Note 9 – Employees and remuneration), and marketable securities.

Changes in fair value of these instruments are recognised in the income statement. Based on the purpose of the contract, changes in fair value are reported either under Operating income/expense or as financial income/expense. If a derivative instrument has been designated to a hedge accounting relationship, changes in fair value are reported either in profit or loss or in consolidated comprehensive income, depending on the substance of the hedge. In the case of cash flow hedges changes in fair value are reported in consolidated comprehensive income as long as there is no underlying receivable/payable recorded in the balance sheet. Derivatives with positive fair values (unrealised gains) are recognised as other current, or non-current assets. Derivatives with negative fair values (unrealised losses) are recognised as other current, or non-current liabilities.

Fair value is generally determined by reference to official market quotes in an active market. When market quotes are not available the fair value is determined using generally accepted valuation methods such as discounted future cash flows.

Financial instruments are classified within level 1–3 based on the degree that market data have been utilised when measuring fair value. All financial instruments measured at fair value held by Volvo Car Group are classified as level 2, with the exception of Other long-term securities holdings classified as level 3. For further details see 21 – Financial risks and financial instruments. In level 2, valuation of financial instruments is based on market conditions using quoted market data existing at each balance sheet date. For these financial instruments no quoted prices on identical instruments in active markets exist. In level 3, the small amount invested in Other long-term securities holdings is valued at cost, as this is the best approximate of fair value.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, for example loan receivables and accounts receivables, are assigned to this category. Cash and cash equivalents are also assigned to this category.

Loans and receivables are recognised in the balance sheet at fair value plus transaction costs and subsequently measured at amortised cost. Amortised cost is calculated using the effective interest method, where any premiums or discounts and directly attributable transaction costs are capitalised over the contract period using the effective interest rate. Accounts receivable are recognised at the amount expected to be received, i.e. after deduction of bad debts allowance. A bad debt allowance is incurred when there has been a triggering event for the customer's inability to pay. The bad debts on accounts receivable are recognised as operating expenses.

Other financial liabilities

Financial liabilities to credit institutions, issued bonds, accounts payables and other financial liabilities are assigned to this category. These liabilities are reported as either current or non-current liabilities.

Other financial liabilities are recognised in the balance sheet at fair value less transaction costs and subsequently measured at amortised cost. Amortised cost is calculated using the effective interest method, where any premiums or discounts and directly attributable transaction costs are capitalised over the contract period using the effective interest rate.

Hedge accounting

In applying hedge accounting, derivatives are initially recognised at fair value at trade date and subsequently re-measured at fair value. The Group designates certain derivatives as either:

- a) Fair value hedges: a hedge of the fair value of recognised liabilities
- b) Net investment hedges: a hedge of a net investment in a foreign operation
- c) Cash flow hedges: a hedge of currency risk in future commercial cash flows, as well as a hedge of electricity price risk in future electricity consumption

Hedge accounting is adopted for derivative instruments that are included in a documented hedge relationship. For hedge accounting to be applied, a direct connection between the hedge and the hedged item is required. At the inception of the hedge, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

a) Fair value hedges

The purpose of fair value hedges is to hedge the variability in the recorded fair value adjustment of fixed-rate debt (issued bond) from changes in the relevant benchmark yield curve for its entire term by converting fixed interest payments to a floating rate (e.g. STIBOR or LIBOR) by using interest rate swaps (IRS). The credit risk is not hedged. The fixed leg of the IRS is matched against the cash flows of the hedged loan/bond. Hereby, the fixed-rate bond is converted into a floating-rate debt. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value adjustment related to the interest component of the of the hedged liability (issued bond) that are attributable to the hedged risk, when hedge accounting is applied. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. Both gains and losses relating to the interest rate swaps hedging fixed rate borrowings and the changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within Financial expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the remaining period to maturity.

b) Net investment hedges

Volvo Car Group applies hedge accounting of net investments in foreign operations. Hedging of net investments in foreign operations refers to hedges held to reduce the effect of changes in the value of a net investment in a foreign operation due to changes in foreign exchange rates. The foreign currency gains and losses on hedging instruments are recognised in the consolidated comprehensive income. A gain or loss relating to an ineffective portion is recognised immediately in the income statement within Financial income or expense.

In the event of a divestment, the accumulated result from the hedge is immediately transferred from the hedge reserve in equity to the income statement. For further information regarding accounting treatment related to foreign currency, see section Foreign currency. See also Note 21 – Financial risks and financial instruments for more information regarding financial instruments.

c) Cash flow hedges

Hedge accounting is applied for derivative instruments that are acquired for the purpose of hedging expected future commercial cash flows in foreign currencies against currency rate risks, as well as for the purpose of hedging expected future electricity consumption against electricity price risk. In cash flow hedge accounting, the derivative is recognised in the balance sheet at fair value, and changes in the fair value is recognised in consolidated comprehensive income and accumulated in the other reserves in equity. Fair value accumulated in other reserves in equity is recycled to the income statement in the same period as an underlying sales/cost of sales transaction is being entered in the income statement.

In 2017, the effect from realised currency cash flow hedges is classified as Net revenue and cost of sales, respectively, depending on the underlying substance of the transaction. Comparative figures for 2016 have been restated, whereby a reclassification from Other operating income/expenses to Net revenue and Cost of sales has been made. There has been no impact on Operating income.

The hedging relationship is regularly tested up until its maturity date. If the identified relationships are no longer deemed effective, the fluctuation in fair value on the hedging instrument from the last period the instrument was considered effective is recognised in the income statement. If the hedged transaction is no longer expected to occur, the hedge's accumulated changes in value are immediately transferred from comprehensive income to the income statement and are included in Operating income.

Inventory

Inventories of raw material, consumables and supplies, semi-manufactured goods, work in progress, finished goods and goods for resale are reported in inventories and carried at the lower of cost and net realisable value at the reporting date. Assets held under operating lease, with a maturity less or equal to twelve months, are also reported as inventory. Costs of inventories comprise costs of purchase, production charges and other expenditures incurred in bringing the inventories to their present location and condition. The cost of inventories of similar assets is established using the first-in, first-out method (FIFO) and is based on the standard cost method. The standard costs are updated annually and adjustments are made at the turn of the model year. Net realisable value is calculated as the selling price in the ordinary course of business less estimated costs of completion and selling costs. For groups of similar products a group valuation method is applied. Physical stock counts are carried out annually or more often where appropriate in order to verify the records.

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances as well as short-term liquid investments with a maturity of maximum 90 days, which are subject to an insignificant risk of fluctuations in value. Cash and cash equivalents are stated at nominal value.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

In 2016, Volvo Car AB (publ.) issued preference shares, included in equity. Preference shares are equity instruments as long as fundamental criteria for classification as equity is fulfilled, as stipulated in IAS 32. Preference shares have a preferential status compared to common shares, in terms of priority to dividends and priority to net assets in case of a liquidation. However, preference shares are subordinated to financial liabilities. See further information in Note 23 – Equity.

Group contributions and unconditional shareholders' contributions

Distributed group contributions to the parent company are recorded in equity, along with the tax effect. Group contributions received from the parent company and the tax effect on these contributions are recognised in equity in accordance with the principles for shareholders' contributions.

Unconditional shareholders' contributions received from the parent company are recognised in equity.

Post-employment benefits

Volvo Car Group has both defined contribution plans and defined benefit plans. Under a defined contribution plan, Volvo Car Group pays fixed contributions into a separate external legal entity and will have no legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. The contributions are recognised as employee benefit expenses in the income statement when earned by the employee. Some defined contribution plans combine the promise to make periodic payments with a promise of a guaranteed minimum return on investments. Such plans are accounted for as defined benefit plans.

A defined benefit plan is a pension plan that defines the amount of post-employee benefit an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. Volvo Car Group has the obligation for the future benefits. For the funded defined benefits plans, the assets have been separated, with the majority invested in pension foundations. The net pension provision or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

The calculation of the present value of defined benefit pension undertakings is performed according to the Projected Unit Credit method, which also considers future earnings. The calculation is performed by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate, or when data is not available, government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The discount rate for the Swedish pension obligation is determined by reference to mortgage bonds. The most important actuarial assumptions are stated in Note 24 – Post employment benefits.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to consolidated comprehensive income in the period in which they arise. Past service costs are recognised immediately in the income statement when the settlement occurs.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves payment of termination benefits.

Share-based payments

Volvo Car Group applies IFRS 2, Share-based payments, for long-term share-based incentive programs (LTVP-program, see also Note 9- Employee and remunerations). IFRS 2 distinguishes between cash-settled and equity-settled payments. The Volvo Car Group LTVP include a cash-settled part only.

The fair value of the cash-settled payments is determined at the grant date, and revalued at each balance sheet date, and is recognised as an expense during the vesting period and as a liability. An assessment whether the terms for allotment will be fulfilled is made continuously. Based on such assessment, expense might be adjusted.

The fair value is based on the share price reduced by dividends connected with the share during the vesting period. As Volvo Car Corporation is not listed, no official market value is available. Hence, the LTVP program is based on a synthetic share price derived from variables known to determine the value of an automotive OEM.

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.

In 2015, another incentive program was implemented. In connection to this a number of members of top management and Board of Directors have been offered to purchase warrants that give a future right to subscribe for shares in the subsidiary Volvo Car Corporation. Consequently Volvo Car Corporation issued warrants during 2015. This incentive program has been considered as a cash-settled program. During the duration of the program the participants, at certain predetermined periods, during 2016 to 2021, have an option to sell the warrants at fair value to the parent company. The warrants have been acquired by the participants at fair value, why the program will not result in any personnel costs in accordance with IFRS 2.

The fair value of the warrants in this cash-settled program is determined at the grant date, and is recognised as a financial liability. The liability is revalued at each balance sheet date and changes of the fair value is recognised in the income statement as a financial expense or income. For further information about the share-based payment program see Note 9 – Employee and remuneration.

Provisions

Provisions are recognised in the balance sheet when a legal or constructive obligation exists as a result of a past event and it is deemed more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The amount recognised as provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are regularly reviewed and adjusted as further information becomes available or circumstances change.

If the effect is material, non-current provisions are recognised at present value by discounting the expected future cash flows at a pre-tax rate reflecting current market assessments of the time value of money. The discount rate does not reflect such risks that are taken into consideration in the estimated future cash flow.

Revisions to estimated cash flows (both amount and likelihood) are allocated as operating cost. Changes to present value due to the passage of time and revisions of discount rates to reflect prevailing current market conditions are recognised as a financial cost.

Warranty provisions include the Group's cost of satisfying the customers with specific contractual warranty obligations, as well as other costs not covered by contractual commitments. All warranty provisions are recognised at the sale of the vehicles or spare parts. The initial calculations of the reserves are based on historical warranty statistics considering known quality improvements, costs for remedy of defaults etc. The provisions for campaigns booked at point of sale are adjusted as campaign decisions for specific quality problems are made. On a quarterly basis the provisions are adjusted to reflect latest available data such as actual spend, exchange rates, discounting rates etc. The provisions are reduced by virtually certain warranty reimbursements from suppliers.

Contingent liabilities

When a commitment does not meet the criteria for recognition of a liability or provision in the balance sheet it may be disclosed as a contingent liability. These possible obligations derive from past events and their existence will be confirmed only when one or several uncertain future events, which are not entirely within the Volvo Car Group's control, take place or fail to take place. A contingent liability could also exist for a present obligation where an outflow of resources is not likely or when the amount of the obligation cannot be measured with sufficient reliability.

Changes in accounting principles and disclosures

New accounting principles for 2017

There are no new accounting principles and interpretations that came into effect as of January 1, 2017 that significantly affect the Volvo Car Group's financial statements.

New accounting standards for 2018 and later

When preparing the consolidated financial statements as of December 31, 2017, a number of standards, interpretations and amendments have been published, but have not yet become effective.

IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers

These standards are applicable from 1 January 2018. Volvo Car Group has implemented these standards as from 1 January 2018, i.e. subsequent to year-end closing 2017. See Note 33 - New accounting standards implemented on 1 January 2018, for a description of effects per implementation of these standards, as well as accounting principles attributable to these standards implemented per 1 January 2018.

IFRS 16 – Leases

IFRS 16 was published in January 2016 and is effective for accounting periods beginning on or after 1 January, 2019. The standard was

endorsed by the EU in November 2017. It replaces current leasing accounting standard, IAS 17 Leases. The new standard provides guidance for lessee accounting on how to bring lease commitments, previously treated off balance, onto the balance sheet. Volvo Car Group is currently analysing the effects of implementing IFRS 16, and is yet to assess the impact.

In addition to IFRS 9, 15 and 16, there are amendments to IFRS standards not yet effective. These are not expected to have a material impact on the Group.

NOTE 2 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of the financial statements in accordance with IFRS requires the company's executive management and Board of Directors to make estimations and assessments as well as to make assumptions that affect application of the accounting policies and the reported assets, liabilities, income and expenses. Estimates are, typically, based on historical experience and assumptions that are deemed reasonable and realistic in the circumstances. The results of these estimations and assessments are used to establish the reported values of assets and liabilities that are not otherwise clearly documented from other sources. The actual outcome may differ from these estimates and assessments. The estimates and underlying assumptions are reviewed on a regular basis. Changes are recognised in the period of the change and future periods if the change affects both. The estimations and assessments described below are those that are deemed to be the most important for an understanding of Volvo Car Group's financial reports, taking into account the degree of materiality and uncertainty. Changes in estimates used in these and other items could have a material impact on Volvo Car Group's financial statements.

Residual value guarantees and repurchase agreements

In the course of its operations, Volvo Car Group is exposed to residual value risks partly through sales to external rental companies combined with repurchase agreements and partly through sales subject to residual value guarantees.

Residual value risks are reflected in different ways in the consolidated financial statements depending on the extent to which the risk of a sold car remains with the Group. In cases where significant risks pertaining to vehicles remain with Volvo Car Group, which may be the case when the sale of vehicles is combined with a repurchase agreement (the right, or in a few cases the obligation, for Volvo Car Group to buy back the car), the vehicles are recognised in the balance sheet as assets under operating leases or inventory, depending on the maturity of the lease contract. Accumulated depreciation on these vehicles reduces the value of the vehicles from their original acquisition value to their expected residual value, being the estimated net realisable value, at the end of the lease term. Refer to Note 1 – Accounting principles for a description of Volvo Car Group's revenue recognition policy relating to operating lease contracts.

Vehicles sold to an external party, subject to a subsequent issuance of a residual value guarantee to an independent financing provider, are derecognised from the balance sheet, provided that significant risks related to the vehicle has been transferred to the customer. A provision is recorded for the residual value risk related to the guarantee.

In both these cases, estimated residual value is based upon estimations of the used products' future net realisable values. The estimated net realisable value of the products at the end of the commitment is monitored individually on a continuing basis and is estimated by evaluating recent car auction values, future price deterioration due to expected change of market conditions, marketing incentive plans, vehicle quality data and repair and reconditioning costs etc. High inventories in the vehicle industry and low demand may have a nega-

tive impact on the prices of new and used vehicles. A decline in prices of the vehicles may negatively affect the consolidated income.

Deferred tax assets

The calculation of deferred tax assets requires assumptions to be made with regard to the level of future taxable income and the timing of recovery of deferred tax assets. These assumptions take into consideration forecasted taxable income. The measurement of deferred tax assets is subject to uncertainty and the actual result may diverge from judgements due to future changes in business climate, altered tax laws, etc. An assessment is made at each closing date of the likelihood that the deferred tax asset will be utilised. If needed the carrying amount of the deferred tax asset will be altered. The judgements that have been made may affect net income both positively and negatively. Refer to Note 15 – Taxes for the presentation of carrying values and further information on deferred tax assets.

Impairment, amortisation and depreciation of non-current assets

Volvo Car Group has substantial values reported in the balance sheet as tangible as well as intangible non-current assets. Tangible and intangible assets with a definite useful life are depreciated on a straight-line basis over their estimated useful lives; refer to Note 1 – Accounting principles. Management regularly reassesses the useful life of all significant assets. If circumstances change such that the estimated useful life has to be revised, additional depreciation expense could be the result in future periods.

The carrying amounts of non-current tangible and intangible assets are tested for impairment in accordance with the accounting policies described in Note 1 – Accounting principles. An impairment is recognised if the carrying value of the asset exceeds the recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. For these calculations, certain estimations must be made regarding future cash flows, required return on investments and other adequate assumptions. The estimated future cash flows are based on assumptions that represent management's best estimate of the economic conditions that will exist during the asset's remaining lifetime, and are based on internal business plans or forecasts. Future cash flows are determined on the basis of long-term planning, which is approved by Management and which is valid at the date of preparation of the impairment test. This planning is based on expectations regarding future market share, the market growth as well as the products' profitability. Refer to Note 16 – Intangible assets and Note 17 – Tangible assets for the presentation of carrying values and further information of impairment of non-current assets.

Post-employment benefits

The value of pension obligations for defined benefit obligations is determined through actuarial calculations performed by independent actuaries based on assumptions about the discount rate, future salary increases, inflation, mortality rates and demographic conditions. Changes in these assumptions affect the calculated value of the postemployee benefits obligations. The discount rate, which is the most critical assumption, is based on market return on high-quality corporate or government bonds that are denominated in the currency in which the benefits will be paid and with maturities corresponding to the related pension liability. The discount rate for the Swedish pension obligation is determined by reference to mortgage bonds. A lower discount rate increases the present value of post-employee benefits obligations while a higher discount rate has the reverse effect. Changing market and economic conditions may lead to significant changes in post-employment benefit obligations. Refer to Note 24 – Post employment benefits for the presentation of carrying values and further information on pension provisions.

Inventories

Inventories are measured at the lower of cost, less deductions for any obsolescence, and their net realisable value. Net realisable value is based on the most reliable evidence of the amount the Volvo Car Group expects to realise from vehicles and components on future sales trends or needs (for components) and also takes into account items that are wholly or partially obsolete. A future unexpected worsening in market conditions could result in an adjustment in future expected sales, requirements and in estimated selling prices assumptions, which may require an adjustment to the carrying amount of inventories. Refer to Note 19 – Inventories for the presentation of carrying values and further information of inventories.

Warranties

The recognition and measurement of provisions for product warranties is generally connected with estimates. Estimated costs for product warranties are charged to cost of sales when the products are sold. Estimated warranty costs include contractual warranty, warranty campaigns (recalls and buy-backs) and 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. Warranty provisions are estimated based on historical claims statistics and the warranty period. Quality index improvements based on historical patterns have been reflected in all categories of warranty. Refunds from suppliers that decrease Volvo Car Group's warranty costs are recognised to the extent these are considered to be virtually certain or, depending on the nature of the warranty, based on historical experience. Refer to Note 25 – Current and other non-current provisions for presentation of carrying values and further information of warranty provisions.

Legal proceedings

Companies within the Volvo Car Group may at times be involved in legal proceedings. Such proceedings may cover a range of different matters in various jurisdictions. These include, but are not limited to, commercial disputes such as alleged breach of contract, insufficient supplies of goods or services, product liability, patent infringement or infringement of other intangible rights. The various matters raised are often of a difficult and complex nature and often legally complicated. It is therefore difficult to predict the final outcome of such matters. The companies within Volvo Car Group work closely with legal advisors and other experts in the various matters in each jurisdiction. A provision is made when it is determined that an adverse outcome is more likely than not and the amount of the loss can be reasonably estimated. In instances where these criteria are not met, a contingent liability has been disclosed provided the risk qualifies as such liability. See Note 29 – Contingent liabilities for disclosure of values related to legal claims.

Tax processes

Volvo Car Group is, like other global companies, at times involved in tax processes of varying scope and in various stages. These tax processes are evaluated regularly and provisions are made according to the accounting principles, i.e., when it is more likely than not that additional tax must be paid and the outcome can be reliably estimated. If it is not probable that the additional tax will be paid but the risk is more than remote, such amounts are shown as contingent liabilities. See Note 29 – Contingent liabilities for disclosure of values related to tax claims.

NOTE 3 – NET REVENUE

| The Net revenue allocated to geographical regions: | 2017 | 2016 |
|--|----------------|----------------|
| China | 45,254 | 32,602 |
| US | 33,457 | 30,146 |
| Europe ¹⁾ | 102,869 | 93 522 |
| of which Sweden | 27,724 | 23,535 |
| of which Germany | 13,519 | 12,930 |
| of which United Kingdom | 12,581 | 12,932 |
| Other markets | 29,332 | 24,632 |
| of which Japan | 5,759 | 5,222 |
| of which Russia | 2,948 | 2,075 |
| Total | 210,912 | 180,902 |

The Net revenue allocated to category:

| | | |
|---|----------------|----------------|
| Sale of products and related goods and services ²⁾ | 200,103 | 174,607 |
| Sale of licenses ³⁾ | 4,023 | 55 |
| Revenue from the rental and leasing business | 6,056 | 5,654 |
| Other net revenue | 730 | 586 |
| Total | 210,912 | 180,902 |

1) Europe is defined as EU28+EFTA.

2) Prior year Net revenue has been restated to hedged currency rates. Total effect amounts to MSEK -471 (175), see Note 1 – Accounting principles.

3) During 2017, sold licenses have been reclassified from Other operating income to Net revenue. The comparative period has been restated.

NOTE 4 – EXPENSES BY NATURE

| | 2017 | 2016 |
|--|-----------------|-----------------|
| Material cost incl. freight, distribution and warranty | -136,325 | -120,629 |
| Personnel | -29,380 | -24,686 |
| Amortisation/depreciation | -12,098 | -10,527 |
| Other | -20,086 | -15,015 |
| Total | -197,889 | -170,857 |

Capitalised product development costs as well as received government grants have reduced the amounts presented as personnel and other. See Note 11 – Government grants.

NOTE 5 – RELATED PARTIES

During the year, Group companies entered into the following transactions with related parties which are not consolidated in the Volvo Car Group. The information in the table below includes all assets and liabilities to related parties. Besides from other non-current liabilities of MSEK 300 (1,383) all assets and liabilities are current.

| | Sales of goods, services and other | | Purchases of goods, services and other | |
|---|------------------------------------|-------|--|--------|
| | 2017 | 2016 | 2017 | 2016 |
| Related companies ¹⁾³⁾ | 4,756 | 1,738 | -1,613 | -1,241 |
| Joint ventures and associated companies ²⁾ | 249 | 162 | -1,043 | -926 |

| | Receivables | | Payables | |
|---|--------------|--------------|--------------|--------------|
| | Dec 31, 2017 | Dec 31, 2016 | Dec 31, 2017 | Dec 31, 2016 |
| Related companies ¹⁾ | 3,136 | 3,486 | 2,935 | 3,726 |
| Joint ventures and associated companies ²⁾ | 911 | 780 | 297 | 127 |

1) Related companies are companies outside the Volvo Car Group but within the Geely sphere of companies.

2) For joint ventures and associated companies, see Note 14 – Investments in joint ventures and associates.

3) License revenue represent a value of MSEK 3,002 (27)

Significant related party transactions

In December 2017, Volvo Car Group and Geely established a new joint venture company to coordinate engineering of shared technologies and common sourcing in order to reach industrial synergies and economies of scale. The new joint venture, GV Automobile Technology (Ningbo) Co. Ltd, will be 50/50 per cent owned by Volvo Car Corporation and Ningbo Geely Automobile Research & Development Co., Ltd, a wholly owned subsidiary to Zhejiang Geely Holding Group Co., Ltd. The investment has been executed during the first quarter 2018.

In October 2017, Volvo Car Group and Geely established Lynk & Co Investment Co., Ltd, fully responsible for the purchasing, manufacturing, marketing, distribution and after sales service for Lynk & Co cars. Volvo Car Group, through its wholly owned subsidiary, Volvo Car (China) Investment Co., Ltd holds 30 per cent of the shares, an investment of MSEK 2,838. The remaining shareholders, Zhejiang Jirun Automobile Co., Ltd (50 per cent) and Zhejiang Haoqing Automobile Manufacturing Co., Ltd (20 per cent) are both subsidiaries to Zhejiang Geely Holding Group Co., Ltd.

In September 2017, Volvo Car Group has, through one of its wholly owned subsidiary, Polestar Automotive (Shanghai) Co., Ltd, establish a new joint venture company, Polestar New Energy Vehicle Co., Ltd together with Zhejiang Haoqing Automobile Manufacturing Co., Ltd, 40 per cent shareholding, and Chengdu Zhaoyuan New Energy Vehicle Investment Co., Ltd, 10 per cent shareholding. Both companies are wholly owned subsidiaries to Zhejiang Geely Holding Group Co., Ltd. Volvo Car Corporation's investment in 2017 amounts to MSEK 631 and will support the initial phase of Polestar's electrified product, brand and industrial development. In the consolidated financial statements, this joint venture company is classified as a subsidiary and fully consolidated with a minority interest of 50 per cent as Volvo Cars is assessed to have control over the entity based on ownership and shareholder agreements. See Note 8 – Participation in subsidiary (Parent company) for further information.

In September 2017, Volvo Car Group sold technology licenses to Ningbo Geely Automobile Research & Development Co., Ltd of MSEK 2,700.

During 2017, Volvo Car AB (publ.) has paid dividend of MSEK 1,500 (-) to its shareholder Geely Sweden Holdings AB and MSEK 65 (-) to its preference shareholders. Daqing Volvo Car Manufacturing Co., Ltd has paid dividend of MSEK 623 (-) to its shareholder Zhejiang Geely Holding Group Co., Ltd.

In December 2016, Volvo Car Group and Autoliv Development AB signed an agreement to establish a new joint venture company, Zenuity AB, to develop software for autonomous driving and driver assistance systems. During April 2017, all approvals from relevant competition authorities were received and operations have started in Gothenburg, Munich and Detroit.

In December 2016, Volvo Car Group called an option to acquire the remaining 55 per cent of the shares in its associated company First Rent A Car AB. In 2017, the European Commission's approval was received and the transaction was finalised in September 2017. Volvo Cars has assessed to have the power of control, from an accounting perspective, of the First Rent A Car Group as of December 31, 2016 and therefore the acquired companies are consolidated in the Volvo Car Group.

In August 2016, Volvo Car Group acquired an additional 40 per cent of the shares in Volvofinans Bank AB and thereby increased its ownership from 10 to 50 per cent. The purchase consideration amounted to MSEK 1,849.

In 2016, Volvo Car Group entered into agreements with Asia-Europe Automobile Manufacturing (Taizhou) Co., Ltd, the Luqiao plant, that will produce the new range of smaller 40-series CMA-based cars. The Luqiao plant is owned by Zhejiang Geely Holding Group Co., Ltd but is operated by Volvo Car Group. The agreements cover IT manufacturing licenses and service agreements and have, during 2017, resulted in an

income of MSEK 761 (298). Furthermore, Volvo Car Group has sold IT licenses and implementation services of after-market systems related to the Luqiao plant to Ningbo Geely Automotive Research & Development Co., Ltd resulting in an income in 2017 amounting to MSEK 240 (44).

Zhejiang Haoqing Automobile Manufacturing Co., Ltd, a company owned by Zhejiang Geely Holding Group Co., Ltd, conducts final testing of all Volvo vehicles produced in the Chengdu plant by Zhongjia Automobile Manufacturing (Chengdu) Co., Ltd. The vehicles produced in the Chengdu plant are thereafter sold to the Volvo Car Group sales entities in China from Zhejiang Haoqing Automobile Manufacturing Co., Ltd and Zhejiang Haoqing Automobile Manufacturing Co., Ltd is compensated for the cost of performing final testing of the vehicles.

In 2014, Volvo Car Group signed an agreement with London Taxi Co., Ltd, a wholly owned subsidiary to Zhejiang Geely Holding Group Co., Ltd, regarding development, technical support and component sales, which has resulted in an income during 2017 of MSEK 172 (154).

In 2014, Volvo Car Group entered into an agreement with Ningbo Geely Automotive Research & Development Co., Ltd, a wholly owned subsidiary to Zhejiang Geely Automobile Co., Ltd regarding certain common development activities. Volvo Car Group is working closely with Geely through its wholly owned subsidiary China - Euro Vehicle Technology AB (CEVT), with whom the next-generation C-segment vehicle platform called CMA has been developed. The accounting principles for these types of agreement are described in Note 1 - Accounting principles, Capitalised product development costs. The agreement has resulted in an income related to sale of licenses during 2017 of MSEK 53 (175), other income of MSEK 336 (346) and capitalised intangible assets of MSEK 460 (570).

Volvo Car Group does not engage in any transactions with Board Members or senior executives except remuneration for services and the share-based program as described in Note 9 - Employees and remuneration.

NOTE 6 - AUDIT FEES

| | 2017 | 2016 |
|----------------------|------------|------------|
| Deloitte | | |
| Audit fees | -30 | -28 |
| Audit-related fees | -5 | -4 |
| Tax services | -2 | -2 |
| Other services | -5 | -8 |
| Total | -42 | -42 |
| Audit fees to others | -2 | — |

Audit fees involve audit of the Annual Report, financial accounts and the administration by the Board of Directors and the Managing Directors. The audit also includes advice and assistance as a result of the observations made in connection with the audit.

Audit-related fees refer to other assignments to ensure quality in the financial statements including consultations on reporting requirements and internal control.

Tax services include tax-related consultancy.

All other work performed by the auditor is defined as **other services**.

Audit fees to others include audit fees performed by other audit firms than Deloitte.

NOTE 7 - OTHER OPERATING INCOME AND EXPENSES

| | 2017 | 2016 |
|-------------------------------|--------------|--------------|
| Other operating income | | |
| Foreign exchange gain | — | 206 |
| Sold services | 1,182 | 1,256 |
| Government grants | 819 | 341 |
| Other | 1,053 | 609 |
| Total | 3,054 | 2,412 |

During 2017 Net revenue and Cost of sales have been restated to hedged currency rates. Sold licenses have been reclassified from Other operating income to Net revenue. The comparative period has been restated. For more information, see Note 1 - Accounting principles.

| | 2017 | 2016 |
|---|---------------|---------------|
| Other operating expenses | | |
| Amortisation and depreciation of intangible and tangible assets | -61 | -31 |
| Foreign exchange loss | -224 | — |
| Royalty | -795 | -710 |
| Restructuring costs | — | -5 |
| Property tax | -97 | -105 |
| Other | -1,039 | -1,010 |
| Total | -2,216 | -1,861 |

NOTE 8 - LEASING

Volvo Car Group as lessor

Operational lease contracts with a maturity less or equal to twelve months are recognised as inventory in the balance sheet and mainly relate to vehicles sold with repurchase agreements. The difference between the original sales price and the repurchase price is recognised in the income statement as revenue on a straight-line basis over the lease term. The remaining lease revenue yet to be recognised in income is presented as part of current and non-current liabilities in the balance sheet, see Note 26 - Non-current liabilities and Note 27 - Other current liabilities. The repurchase obligation is considered to be a financial liability and is presented as part of current and non-current liabilities. Volvo Car Group does currently not have any finance lease engagements as a lessor.

| Future lease revenue of operating lease contracts Rental income | 2017 | 2016 |
|--|--------------|--------------|
| No later than 1 year | 1,280 | 917 |
| Later than 1 year but no later than 5 years | 429 | 372 |
| Later than 5 years | — | — |
| Total | 1,709 | 1,289 |

Volvo Car Group as lessee

Operating lease contracts

The operating lease contracts Volvo Car Group holds are mainly contracts for premises and office equipment around the world. Also some production equipment such as forklifts for the factories are under operating lease contracts.

| Operating lease expenses | 2017 | 2016 |
|---------------------------------|---------------|---------------|
| Minimum lease payments | -1,459 | -1,150 |
| Contingent rents | -95 | -67 |
| Less subleases | 7 | 4 |
| Total | -1,547 | -1,213 |

| Operating lease commitments per Dec 31, 2017 | Minimum lease payments | Less subleases | Total | Present value of operating lease commitments less subleases |
|--|------------------------|----------------|--------------|---|
| No later than 1 year | 1,557 | 7 | 1,550 | 1,535 |
| Later than 1 year but no later than 5 years | 3,413 | 54 | 3,359 | 3,153 |
| Later than 5 years | 2,043 | 68 | 1,975 | 1,612 |
| Total | 7,013 | 129 | 6,884 | 6,300 |

Finance lease contracts

Volvo Car Group holds finance lease contracts for production equipment and for some buildings used in production. The assets will be owned by Volvo Car Group at the end of the lease contracts at no additional cost. All leases are fixed terms with fixed payments.

| Finance lease assets | Buildings and land | Machinery and equipment |
|---|--------------------|-------------------------|
| Acquisition cost | | |
| Balance at January 1, 2016 | 91 | 9 |
| Additions | — | 68 |
| Effect of foreign currency exchange differences | 4 | -2 |
| Balance at December 31, 2016 | 95 | 75 |
| Additions | -1 | 2 |
| Effect of foreign currency exchange differences | 3 | -2 |
| Balance at December 31, 2017 | 97 | 75 |
| Accumulated depreciation | | |
| Balance at January 1, 2016 | -66 | -2 |
| Reclassification | -10 | — |
| Depreciation expense | — | -2 |
| Effect of foreign currency exchange differences | -3 | — |
| Balance at December 31, 2016 | -79 | -4 |
| Depreciation expense | -8 | -3 |
| Effect of foreign currency exchange differences | -2 | — |
| Balance at December 31, 2017 | -89 | -7 |
| Net balance at December 31, 2016 | 16 | 71 |
| Net balance at December 31, 2017 | 8 | 68 |

| Gross finance lease liabilities – minimum lease payments | Dec 31, 2017 | Dec 31, 2016 |
|--|--------------|--------------|
| No later than 1 year | 29 | 13 |
| Later than 1 year but no later than 5 years | 17 | 42 |
| Later than 5 years | 9 | 13 |
| Total | 55 | 68 |
| Future finance charges on finance leases | -5 | -1 |
| Present value of finance lease liabilities | 50 | 67 |

The present value of finance lease liabilities is as follows:

| Gross finance lease liabilities – minimum lease payments | Dec 31, 2017 | Dec 31, 2016 |
|--|---------------------|---------------------|
| No later than 1 year | 28 | 12 |
| Later than 1 year but no later than 5 years | 14 | 42 |
| Later than 5 years | 8 | 13 |
| Total | 50 | 67 |
| The finance lease liabilities are included in the financial statement as: | Dec 31, 2017 | Dec 31, 2016 |
| Non-current liabilities – Note 26 | 22 | 55 |
| Non-current liabilities – Note 26, current liabilities to credit institutions | 28 | 12 |
| Total | 50 | 67 |

NOTE 9 – EMPLOYEES AND REMUNERATION

| Average number of employees by region: | 2017 | Of whom women | 2016 | Of whom women |
|--|---------------|---------------|---------------|---------------|
| Sweden | 22,679 | 27% | 18,703 | 25% |
| Nordic countries other than Sweden | 600 | 60% | 321 | 33% |
| Belgium | 5,918 | 16% | 4,829 | 13% |
| Europe other than the Nordic countries and Belgium | 873 | 29% | 922 | 30% |
| North and South America | 707 | 25% | 450 | 24% |
| China | 6,275 | 16% | 4,239 | 18% |
| Asia other than China | 820 | 27% | 807 | 19% |
| Other countries | 97 | 41% | 103 | 36% |
| Total | 37,969 | 24% | 30,374 | 22% |

| | Dec 31, 2017 | Of whom women | Dec 31, 2016 | Of whom women |
|---|---|----------------------|---|----------------------|
| Number of Board members and senior executives¹⁾ | Board members (Chief Executive Officers and senior executives) | | Board members (Chief Executive Officers and senior executives) | |
| Parent company | 10 | 30% | 10 | 30% |
| Subsidiaries | 99 (269) | 15% (19%) | 96 (249) | 17% (19%) |
| Total | 109 (269) | 17% (19%) | 106 (249) | 18% (19%) |

| | 2017 | 2016 |
|---|---|---|
| Salaries and other remunerations | Wages and salaries, other remunerations | Wages and salaries, other remunerations |
| | Social security expenses (of which pension expenses) | Social security expenses (of which pension expenses) |
| Parent company | 7 | 3 (—) |
| Subsidiaries | 18,193 | 7,949 (3,590) |
| Total | 18,200 | 15,927 |

| | 2017 | 2016 |
|---|---|---|
| Salaries and other remuneration to the Board²⁾, CEO, Executive Management Team (EMT)³⁾ and other employees | Wages and salaries, other remunerations (of which variable salaries) | Wages and salaries, other remunerations (of which variable salaries) |
| | Social security expenses (of which pension expenses) | Social security expenses (of which pension expenses) |
| Board, Chief Executive Officers and EMT | 295 (109) | 108 (29) |
| Other employees | 17,905 | 7,844 (3,561) |
| Total | 18,200 (109) | 15,927 (97) |

- 1) Senior executives are defined as key personnel within the subsidiaries.
- 2) The Board includes all board members in the subsidiaries within Volvo Car Group.
- 3) The Executive Management Team (EMT) consists of the CEO in Volvo Car Corporation and key management personnel other than Board members, in total 14 (14).

Compensation to Board members

The shareholders have elected a Nomination Committee, which shall set the appropriate remuneration principles for the Volvo Cars Board and on a yearly basis propose remuneration for Volvo Cars Board. The remuneration to the members of the board is determined at the Annual General Meeting. At the Annual General Meeting 2017 it was decided that Board members elected at the meeting who are employed or otherwise remunerated by Volvo Car Group or the Zhejiang Geely Holding Group shall not be entitled to any remuneration. The other board mem-

bers elected at the Annual General Meeting shall receive remuneration containing the following elements: (i) a market based fixed remuneration decided at the Annual General Meeting (ii) a company car in accordance with the Company's company car policy in force from time to time and (iii) to Board members who are members of any of the Boards' committees an additional market based fixed remuneration as decided at the Annual General Meeting. Expensed remuneration to the individual Board members during 2017 is specified below:

| | 2017 |
|---------------------|-----------------------------|
| Boardmember | Ordinary compensation, TSEK |
| Li Shufu, Chairman | — |
| Håkan Samuelsson | — |
| Li Donghui | — |
| Carl Peter Forster | — |
| Dr. Peng Zhang | — |
| Winnie K. W. Fok | 762 |
| Mikael Olsson | 2,175 |
| Lone Fønss Schröder | 837 |
| Thomas Johnstone | 863 |
| Betsy Atkins | 737 |
| Total | 5,374 |

Terms of employment and remuneration to the CEO

The Board has assigned a People, Compensation and Sustainability Committee to determine the remuneration to the CEO. The CEO is entitled to a remuneration consisting of a fixed annual salary, Volvo Bonus, Long term variable pay (LTVP) and other benefits such as company car and insurance.

The CEO has a defined contribution pension plan to which Volvo Car Group allocates 50 per cent of the fixed monthly salary on a rolling basis. The CEO agreement is fixed term and there are no severance pay included in the terms of agreement.

Remuneration to Executive Management Team

The Board has assigned a People, Compensation and Sustainability Committee to determine the remuneration to the Executive Management Team (EMT), proposed by the CEO. Volvo Car Group members of EMT are entitled to a remuneration consisting of a fixed annual salary, Volvo Bonus, LTVP and other benefits such as company car and insurance.

The notice period for a member of EMT is a maximum of 12 months in case of termination by Volvo Car Corporation and 12 months in case of termination by the member of EMT. Furthermore the member of EMT is, in case of termination by Volvo Car Corporation, entitled to severance pay based on the fixed salary, during a period of maximum 12 months.

During 2017, — (3) members of EMT left the Volvo Car Group. Remuneration during the notice period and severance pay amounted to MSEK — (18), excluding social expenses.

Members of EMT employed in Sweden are covered by the ITP plan and, where applicable, a supplementary pension plan – Volvo Management Pension (VMP). On average, the contributions for members of

EMT is 28–35 per cent of the pensionable salary. Disability benefits follow the ITP and VMP regulations.

For members of EMT employed outside of Sweden, varying pension terms and conditions apply, depending upon the country of employment.

Volvo Car Group's outstanding post-employment benefits obligations to former CEO's and EMT amount to MSEK 65 (63).

Incentive programs

Volvo Car Group has two global incentive programs. Volvo Bonus is a short term incentive program that includes all employees. The long term incentive program, Long Term Variable Pay (LTVP) is a program for EMT and certain senior executives. The design and payout of the programs are subject to the Board of Directors' annual approval.

Volvo Bonus

The purpose of the Volvo Bonus is to strengthen global alignment among employees around Volvo Car Group's vision, objectives and strategies and to encourage all employees to achieve and exceed the business plan targets. Depending on function, country and company, all employees belongs to a certain plan. The plan contains information on which groups of employees belong to that plan, and on the specific objectives that control the payout level. The qualifier for the Volvo Bonus is that Volvo Car Group reaches a number of financial thresholds. In order for the Volvo Bonus to be paid out at all, a minimum acceptable performance regarding profit level (EBIT) needs to be met. This is called the threshold level and the remaining two levels (target and maximum) increase the bonus paid out in relation to increased performance. Depending on which plan the employee belongs to and the position within the company the employee belongs to, he/she is eligible to a certain payment level that can be either a fixed amount or a percentage of the employee's annual base salary. The remuneration is paid in cash. The cost for the Volvo Bonus program amounted to MSEK 1,436 (1,171) including social security cost, of which MSEK 55 (36) relates to EMT.

Long term variable pay

The purpose of the LTVP-program is to attract, motivate and retain key competence within Volvo Car Group. The LTVP-program is based on calculated market value of Volvo Car Group during three years. As Volvo Car Group is not listed, no official market value is available. Hence, the LTVP programs for previous years are based on a synthetic share price derived from variables known to determine the value of an automotive OEM. Research of market valuation of several listed automotive OEMs indicates that the valuation of automotive OEMs can be explained using primarily two factors: ROIC (Return on invested capital) and volume growth forecast. The calculated market value is therefore based on the ROIC and volume growth in the Business plan five years ahead. The business plan is adopted annually by the Board. As from 2016 the valuation of Volvo Cars has been done by an external party and in two ways;

- through discounted cash flow analysis of Volvo Cars estimated future cash flows, based on Volvo Cars latest business plan four years ahead and certain key assumptions; and
- through comparable market analysis based on peer group analysis.

| | 2017 | | | | 2016 | | | |
|---|----------------------|-----------------|------------------------|--|----------------------|-----------------|------------------------|--|
| Compensation to Executive Management Team (EMT), TSEK | Salary ⁴⁾ | Variable salary | Long term variable pay | Social security expenses (of which pension expenses) | Salary ⁴⁾ | Variable salary | Long term variable pay | Social security expenses (of which pension expenses) |
| Håkan Samuelsson, CEO in Volvo Car Corporation | 12,397 | 12,000 | 7,200 | 12,625 (7,456) | 12,186 | 16,500 | 5,844 | 18,333 (7,484) |
| Other members of EMT | 60,350 | 42,102 | 22,212 | 55,806 (11,971) | 70,086 | 38,658 | 14,031 | 69,870 (20,030) |
| Total | 72,747 | 54,102 | 29,412 | 68,431 (19,427) | 82,272 | 55,158 | 19,875 | 88,203 (27,514) |

4) Includes benefits such as housing and company car.

The LTVP will be calculated based on 30 per cent of the participant's annual gross salary. The program contribution will be locked in for 3 years and will be paid out as a gross cash amount three years later. The amount that will be paid out will depend on the development of the value of the company on January 1, three years later. The program is capped to a maximum of 200 per cent of start value. To be eligible for pay out, the employee must remain within the company at the date for pay out. The cost for the LTVP-program amounted to MSEK 182 (98) including social security cost, of which MSEK 39 (29) relates to EMT. The total liability amounted to MSEK 207 (214) as of December 31, 2017.

Share-based incentive program

During 2015, Volvo Car AB's (publ.) subsidiary Volvo Car Corporation issued 1,359 warrants with the right to subscribe for shares in Volvo Car Corporation, which the parent company decided to offer to a number of members of management and Board of Directors to purchase. The purchase has been made at fair market value in accordance with an external valuation. Each warrant gives the right to subscribe for one share in Volvo Car Corporation for a predetermined amount under certain periods during the years 2016–2021.

In case a participant is no longer employed, and also during other specified circumstances, the parent company has an option to redeem the warrants. During the duration of the program the participants (i.e. the holders of the warrants) at certain predetermined periods have an option to sell the warrants at fair market value to the parent company.

The term of the agreement is from 2016 to 2021 and will thereafter be prolonged as long as none of the parties terminates the agreement. The warrants have been valued at fair market value by an external party. The valuation has been made based on all material conditions in the agreement in accordance with the Black & Scholes model. The valuation has been made based on the following assumptions:

- Market value of the warrants has been determined to SEK 169,097 as per December 31, 2017.
- The duration for the warrants has been determined to six years.
- The volatility has been determined as 30 per cent.
- Assessed risk free interest has been determined to -0,26 per cent.

The purpose of the program is that the participants should have the possibility to purchase shares in the company in the future. Considering a weighted assessment of the conditions in the agreement the program is accounted for as a share-based payment that will be cash-settled and is therefore accounted for as a financial liability at fair value through the income statement, with changes to fair value recorded as a financial expense or income.

As the participants have been offered to purchase the warrants at fair market value based on all material conditions in the agreement, the program will not result in any personnel costs in accordance with IFRS 2.

| TSEK | Number of warrants | Assessed fair market value |
|-------------------------------|--------------------|----------------------------|
| At the beginning of the year | 1,359 | 137,151 |
| Issued during the year | — | — |
| Used/redeemed | -258 | -26,038 |
| Sold during the year | 204 | 19,474 |
| Overdue | — | — |
| Change in valuation | — | 90,085 |
| At the end of the year | 1,305 | 220,672 |

As the accounting is made at fair value, there are no differences between book value and fair value. Valuation at fair value is made continuously based on external valuations.

| Specification of warrant program | Number of warrants |
|-----------------------------------|--------------------|
| CEO and Board of Directors | 577 |
| Other members of group management | 728 |
| Total | 1,305 |

Other long-term benefits

Apart from the compensation accounted for under Incentive programs, EMT do not have any other long-term benefits.

NOTE 10 – DEPRECIATION AND AMORTISATION

| Operating income includes depreciation and amortisation as specified below: | 2017 | 2016 |
|---|----------------|----------------|
| Software | -168 | -44 |
| Capitalised product development cost | -3,555 | -3,025 |
| Other intangible assets | -984 | -1,223 |
| Buildings and land improvements | -587 | -582 |
| Machinery and equipment | -6,438 | -5,277 |
| Assets under operating leases | -366 | -376 |
| Total | -12,098 | -10,527 |

| Depreciation and amortisation according to plan by function: | 2017 | 2016 |
|--|----------------|----------------|
| Cost of sales ¹⁾ | -6,787 | -5,782 |
| Research and development expenses | -4,527 | -4,379 |
| Selling expenses | -169 | -90 |
| Administrative expenses | -554 | -245 |
| Other income and expense | -61 | -31 |
| Total | -12,098 | -10,527 |

1) Of which impairment loss MSEK -34 (-3).

NOTE 11 – GOVERNMENT GRANTS

Volvo Car Group receives grants from the Swedish Government. Grants are also received in the US, China, Belgium and from the EU. In 2017, the government grants received amounted to MSEK 1,583 (1,404) and the government grants realised in the income statement amounted to MSEK 1,608 (1,300). In China, MSEK 504 (-) of the grants have been received as support for production of new car models and to upgrade the facilities used for the production. The received grants have reduced the carrying amount of the related machinery and equipment. In US, MSEK 30 (151) of the grants has reduced the carrying amount of the asset relating to the construction of the manufacturing site, of which MSEK - (89) has been paid out as of year end.

Non-monetary government grants have been received in China, mainly in the form of rent free office and factory premises, and in the US in the form of reduced lease fees related to office premises and manufacturing site.

NOTE 12 – FINANCIAL INCOME

| | 2017 | 2016 |
|----------------------------------|------------|------------|
| Interest income on bank deposits | 355 | 218 |
| Total | 355 | 218 |

NOTE 13 – FINANCIAL EXPENSES

| | 2017 | 2016 |
|--|---------------|---------------|
| Net foreign exchange loss on financing activities | -309 | -165 |
| Interest effect from the measurement of repurchase obligations | -185 | -215 |
| Interest expenses related to provisions for post-employment benefits | -171 | -145 |
| Expenses for credit facilities | -111 | -107 |
| Interest expenses to related companies | -5 | -4 |
| Interest expenses | -644 | -815 |
| Other financial expenses | 156 | -260 |
| Total | -1,269 | -1,711 |

NOTE 14 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

| | 2017 | 2016 |
|-----------------------------------|------------|------------|
| Share of income in joint ventures | 195 | 394 |
| Share of income in associates | 5 | 24 |
| Total | 200 | 418 |

Share of income in joint ventures and associates is specified below:

| | 2017 | 2016 |
|--|------------|------------|
| V2 Plug-In Hybrid Vehicle Partnership HB ¹⁾ | 370 | 336 |
| Volvofinans Bank AB ²⁾ | 106 | 59 |
| Zenuity AB ³⁾ | -267 | — |
| Other companies | -9 | 23 |
| Total | 200 | 418 |

| Investments in joint ventures and associates | Dec 31, 2017 | Dec 31, 2016 |
|---|---------------------|---------------------|
| At beginning of the year/acquired acquisition value | 2,498 | 701 |
| Share of net income | 200 | 418 |
| Investment in Volvofinans Bank AB ²⁾ | — | 1,852 |
| Investment in Zenuity AB ³⁾ | 105 | — |
| Investment in Lynk & Co Investment Co., Ltd ⁵⁾ | 2,838 | — |
| Investment in VCIS Germany GmbH ⁴⁾ | — | — |
| Reclassification from associates to subsidiaries ⁶⁾ | -2 | -76 |
| Reclassification to Non-current liabilities due to negative participation ³⁾ | 162 | — |
| Increase through acquisition ⁶⁾ | — | — |
| Capital repayment V2 Plug-In Hybrid Vehicle Partnership HB ¹⁾ | -284 | -392 |
| Dividends | -37 | -5 |
| Total | 5,480 | 2,498 |

Volvo Car Group's carrying amount on investments in joint ventures and associates:

| | Corp. ID no. | Country of incorporation | % interest held | Dec 31, 2017 | Dec 31, 2016 |
|--|--------------------|--------------------------|-----------------|--------------|--------------|
| <i>Joint ventures</i> | | | | | |
| Volvo Trademark Holding AB | 556567-0428 | Sweden | 50 | 6 | 5 |
| V2 Plug-In Hybrid Vehicle Partnership HB ¹⁾ | 969741-9175 | Sweden | 50 | 260 | 174 |
| Volvofinans Bank AB ²⁾ | 556069-0967 | Sweden | 50 | 2,320 | 2,250 |
| VH Systems AB | 556820-9455 | Sweden | 50 | 29 | 35 |
| Zenuity AB ³⁾ | 559073-6871 | Sweden | 50 | — | — |
| VCFS Germany GmbH | HRB 85091 | Germany | 50 | 1 | — |
| VCIS Germany GmbH ⁴⁾ | HRB 86800 | Germany | 50 | 1 | — |
| Lynk & Co Investment Co., Ltd ⁵⁾ | 91330200MA2AF25Y7B | China | 30 | 2 828 | — |
| <i>Associated companies</i> | | | | | |
| VCC Tjänstebilar KB | 969673-1950 | Sweden | 50 | 2 | 2 |
| VCC Försäljnings KB | 969712-0153 | Sweden | 50 | — | 1 |
| Volvohandels PV Försäljnings KB | 916839-7009 | Sweden | 50 | 17 | 16 |
| Volvohandels PV Försäljnings AB | 556430-4748 | Sweden | 50 | 10 | 10 |
| Volvo Event Management Corporation | 444517742 | Belgium | 33 | 1 | 1 |
| Trio Bilservice AB ⁶⁾ | 556199-1059 | Sweden | 33 | — | — |
| Göteborgs Tekniska College AB | 556570-6768 | Sweden | 26 | 5 | 4 |
| Leiebilservice AS ⁶⁾ | 879 548 632 | Norway | 20 | — | — |
| Carrying amount, participation in joint ventures and associates | | | | 5,480 | 2,498 |

The share of voting power corresponds to holdings in per cent as per above. All of the above joint ventures and associates are accounted for using the equity method in the consolidated financial statements. For practical reasons, some of the joint ventures and associates are included in the consolidated financial statements with a certain time lag, normally one month.

- 1) V2 Plug-In Hybrid Vehicle Partnership HB is a joint venture and reported in accordance with the equity method since none of the holding companies, Volvo Car PHEV Holding AB or Vattenfall PHEV Holding AB, has the decision-making power over the operation. Volvo Car Group and Vattenfall have together developed the world's first diesel-powered hybrid car, which can be driven as an ordinary diesel car, as a hybrid, or as a fully electric car. The car is available on the market since the first quarter of 2013. During 2017, V2 Plug-In Hybrid Vehicle Partnership HB provided a repayment of MSEK 284 (392) to Volvo Car PHEV Holding AB.
- 2) In August 2016, Volvo Car Corporation was allowed to close the acquisition of the additional 40 per cent of the shares in Volvofinans Bank AB and thereby increased its ownership from 10 to 50 per cent. Volvofinans Bank AB is since then a joint venture company and reported in accordance with the equity method since none of the holding companies, Volvo Car Corporation or AB Volverkinvest, has the decision-making power over the operation. In Sweden, Volvofinans Bank AB is the leading bank within vehicle financing services.

- 3) In April 2017, the joint venture company Zenuity AB was established between Volvo Car Corporation and Autoliv Development AB. The purpose of the company is to develop software for autonomous driving and driver assistance systems. Zenuity AB is reported in accordance with the equity method since none of the holding companies has the decision-making power over the operation. Due to negative participation in the company, the negative participation is specified in Note 26 - Non-current liabilities.
- 4) In January 2016, the joint venture company VCIS Germany GmbH was established between Volvo Car Germany GmbH and AVS Automotive VersicherungService GmbH. The purpose of the company is to provide insurance services in the German market and improve dealer and customer satisfaction. VCIS Germany GmbH is reported in accordance with the equity method since none of the holding companies has the decision-making power over the operation.
- 5) In October 2017, the joint venture company Lynk & Co Investment Co., Ltd was established between Volvo Car (China) Investment Co., Ltd, (30 per cent) Zhejiang Jirun Automobile Co., Ltd (50 per cent) and Zhejiang Haoqing Automobile Manufacturing Co., Ltd (20 per cent). The principal activity of the Lynk & Co Investment Co., Ltd is to engage in the manufacturing and sale of vehicles under the "Lynk & Co" brand, and support after-sale services relating thereto.
- 6) In December 2016, Volvo Personvagnar Norden AB acquired the remaining 55 per cent of the shares in First Rent A Car AB which included the associated companies Trio Bilservice AB and Leiebilservice AS. See Note 31 - Business combinations for further information.

The following tables present summarised financial information for the Volvo Car Group's material joint ventures.

| | V2 Plug-In Hybrid Vehicle Partnership HB ¹⁾ | | VolvoFinans Bank AB ^{2) 9)} | | Lynk & Co Investment Co., Ltd ^{5) 10)} | |
|--|--|-------------|--------------------------------------|---------------|---|-------------|
| Summarised balance sheets | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Percentage voting/ownership | 50 | 50 | 50 | 50 | 30 | — |
| Non-current assets | 205 | 278 | 33,975 | 30,515 | 8,571 | — |
| Cash and cash equivalents | 191 | 82 | 1,834 | 1,157 | 3,445 | — |
| Other current assets | 284 | 172 | 3,599 | 3,408 | 1,449 | — |
| Total assets | 680 | 532 | 39,408 | 35,080 | 13,465 | — |
| Equity ⁷⁾ | 605 | 467 | 3,888 | 3,764 | 9,426 | — |
| Non-current liabilities ^{7) 8)} | 45 | 45 | 33,281 | 29,373 | 11 | — |
| Current liabilities | 30 | 20 | 2,239 | 1,943 | 4,028 | — |
| Total equity and liabilities | 680 | 532 | 39,408 | 35,080 | 13,465 | — |

7) Equity and Non-current liabilities are adjusted with the portion of untaxed reserves where appropriate.

8) In VolvoFinans Bank AB, the non-current liabilities includes financial liabilities of MSEK 32,572 (28,747).

9) VolvoFinans Bank AB's equity share in the Volvo Car Group is included with a time lag of a quarter (one month).

10) The figures include the consolidated figures from Lynk & Co Investment Co., Ltd and its subsidiaries Kai Yue Zhangjiakou Component Manufacturing Co., Ltd, Lynk & Co Automobile Sales Co., Ltd and Lynk & Co Auto Technology (Taizhou) Co., Ltd

| | V2 Plug-In Hybrid Vehicle Partnership HB ¹⁾ | | VolvoFinans Bank AB ²⁾ | | Lynk & Co Investment Co., Ltd ^{5) 10)} | |
|---|--|-------------|-----------------------------------|-------------|---|-------------|
| Summarised income statements | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Net sales | 781 | 705 | 3,853 | 4,172 | 108 | — |
| Profit/loss from continuing operations ^{11) 12) 13)} | 699 | 661 | 261 | 359 | -56 | — |
| Profit (loss) for the year | 699 | 661 | 261 | 359 | -56 | — |
| Other comprehensive income for the year | — | — | — | — | — | — |
| Total comprehensive income for the year | 699 | 661 | 261 | 359 | -56 | — |
| Dividends received from joint ventures during the year | — | — | 37 | 5 | — | — |

11) In V2 Plug-In Hybrid Vehicle Partnership HB the profit for the year includes depreciation of MSEK -73 (-73).

12) In VolvoFinans Bank AB the profit for the year includes depreciation of MSEK -4 (-3).

13) In Lynk & Co Investment Co., Ltd the loss for the year includes depreciation of MSEK -27 (-) and interest income of MSEK 2 (-).

Reconciliation of the summarised financial information presented to the carrying amount of its interest in joint ventures.

| | V2 Plug-In Hybrid Vehicle Partnership HB ¹⁾ | | VolvoFinans Bank AB ²⁾ | | Lynk & Co Investment Co., Ltd ^{5) 10)} | |
|--|--|-------------|-----------------------------------|--------------|---|-------------|
| Reconciliation of summarised financial information | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Net asset of the joint venture | 605 | 467 | 3,888 | 3,764 | 9,426 | — |
| Proportion of the Group's ownership in the joint venture | 50% | 50% | 50% | 50% | 30% | — |
| Adjustments for differences in accounting principles | -43 | -60 | — | — | — | — |
| Goodwill | — | — | 376 | 376 | — | — |
| Other adjustments | — | — | — | -8 | — | — |
| Carrying amount of the Group's interest in joint ventures | 260 | 174 | 2,320 | 2,250 | 2,828 | — |

Significant restrictions

For the Chinese joint venture company, there are some restrictions on the Volvo Car Group's ability to access cash.

NOTE 15 – TAXES

| Income tax recognised in income statement | 2017 | 2016 |
|---|---------------|---------------|
| Current income tax for the year | -3,811 | -1,631 |
| Current income tax for previous years | -67 | -5 |
| Deferred taxes | 782 | -386 |
| Other taxes | 174 | -39 |
| Total | -2,922 | -2,061 |

| Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate | 2017 | 2016 |
|---|---------------|---------------|
| Income before tax for the year | 13,147 | 9,521 |
| Tax according to applicable Swedish tax rate, 22% | -2,892 | -2,095 |
| Operating income/costs, non-taxable | -75 | -48 |
| Other taxes, non-taxable | 176 | -39 |
| Capital gains or losses, non-taxable | 44 | -43 |
| Effect of different tax rates | -126 | 119 |
| Tax effect on deferred tax due to change of tax rate | -62 | 9 |
| Revaluation of previously non-valued losses and other temporary differences | -23 | 38 |
| Other | 36 | -2 |
| Total | -2,922 | -2,061 |

| Income tax recognised in other comprehensive income | 2017 | 2016 |
|---|------------|---------------|
| Deferred tax | | |
| Tax effects on cash flow hedge reserve | 980 | -867 |
| Tax effect of remeasurement of provisions for post-employment benefits | -62 | -265 |
| Tax effects on translation difference of hedge instruments of net investments in foreign operations | -27 | -35 |
| Total | 891 | -1,167 |

| Specification of deferred tax assets | Dec 31, 2017 | Dec 31, 2016 |
|--|---------------|---------------|
| Goodwill arising from the purchase of the net assets of a business | 190 | 347 |
| Provision for employee benefits | 1,434 | 1,473 |
| Unutilised tax loss carry-forwards | 5,991 | 5,558 |
| Reserve for unrealised income in inventory | 37 | 64 |
| Provision for warranty | 843 | 233 |
| Fair value of derivative instruments | — | 637 |
| Other temporary differences | 4,014 | 3,185 |
| Total deferred tax assets | 12,509 | 11,497 |
| Netting of assets/liabilities | -7,951 | -7,385 |
| Total deferred tax assets, net | 4,558 | 4,112 |

| Specification of deferred tax liabilities | Dec 31, 2017 | Dec 31, 2016 |
|--|--------------|--------------|
| Fixed assets | 6,795 | 6,216 |
| Untaxed reserves | 248 | 909 |
| Auto lease portfolio | 2,016 | 1,102 |
| Fair value of derivative instruments | 348 | — |
| Other temporary differences | 521 | 367 |
| Total deferred tax liabilities | 9,928 | 8,594 |
| Netting of assets/liabilities | -7,951 | -7,385 |
| Total deferred tax liabilities, net | 1,977 | 1,209 |

Deferred tax assets and deferred tax liabilities are offset when the item relates to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

Deferred tax assets are only recognised in countries where Volvo Car Group expects to be able to generate corresponding taxable income in the future to benefit from tax reductions.

Significant tax loss carry-forwards are related to countries with long or indefinite periods of utilisation, mainly Sweden and US. Of the total MSEK 5,991 (5,558) recognised deferred tax assets related to tax loss carry-forwards, MSEK 4,565 (4,555) relates to Sweden with indefinite periods of utilisation. MSEK 1,343 (938) relates to US where tax loss carry-forwards are expected to be utilised before expiration date. The assessment is that Volvo Car Group will be able to generate sufficient income in the coming years to also utilise the remaining part of the recognised amounts.

Deferred tax that may arise on distribution of remaining unrestricted earnings of foreign subsidiaries has not been booked, hence they can be distributed free of tax or Volvo Car Group may consider them permanently reinvested in the subsidiaries.

| Changes in deferred tax assets and liabilities during the reporting period | Dec 31, 2017 | Dec 31, 2016 |
|--|--------------|--------------|
| Net book value of deferred taxes at January 1 | 2 903 | 2,073 |
| Deferred tax income/expense recognised through income statement | 782 | -386 |
| Change in deferred taxes recognised directly in other comprehensive income | -891 | 1,167 |
| Exchange rate impact | -213 | 49 |
| Net book value of deferred taxes at December 31 | 2,581 | 2,903 |

Deferred tax assets regarding tax loss carry-forwards are reported to the extent that realisation of the related tax benefit through future taxable profits is probable also when considering the period during which these can be utilised, as described below.

Deferred tax assets have been considered on all tax losses carry forward as per 2017 and as of December 31, 2017, the recognised tax loss carry-forwards amounted to MSEK 26,203 (23,332). The tax value of these tax loss carry-forwards is reported as an asset. The final years in which the recognised loss carry-forwards can be utilised are shown in the following table.

| Tax-loss carry-forwards; year of expiration | Dec 31, 2017 | Dec 31, 2016 |
|---|---------------|---------------|
| Due date | | |
| 2018 | — | — |
| 2019 | — | — |
| 2020 | — | — |
| 2021 | — | 24 |
| 2022 | 136 | 23,308 |
| 2023– | 26,067 | — |
| Total | 26,203 | 23,332 |

NOTE 16 – INTANGIBLE ASSETS

| | Capitalised product development cost ¹⁾ | Software | Trademark and goodwill ²⁾ | Other intangible assets ³⁾ | Total |
|---|--|---------------|--------------------------------------|---------------------------------------|----------------|
| Aquisition cost | | | | | |
| Balance at January 1, 2016 | 19 208 | 3 081 | 4 131 | 10 799 | 37 219 |
| Additions | 6 177 | 327 | — | 350 | 6 854 |
| Acquired through business combinations | — | 7 | 2 | 5 | 14 |
| Divestments and disposals | — | -306 | — | — | -306 |
| Reclassifications | — | -164 | — | 354 | 190 |
| Effect of foreign currency exchange differences | — | 8 | — | 17 | 25 |
| Balance at December 31, 2016 | 25 385 | 2 953 | 4 133 | 11 525 | 43 996 |
| Additions | 7 639 | 224 | 5 | 858 | 8 726 |
| Acquired through business combinations | — | — | 81 | — | 81 |
| Divestments and disposals | — | -14 | — | -13 | -27 |
| Reclassifications | — | -1 | — | -316 | -317 |
| Effect of foreign currency exchange differences | — | 5 | — | -49 | -44 |
| Balance at December 31, 2017 | 33 024 | 3 167 | 4 219 | 12 005 | 52 415 |
| Accumulated amortisation and impairment | | | | | |
| Balance at January 1, 2016 | -5 791 | -1 692 | — | -6 902 | -14 385 |
| Amortisation expense | -3 025 | -44 | — | -1 223 | -4 292 |
| Divestments and disposals | — | 58 | — | — | 58 |
| Reclassifications | — | -1 | — | 1 | — |
| Effect of foreign currency exchange differences | 1 | -4 | — | -6 | -9 |
| Balance at December 31, 2016 | -8 815 | -1 683 | — | -8 130 | -18 628 |
| Amortisation expense | -3 555 | -168 | — | -984 | -4 707 |
| Divestments and disposals | — | 13 | — | 12 | 25 |
| Reclassifications | — | 2 | — | 37 | 39 |
| Effect of foreign currency exchange differences | -1 | -3 | — | 17 | 13 |
| Balance at December 31, 2017 | -12 371 | -1 839 | — | -9 048 | -23 258 |
| Net balance at December 31, 2016 | 16 570 | 1 270 | 4 133 | 3 395 | 25 368 |
| Net balance at December 31, 2017 | 20 653 | 1 328 | 4 219 | 2 957 | 29 157 |

1) Volvo Car Group has capitalised borrowing costs related to product development of MSEK 185 (120). A capitalisation rate of 3.2 (3.6) per cent was used to determine the amount of borrowing costs eligible for capitalisation.

2) Of the total Net balance at December 31 2017, Goodwill amounts to MSEK 590 (509).

3) Other intangible assets refers to licences, dealer network, patents, land-use rights and similar rights.

Intangible assets with indefinite useful lives, i.e. trademark, goodwill, and other intangible assets not yet ready for use, are tested for impairment annually as well as if there are any indications of need for impairment. Assets with definite useful lives are tested if there are any indications of need for impairment. An impairment test is made by calculating the recoverable value. If the recoverable value is less than the carrying value, the asset is written down to its recoverable value. The recoverable amounts are based on a discounted cash flow model, with Volvo Car Group as one single Cash Generating Unit. Assumption of future market share, market growth and Volvo Car Group's expected performance in this environment is the basis for the valuation.

Management's business plan for 2018–2022 is used as a basis for the calculation. In the model, Volvo Car Group is expected to maintain stable efficiency over time and the estimates for the cash flows following the end of the planning period are based on the same growth rate and cash flow as for the last year in the calculation onwards in perpetuity.

The business plan is an integral part of Volvo Car Group's financial planning process and represents management's best estimate of the economic conditions that will exist during the asset's remaining lifetime. The business plan process is based on the historic and current financial performance and financial position of the company, i.e. assumptions for margin development, fixed cost and new investments are based on current year financials and balanced towards what is containable given the projection of exogenous factors. Exogenous factors as industry and segment volumes, exchange rates, raw material etc. are based on external assessments from analyst companies and banks. In 2017, the discounted cash flow exceeded the carrying amount and no impairment loss was recognised. A sensitivity test has been performed whether a negative adjustment of one percentage point to the margin development or in the discount rate would result in impairment. The discount rate before tax was 11.7 (12.1) per cent. No impairment loss was recognised as a result of this test.

NOTE 17 – TANGIBLE ASSETS

| | Buildings and land ^{1) 2) 3)} | Machinery and equipment ^{1) 2) 3) 4)} | Construction in progress | Assets under operating leases | Total |
|---|---|---|-----------------------------|----------------------------------|----------------|
| Aquisition cost | | | | | |
| Balance at January 1, 2016 | 15 604 | 75 635 | 4 124 | 2 518 | 97 881 |
| Additions | 319 | 8 257 | 5 211 | 1 315 | 15 102 |
| Acquired through business combinations | 261 | 225 | 1 | 259 | 746 |
| Divestments and disposals | -64 | -2 597 | -6 | -1 199 | -3 866 |
| Reclassification | 27 | 2 108 | -2 325 | — | -190 |
| Effect of foreign currency exchange differences | 206 | 413 | -96 | — | 523 |
| Balance at December 31, 2016 | 16 353 | 84 041 | 6 909 | 2 893 | 110 196 |
| Additions | 1 122 | 11 814 | 4 420 | 1 445 | 18 801 |
| Acquired through business combinations | 199 | 1 168 | — | — | 1 367 |
| Divestments and disposals | -37 | -2 746 | -3 | -1 333 | -4 119 |
| Reclassification | 94 | 2 305 | -2 399 | — | — |
| Effect of foreign currency exchange differences | -27 | -40 | -305 | — | -372 |
| Balance at December 31, 2017 | 17 704 | 96 542 | 8 622 | 3 005 | 125 873 |
| Accumulated depreciation and impairment | | | | | |
| Balance at January 1, 2016 | -7 491 | -50 444 | — | -346 | -58 281 |
| Depreciation expense | -582 | -5 277 | — | -376 | -6 235 |
| Divestments and disposals | 37 | 2 311 | — | 312 | 2 660 |
| Effect of foreign currency exchange differences | -108 | -281 | — | — | -389 |
| Balance at December 31, 2016 | -8 144 | -53 691 | — | -410 | -62 245 |
| Depreciation expense | -587 | -6 438 | — | -366 | -7 391 |
| Acquired through business combinations | -90 | -892 | — | — | -982 |
| Divestments and disposals | 34 | 2 319 | — | 351 | 2 704 |
| Effect of foreign currency exchange differences | -37 | -97 | — | -3 | -137 |
| Balance at December 31, 2017 | -8 824 | -58 799 | — | -428 | -68 051 |
| Net balance at December 31, 2016 | 8 209 | 30 350 | 6 909 | 2 483 | 47 951 |
| Net balance at December 31, 2017 | 8 880 | 37 743 | 8 622 | 2 577 | 57 822 |

1) Buildings and land include finance leases of MSEK 8 (16) and Machinery and equipment include finance leases of MSEK 68 (71).

For further information regarding finance leases, see Note 8 – Leasing.

2) Depreciation expense include impairment loss of MSEK -34 (-3). For further information regarding depreciations, see Note 10 – Depreciation and amortisation.

3) Volvo Car Group has no mortgages in property, plant and equipment. For further information regarding pledged assets, see Note 28 – Pledged assets.

4) Volvo Car Group has capitalised borrowing costs related to Machinery and equipment of MSEK 30 (49) and Construction in progress of MSEK 127 (—).

NOTE 18 – OTHER NON-CURRENT ASSETS

| | Dec 31, 2017 | Dec 31, 2016 |
|---|-----------------|-----------------|
| Restricted cash | 134 | 107 |
| Endowment insurance for pensions | 276 | 262 |
| Rental deposition | 59 | 51 |
| Derivative assets, non-current | 1,234 | 406 |
| Other receivables, non-current | 657 | 960 |
| Other non-current assets | 1,344 | 227 |
| Total | 3,704 | 2,013 |
| Change in other non-current assets during the year | | |
| | 2017 | 2016 |
| Balance at January 1 | 2,013 | 1,326 |
| Change in restricted cash | 27 | 8 |
| Change in endowment insurance for pensions | 13 | -27 |
| Change in derivative assets | 828 | -59 |
| Other changes | 823 | 765 |
| Balance at December 31 | 3,704 | 2,013 |

NOTE 19 – INVENTORIES

| | Dec 31, 2017 | Dec 31, 2016 |
|---|-----------------|-----------------|
| Raw materials and consumables | 139 | 143 |
| Products in progress | 7,148 | 4,507 |
| Current assets held under operating lease | 5,482 | 4,731 |
| Finished goods and goods in resale | 17,896 | 11,817 |
| Total | 30,665 | 21,198 |
| Of which value adjustment reserve: | -542 | -350 |

The cost of inventories recognised as an expense and included in cost of sales amounted to MSEK 157,188 (137,739). Current assets held under operating lease consists of a sale of vehicles combined with a repurchase agreement with a maturity less or equal to twelve months.

NOTE 20 – ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

| | Dec 31, 2017 | Dec 31, 2016 |
|--|-----------------|-----------------|
| Accounts receivable from non-group companies | 7,696 | 5,231 |
| Accounts receivable from related companies | 3,136 | 3,486 |
| VAT receivables | 2,561 | 1,649 |
| Prepaid expenses and accrued income | 1,723 | 1,688 |
| Other financial receivables | 1,309 | 751 |
| Restricted cash | 410 | 428 |
| Other receivables | 1,952 | 1,241 |
| Total | 18,787 | 14,474 |

| Aging analysis of accounts receivable and accounts receivables from related companies | Not due | 1–30 days overdue | 30–90 days overdue | >90 days overdue | Total |
|---|--------------|-------------------------|--------------------------|---------------------|---------------|
| 2017 | | | | | |
| Accounts receivable gross | 9,876 | 238 | 549 | 234 | 10,897 |
| Provision doubtful accounts receivable | -13 | — | -34 | -18 | -65 |
| Accounts receivable net | 9,863 | 238 | 515 | 216 | 10,832 |
| 2016 | | | | | |
| Accounts receivable gross | 8,205 | 303 | 157 | 106 | 8,771 |
| Provision doubtful accounts receivable | -3 | — | -28 | -23 | -54 |
| Accounts receivable net | 8,202 | 303 | 129 | 83 | 8,717 |

Accounts receivable amounting to MSEK 10,832 (8,717) includes provision for doubtful accounts receivable of MSEK 65 (54). The establishment of credit loss provisions for accounts receivable is recognised as soon as it is probable that a credit loss has incurred. A credit loss has incurred when there has been an event that has triggered the customer's inability to pay. As of December 31, 2017 the total credit loss reserves for account receivables amounted to 0.60 (0.62) per cent of total accounts receivable. The accounts receivable that are not yet due or subject to impairment are estimated to have high credit quality.

The size and geographical spread of the accounts receivable are closely linked to the distribution of the Group's sales and do not

contain any significant concentration of credit risk to individual customers or markets.

| Change in provision for doubtful accounts receivable is as follows: | 2017 | 2016 |
|---|-----------|-----------|
| Balance at January 1 | 54 | 71 |
| Additions | 27 | 25 |
| Reversals | -2 | -35 |
| Write-offs | -14 | -8 |
| Translation difference | — | 1 |
| Balance at December 31 | 65 | 54 |

NOTE 21 – FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

In its operations, Volvo Car Group is exposed to various types of financial risks such as currency risk, funding and liquidity risk, interest rate risk, commodity price risk and credit risk.

Volvo Car Group's treasury function is responsible for management and control of these financial risks, it ensures that appropriate financing is in place through capital market transactions, loans and committed credit facilities and manages the Group's liquidity. The management of financial risks is governed by Volvo Car Group's treasury policy which is approved by the Board of Directors and is subject to annual review. The policy is focused on minimising the negative effects from fluctuating financial markets on Volvo Car Group's financial earnings. A monthly follow up of the treasury policy in form of a Group treasury monthly report is presented to the Audit Committee and distributed to the Board of Directors.

Currency risk

The currency exposure arises mainly from the production in various countries, procurement and the mix of sales currencies. Relative changes in the currency rates have a direct impact on the Volvo Car Group's operating income, finance net, balance sheet and cash flow statement.

The currency risk is related to:

- expected future cash flows from sales and purchase in foreign currencies (transaction risk)
- changes in value of assets and liabilities in foreign currencies (translation risk)
- net investments in foreign operations (translation risk)

Transaction exposure risk**Group treasury policy**

The currency transaction exposure risk arises from cash flows in other currencies than the presentation currency of the Group. Sales to different markets in combination with purchases in different currencies determine the transaction exposure.

The policy for transaction risk management states that up to 80 per cent of the future expected cash flows in the coming twenty-four months and up to 60 per cent of the future expected cash flows in the coming twenty-five to forty-eight months can be hedged with adequate financial instruments: options, forwards or combined instruments with maturities matching expected timing of cash flows. Hedging strategies using financial instruments for long term exposures (over forty-eight months) requires a Board of Directors decision.

For currency risk management, transaction exposure is expressed in terms of Cash Flow at Risk (CFaR), which is the maximum loss at a 95 per cent confidence level in one year. The CFaR is based on the cash flow forecast, market volatility and correlations.

The steering model for hedging of transaction risk is decided in the Group's treasury policy. It stipulates that a hedging strategy is proposed by Group treasury and approved by the CEO/CFO and is expressed as a strategic hedge level of CFaR with a mandate to deviate from that strategic hedge level. The deviation mandate is given as a tactical mandate in terms of timing. The hedging strategy is revised at least quarterly.

Status at year end

Sales to markets other than Sweden generate transaction exposure. For the majority of the sales Volvo Cars invoices the national sales companies in their local currencies. The total currency inflow and outflow was distributed according to below table:

| | Inflow | | Outflow | |
|-------|--------|------|---------|------|
| | 2017 | 2016 | 2017 | 2016 |
| CNY | 23% | 21% | 23% | 15% |
| EUR | 27% | 29% | 52% | 61% |
| GBP | 7% | 8% | 2% | 3% |
| JPY | 3% | 3% | 7% | 6% |
| USD | 20% | 21% | 10% | 10% |
| Other | 19% | 18% | 6% | 5% |

Forward contracts and options are used to hedge the currency risk in expected future cash flows from sales and purchase in foreign currencies. The hedging of the currency risk from the Chinese industrial entities is made onshore in China with start from November 2017.

The CFaR at year end for the cash flows in one year for the group, excluding hedges, was approximately SEK 5 (5) billion. The table below shows the percentage of the forecasted cash flows that were hedged expressed both in nominal terms and in CFaR. CFaR has a higher percentage hedge than the nominal cash flow because it leverages the correlation between currencies.

| | 0-24 months | | 25-48 months | |
|---------------------|-------------|------|--------------|------|
| | 2017 | 2016 | 2017 | 2016 |
| Nominal hedge, % | 29 | 33 | 5 | 6 |
| CFaR incl hedges, % | 38 | 42 | 11 | 9 |

Maturities of cash flow hedges (forwards and options), nominal amounts in millions, local currency

| Maturity | EUR | GBP | USD | CNH | NOK | JPY | AUD | CHF | CAD | PLN | CNY |
|--------------|-------|--------|--------|-------|--------|--------|------|-----|------|------|------|
| 0-24 months | 1,453 | -1,035 | -3,693 | 2,878 | -3,338 | 43,346 | -382 | -80 | -444 | -930 | -681 |
| 25-48 months | — | -361 | -1,070 | — | -400 | — | -5 | — | -143 | — | — |

The average duration of the portfolio was 12 (14) months. The fair value of the outstanding currency derivatives as at December 31, 2017 amounted to MSEK 1,620 (-2,898).

Hedge accounting - cash flow hedge

Hedge accounting is applied for cash flow hedging of currency risk. Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in other comprehensive income.

The highly probable forecast transactions in foreign currencies that are hedged are expected to occur at various dates during the next forty-eight months. Gains and losses recognised in other comprehensive income and accumulated in other reserves in equity on foreign exchange forward contracts as of December 31, 2017 are recognised in the income statement in the periods when the hedged forecast transaction affects the income statement, which are shown in the maturity table above.

The sensitivity in the portfolio of cash flow hedges measured as a one per cent change in the Swedish krona (SEK) against major currencies has a net impact of MSEK 467 (634) on other comprehensive income.

The cash flow hedge reserve related to currency hedges, included in other reserves, in shareholders' equity as at December 31, 2017 amounts to MSEK 1,608 (-2,843) before tax. The fluctuation from December 31, 2016 to December 31, 2017 within the hedge reserve that has had an impact on other comprehensive income in 2017 is MSEK 4,451 (-3,961) before tax. The balance of MSEK 1,608 (-2,843) represents the fair value of derivatives used for cash flow hedging per December 31, 2017. Along with time value in options and cross currency options, recorded in the income statement, this builds up the total fair value of MSEK 1,620 (-2,898). No ineffectiveness has affected net income for 2017 and 2016.

| Fair value of currency derivatives for cash flow hedging | 2017 | 2016 |
|--|--------------|---------------|
| Hedge reserve | 1,608 | -2,843 |
| Recognised in other comprehensive income | 1,608 | -2,843 |
| Time value in options and cross currency options | 12 | -55 |
| Recognised in other operating income and expenses | 12 | -55 |
| Total fair value | 1,620 | -2,898 |

Translation exposure risk**Group treasury policy**

Translation risk in Volvo Car Group primarily relates to the translation of net investments in foreign operations. This exposure can generate a positive or negative impact on other comprehensive income. Translation risk of assets and liabilities in foreign currencies related to the operations, as accounts receivable, accounts payable and warranty provisions, will generate an impact on the operating income. All translation of assets and liabilities to credit institutions and intercompany loans and deposits are reflected in the finance net.

The translation risk is hedged either by matching the currency composition of debt with the composition of assets or via financial derivatives.

Status at year end

The table below shows the translation exposure of net investments in foreign operations as at December 31, 2017.

| | CNY | EUR | USD | JPY | AUD | Other | Total |
|--|---------------|--------------|--------------|------------|------------|--------------|---------------|
| Investments in foreign operations (MSEK) | 14,442 | 5,449 | 1,422 | 850 | 509 | 2,256 | 24,928 |
| Translation exposure | 14,442 | 5,449 | 1,422 | 850 | 509 | 2,256 | 24,928 |

A one per cent change in the Swedish krona against major currencies has a net impact on other comprehensive income of approximately MSEK 249 (164). Part of the investments in operations in the Euro-zone is used for hedge accounting, further explained below. The residual translation risk is part of the strategic risk management and is not hedged with financial instruments, the translation effect is recognised in other comprehensive income.

Total translation effect of net investments in foreign operations was MSEK -318 (514). This effect does not impact the income statement but is recognised in other comprehensive income.

Hedge accounting – hedge of net investments in foreign operations

Hedge accounting is applied for net investment in foreign operations. Volvo Car Group designates MEUR 420 of the EUR debt to reduce the translation exposure on net investments in EUR. The currency gains or losses from the translation of the net investments in operations in EUR used for hedge accounting are recognised in other comprehensive income.

The hedge reserve for net investment in foreign operations, included in equity in the currency translation reserve, as at December 31, 2017 amounts to MSEK -465 (-345) before tax. No ineffectiveness has affected net income for 2017 and 2016.

| Fair value of financial instruments for hedging of net investment in foreign operations | 2017 | 2016 |
|--|-------------|-------------|
| Hedge reserve | -465 | -345 |
| Recognised in other comprehensive income | -465 | -345 |
| Total fair value | -465 | -345 |

Funding and liquidity risk management**Capital Structure**

Volvo Car Group's treasury policy stipulates that the medium term objective is to have a capital structure that enables the company to deliver according to the requirements in the business plan. The longer term objective is to have a capital structure that enables investment grade rating; Volvo Car Group's current external rating by Moody's is Ba2 and by Standard & Poor BB+. The equity ratio as per December 31, 2017 is 28.7 (26.8) per cent. Volvo Car Group defines capital as shareholders' equity. As at December 31, 2017, shareholders' equity amounted to MSEK 54,660 (43,310).

Long term funding**Group treasury policy**

Funding risk is the risk that the Group does not have access to adequate financing on acceptable terms at any given point.

All draw down on new loans is evaluated against future liquidity needs and investment plans. Volvo Car Group should for the coming twelve months at any given time have available committed financing for investments and maturing loans. To limit the risk of refinancing, debt maturing over the next twelve months should not exceed 25 per cent of total debt. Less than 50 per cent of the long term debt should be re-financeable within three years.

Status at year end

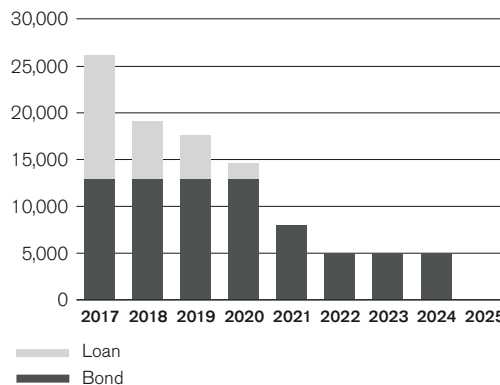
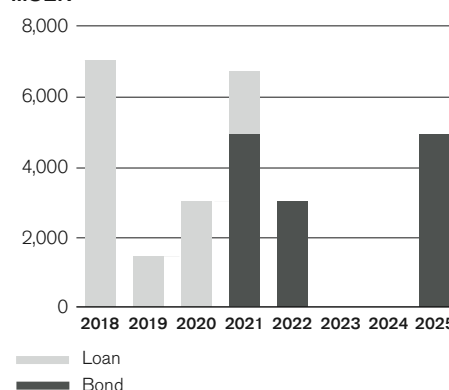
In the beginning of November, Volvo Car Group and the European Investment Bank signed a MEUR 245 loan agreement backing research and development activities. The loan facility with the Euro-

pean Investment Bank is currently undrawn. In the middle of November, Volvo Car Group issued a 7.2 year, MEUR 500 bond under its newly established Euro Medium Term Note program.

The outstanding amount of bonds and liabilities to credit institutions, excluding finance lease contracts and capitalised transaction costs, in Volvo Car Group as per year end 2017 was MSEK 26,910 (24,515). Remaining credit duration of the outstanding facilities was 3.1 (3.4) years. Debt maturing over the next twelve months was at year end 25 per cent and 43 per cent of the Group's long term debt is refinable within three years.

Outstanding debt are shown below.

| Funding | Currency | Nominal amount in respective currency (million) | MSEK |
|----------------|-----------------|--|---------------|
| Bank loan | EUR | 589 | 5,798 |
| Bank loan | USD | 626 | 5,139 |
| Bank loan | SEK | 2,300 | 2,300 |
| Bond | EUR | 1,000 | 9,840 |
| Bond | SEK | 3,000 | 3,000 |
| Other | SEK | — | 833 |
| Total | | | 26,910 |

Maturity structure of bonds and liabilities to credit institutions MSEK**Loan and bond amortisation schedule MSEK**

In relation to all external financing there are information undertakings and covenants according to Loan Market Association (LMA) and capital market standards. These are monitored and calculated quarterly to

fulfil the terms and conditions stated in the financial agreements. Covenants are based on standard ratios such as EBITDA and Net debt.

Liquidity risk management

Group treasury policy

Liquidity risk is the risk that Volvo Car Group is unable to meet ongoing financial obligations on time. In order to meet seasonal volatility in cash requirements, Volvo Car Group shall always have committed credit facilities or cash and marketable securities available corresponding to 15 per cent or more of Net revenue. The rolling twelve months cash flow forecasts are the basis for the risk assessment of the liquidity risk management.

Status at year end

In June, Volvo Car Group signed a five year, MEUR 1,300 revolving credit facility with a group of leading global and regional banks. The MEUR 1,300 revolving credit facility replaces the existing MEUR 660

revolving credit facility signed in June 2014. It will serve as a back-up facility for general corporate purposes and has a tenor of five years. The new credit facility broadens the group of banks working with Volvo Cars, the existing group of 12 banks has been extended to 22 participating banks. The facility remains undrawn.

As at December 31, 2017, Volvo Car Group had committed credit facilities and cash and marketable securities available of MSEK 54,597 (49,678) approximately 26 (27) per cent of Net revenue. The liquidity of the Group is strong considering the maturity profile of the external borrowings, the balance of cash and cash equivalents and marketable securities, and available credit facilities from banks.

The following table presents the maturity structure of the Group's financial assets and liabilities. The figures shown are contractual undiscounted cash flows based on contracted date, when the Group is liable to pay or eligible to receive, and includes both interest and nominal amounts.

| Dec 31, 2017 | Less than 3 months | 3 months to 1 year | 1–5 years | Over 5 years |
|--|-----------------------|-----------------------|---------------|--------------|
| Assets | | | | |
| Receivables on parent company | — | — | 54 | — |
| Derivative assets | — | — | 1,234 | — |
| Other non-current assets ¹⁾ | — | — | 2,356 | 50 |
| Total non-current financial assets | — | — | 3,644 | 50 |
| Accounts receivable | 9,939 | 893 | — | — |
| Derivative assets | 366 | 806 | — | — |
| Other current assets ¹⁾ | 1,518 | 785 | — | — |
| Marketable securities | 214 | 3,778 | — | — |
| Cash and cash equivalents | 35,402 | — | — | — |
| Total current financial assets | 47,439 | 6,262 | — | — |
| Total financial assets | 47,439 | 6,262 | 3,644 | 50 |
| Liabilities | | | | |
| Bonds ²⁾ | 87 | 262 | 8,560 | 5,221 |
| Liabilities to credit institutions ²⁾ | — | — | 7,217 | 3 |
| Derivative liabilities | — | — | 223 | — |
| Other non-current liabilities ¹⁾ | — | — | 2,396 | 313 |
| Total non-current financial liabilities | 87 | 262 | 18,396 | 5,537 |
| Liabilities to credit institutions ²⁾ | 4,142 | 3,717 | — | — |
| Accounts payable | 35,959 | 2,577 | — | — |
| Derivative liabilities | 258 | 313 | — | — |
| Other current liabilities ¹⁾ | 2,244 | 6,702 | — | — |
| Total current financial liabilities | 42,603 | 13,309 | — | — |
| Total financial liabilities | 42,690 | 13,571 | 18,396 | 5,537 |

1) Pre-payments as well as statutory receivables and liabilities excluded.

2) Including interest

Interest rate risk management

Changes in the interest rate levels will impact Volvo Car Group's net financial income/expense and the value of financial assets and liabilities. The return on cash and cash equivalents, short term investments and credit facilities are impacted by changes in the interest rates. The exposure can be either direct from interest rate bearing debt or indirect through leasing or other financing arrangements.

Group treasury policy

According to the policy, the interest rate risk in Volvo Car Group's net debt position has a benchmark duration of twelve months. The policy allows a deviation of -9/+12 months from the benchmark.

Status at year end

As at December 31, 2017, Volvo Car Group's interest-bearing assets consisted of cash in the form of cash at bank, short term deposits and marketable securities. The average interest fixing term on these assets was less than one month. The average interest fixing term on debt was around 20 months. At year end the duration of the net debt position was 19 (6) months. The average cost of borrowing was 3.9 (4.3) per cent.

To manage interest rate risk, the Group uses interest rate swaps and forward rate agreements.

Given the prevailing amount of interest-bearing liabilities as per year end, an increase of the interest rates by 100 basis point (one per cent) would have a cash flow impact on financial expenses, including the effect of derivatives, by approximately MSEK 168 (178).

Hedge accounting – fair value hedge

Hedge accounting can be applied for hedging of changes in the fair value of fixed rate loans (bank loans or issued bonds) due to changes in market interest rate. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged loan that are attributable to the hedged risk. The carrying amount of the hedged loan is adjusted for the gain or loss attributable to the hedged risk, i.e. the loan is recorded at amortised cost with a fair value adjustment. Both gains and losses relating to the interest rate swaps and the changes in the fair value of the hedged fixed rate loans attributable to the interest rate risk are recognised in the income statement within financial expenses.

Volvo Car Group hedges the fair value risk of the MEUR 500 bond issued in May 2016 by using interest rate swaps, the bond with fixed interest payments has been swapped into floating interest. Changes in fair value of the interest component of the bond is hedged through a fair value hedge by means of interest rate swaps. The carrying amount of the bond is MSEK 4,854 (4,717). A fair value adjustment related to the interest component of the bond is included in the carrying amount of the bond. The fair value component of the carrying value amounts to MSEK -14 (6).

Commodity price risk management

Commodity price risk is the risk that the cost of materials could increase as commodity prices rise in global markets. Changes in commodity prices impact Volvo Car Group's cash flow and earnings.

Strategic commodity price risk arises from the procurement mix of commodities and is primarily managed through contracts with the suppliers using clauses or similar constructions and fixed prices with suppliers. In 2017, Volvo Car Group had cost for raw materials of approximately SEK 15 (11) billion.

A one per cent change in the prices of commodities has an impact on operating income of approximately MSEK 148 (110).

Group treasury policy

Forecasted cash flows in commodities for the coming twenty-four months can be hedged up to 70 per cent with adequate financial instruments. The hedging strategy shall be proposed by Group Treasury and approved by CEO/CFO.

Status at year end

Volvo Car Group manages the changes in prices for electricity by using forward contracts. The hedging is managed under an advisory contract with Vattenfall Power Management AB.

Hedge accounting – cash flow hedge of electricity price risk

Hedge accounting is applied for cash flow hedging of electricity price risk, effective from January 1, 2016. Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting, i.e. the value of the hedging instrument that corresponds to the value of forecasted electricity consumption, are recognised in other comprehensive income and accumulated in other reserves in equity. The gains and losses are then recognised in the income statement in the periods when the hedged forecast transaction affects the income statement. Any ineffectiveness in a hedge relationship is recognised in the income statement.

The highly probable forecast transactions in electricity consumption that are hedged are expected to occur in any chosen calendar quarter during the next twenty-four months. The hedging instruments used are bilateral OTC contracts between Volvo Car Corporation and Vattenfall Power Management AB.

A one per cent change in the electricity spot price has an impact on other comprehensive income of MSEK 1.3 (2.0).

The cash flow hedge reserve related to electricity hedges, included in other reserves in shareholders' equity as at December 31, 2017 amounts to MSEK 22 (21) before tax. No ineffectiveness has affected net income for 2017 and 2016.

| Fair value of derivatives for electricity hedging | 2017 | 2016 |
|--|-----------|-----------|
| Hedge reserve | 22 | 21 |
| Recognised in other comprehensive income | 22 | 21 |
| Non hedge accounting | 3 | 7 |
| Recognised in other operating income and expenses | 3 | 7 |
| Total fair value | 25 | 28 |

Credit risk management

Volvo Car Group's credit risk can be divided in financial credit risk and operational credit risk. These risks are described in the following sections.

Financial credit risk

Group treasury policy

Credit risk on financial transactions is the risk that Volvo Car Group will incur losses as a result of non-payment by counterparties related to the Group's investments, bank deposits or derivative transactions. All investments must meet the requirements of low credit risk, high liquidity and the exposure with any single counterparty is limited. All counterparties used for investments and derivative transactions have credit rating A- or better from one of the well-established credit rating institutions and ISDA agreements is required for counterparties with which derivative contracts are entered according to Volvo Car Group's treasury policy. Limits are established according to counterparty credit rating and limit usage is monitored for the Volvo Car Group's treasury counterparties and deposits are diversified between relationship banks. Subsidiaries' bank balances are diversified in order to limit credit risk.

Status at year end

The maximum amount exposed to financial credit risk is the total of cash and cash equivalents MSEK 35,402 (38,635), investments in marketable securities MSEK 3,992 (4,738) and market value of outstanding derivative assets MSEK 2,406 (1,078). The maximum amount exposed to credit risk for financial instruments is best represented by their fair values, see table 'Financial assets and liabilities by category' in this note.

No financial assets and liabilities are offset in the balance sheet. Derivative contracts are subject to master netting agreements (ISDA). No collateral has been received or posted. The table below shows derivatives covered by master netting agreements (ISDA).

| Outstanding net position for derivative instruments | Gross | Offset in Balance sheet | Net in Balance sheet | Master netting agreements | Net position |
|---|-------|-------------------------|----------------------|---------------------------|--------------|
| December 31, 2017 | | | | | |
| Derivative assets | 2,406 | — | 2,406 | -753 | 1,653 |
| Derivative liabilities | 794 | — | 794 | -753 | 41 |
| December 31, 2016 | | | | | |
| Derivative assets | 1,078 | — | 1,078 | -1,015 | 63 |
| Derivative liabilities | 3,905 | — | 3,905 | -1,015 | 2,890 |

Operational credit risk

The operational credit risk arise from accounts receivables. For the risk in customer and dealer financing, the objective is to have a sound and balanced credit portfolio and to engage in credit monitoring by means of detailed procedures which include follow-up and repossession. In cases where the credit risk is considered unsatisfactory a letter of credit or other instruments are used. The maximum amount exposed to credit risk is the carrying amount of accounts receivable, see table 'Financial assets and liabilities by category' in this note. For quantification of credit risk in accounts receivable refer to Note 20 - Accounts receivable and other current assets.

Financial Instruments - Classification and measurement

Financial instruments are divided into three levels depending on the market information available.

- Level 1: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3: Level 3 inputs are unobservable inputs for the assets or liabilities.

All derivative financial instruments and marketable securities that Volvo Car Group holds as of December 31, 2017 belong to level 2. In level 3, the amount invested in other long-term securities holdings MSEK 80 (79) is valued at cost, as this is the best approximate of fair value. No additions, divestments or revaluations made in 2017, and no transfers between the levels of the fair value hierarchy have occurred.

Fair value estimation

Financial assets and liabilities are measured at amortised cost or fair value depending on their initial classification. Fair value is defined as the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Amortised cost is calculated using the effective interest method, where any premiums or discounts and directly attributable costs and revenue are capitalised over the contract period using the effective interest rate. Valuation of financial instruments at fair value is based on prevailing market data and on a discounting of estimated cash flows using the deposit/swap curve of the cash flow currency and include risk assumptions. For currency option instruments, the valuation is based on Black & Scholes formula. Fair value of commodity contracts is calculated by discounting the difference between the contracted forward price and the contracted forward price that can be obtained on the balance sheet date for the remaining contract period.

The fair value of a financial asset or liability reflects non-performance risk including the counterparty's credit risk for an asset and an entity's own credit risk for a liability. Volvo Car Group has chosen to use Default Probability per counterparty to adjust the positive market value on derivatives and marketable securities. Own credit risk is adjusted for by taking an average of the Default Probability of a peer group of car manufacturers.

The table below presents Volvo Car Group's financial assets and liabilities that are measured at fair value.

| December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|--------------|
| Derivative instruments for hedging of currency risk in future commercial cash flows | — | 2,311 | — | 2,311 |
| Derivative instruments for hedging of currency risk related to financial assets and liabilities | — | 63 | — | 63 |
| Derivative instruments for hedging of interest rate risk | — | 3 | — | 3 |
| Electricity derivatives | — | 29 | — | 29 |
| Marketable securities ¹⁾ | — | 2,771 | — | 2,771 |
| Other long-term securities holdings | — | — | 80 | 80 |
| Total assets | — | 5,177 | 80 | 5,257 |
| Derivative instruments for hedging of currency risk in future commercial cash flows | — | 691 | — | 691 |
| Derivative instruments for hedging of currency risk related to financial assets and liabilities | — | 79 | — | 79 |
| Derivative instruments for hedging of interest rate risk | — | 20 | — | 20 |
| Electricity derivatives | — | 4 | — | 4 |
| Total liabilities | — | 794 | — | 794 |
| December 31, 2016 | | | | |
| Derivative instruments for hedging of currency risk in future commercial cash flows | — | 895 | — | 895 |
| Derivative instruments for hedging of currency risk related to financial assets and liabilities | — | 133 | — | 133 |
| Derivative instruments for hedging of interest rate risk | — | 5 | — | 5 |
| Electricity derivatives | — | 45 | — | 45 |
| Marketable securities ¹⁾ | — | 7,537 | — | 7,537 |
| Other long-term securities holdings | — | — | 79 | 79 |
| Total assets | — | 8,615 | 79 | 8,694 |
| Derivative instruments for hedging of currency risk in future commercial cash flows | — | 3,793 | — | 3,793 |
| Derivative instruments for hedging of currency risk related to financial assets and liabilities | — | 82 | — | 82 |
| Derivative instruments for hedging of interest rate risk | — | 13 | — | 13 |
| Electricity derivatives | — | 17 | — | 17 |
| Total liabilities | — | 3,905 | — | 3,905 |

1) Whereof MSEK 991 (2,720) are reported as marketable securities in the balance sheet and MSEK 1,780 (4,817) are reported as cash and cash equivalents.

| Financial assets and liabilities by category | Financial instruments at fair value through profit and loss | | | | Financial liabilities at amortised cost | Total | Fair value |
|--|---|--------------------------------------|-----------------------|-----------------------|---|---------------|---------------|
| | Instruments held for trading | Derivatives used in hedge accounting | Financial liabilities | Loans and receivables | | | |
| December 31, 2017 | | | | | | | |
| Receivables on parent company | — | — | — | 54 | — | 54 | 54 |
| Other non-current assets ¹⁾ | — | — | — | 2,406 | — | 2,406 | 2,406 |
| Accounts receivable | — | — | — | 10,832 | — | 10,832 | 10,832 |
| Derivative assets | 85 | 2,321 | — | — | — | 2,406 | 2,406 |
| Other current assets ¹⁾ | — | — | — | 2,303 | — | 2,303 | 2,303 |
| Marketable securities | 991 | — | — | 3,001 | — | 3,992 | 3,992 |
| Cash and cash equivalents | 1,780 | — | — | 33,622 | — | 35,402 | 35,402 |
| Total financial assets | 2,856 | 2,321 | — | 52,218 | — | 57,395 | 57,395 |
| Bonds and liabilities to credit institutions ²⁾ | — | — | — | — | 26,783 | 26,783 | 27,465 |
| Other non-current liabilities ¹⁾ | — | — | 221 | — | 2,488 | 2,709 | 2,709 |
| Accounts payable | — | — | — | — | 38,536 | 38,536 | 38,536 |
| Derivative liabilities | 103 | 691 | — | — | — | 794 | 794 |
| Other current liabilities ¹⁾ | — | — | — | — | 8,946 | 8,946 | 8,946 |
| Total financial liabilities | 103 | 691 | 221 | — | 76,753 | 77,768 | 78,450 |
| December 31, 2016 | | | | | | | |
| Receivables on parent company | — | — | — | 54 | — | 54 | 54 |
| Other non-current assets ¹⁾ | — | — | — | 1,607 | — | 1,607 | 1,607 |
| Accounts receivable | — | — | — | 8,717 | — | 8,717 | 8,717 |
| Derivative assets | 159 | 919 | — | — | — | 1,078 | 1,078 |
| Other current assets ¹⁾ | — | — | — | 1,484 | — | 1,484 | 1,484 |
| Marketable securities | 2,720 | — | — | 2,018 | — | 4,738 | 4,738 |
| Cash and cash equivalents | 4,817 | — | — | 33,818 | — | 38,635 | 38,635 |
| Total financial assets | 7,696 | 919 | — | 47,698 | — | 56,313 | 56,313 |
| Bonds and liabilities to credit institutions ²⁾ | — | — | — | — | 24,422 | 24,422 | 24,900 |
| Other non-current liabilities ¹⁾ | — | — | 137 | — | 3,467 | 3,604 | 3,604 |
| Accounts payable | — | — | — | — | 30,508 | 30,508 | 30,508 |
| Derivative liabilities | 163 | 3,742 | — | — | — | 3,905 | 3,905 |
| Other current liabilities ¹⁾ | — | — | — | — | 7,908 | 7,908 | 7,908 |
| Total financial liabilities | 163 | 3,742 | 137 | — | 66,305 | 70,347 | 70,825 |

1) Pre-payments as well as statutory receivables and liabilities excluded.

2) The carrying amount of the bonds are presented above including a fair value adjustment amounting to MSEK -14 (6), which relates to the fair value hedge, see Note 1 - Accounting principles. Fair value of the bonds is estimated based on level 1 inputs.

The carrying amount essentially equals the fair value for all current items.

For aging analysis regarding accounts receivable refer to Note 20 - Accounts receivable and other current assets. For aging analysis

regarding liabilities to credit institutions refer to Funding and liquidity risk management section in this note. Accounts payables are for the most part due within 60 days.

| | Dec 31, 2017 | | Dec 31, 2016 | |
|--|----------------|--------------|----------------|---------------|
| | Nominal amount | Fair value | Nominal amount | Fair value |
| Nominal amounts and fair values of derivative instruments | | | | |
| Derivative instruments for hedging of currency risk related to financial assets and liabilities | | | | |
| <i>Foreign exchange swaps and forward contracts</i> | | | | |
| – receivable position ¹⁾ | 5,594 | 63 | 7,612 | 133 |
| – payable position ²⁾ | 10,033 | -79 | 6,839 | -82 |
| Subtotal | 15,627 | -16 | 14,451 | 51 |
| Derivative instruments for hedging of currency risk in future commercial cash flows | | | | |
| <i>Foreign exchange swaps and forward contracts</i> | | | | |
| – receivable position ¹⁾ | 57,861 | 2,294 | 22,965 | 885 |
| – payable position ²⁾ | 30,407 | -689 | 68,319 | -3,676 |
| <i>Currency options</i> | | | | |
| – receivable position ¹⁾ | 1,551 | 17 | 2,892 | 10 |
| – payable position ²⁾ | 812 | -2 | 3,417 | -117 |
| Subtotal | 90,631 | 1,620 | 97,593 | -2,898 |
| Derivative instruments for hedging of interest rate risk | | | | |
| <i>Interest rate swaps</i> | | | | |
| – receivable position ¹⁾ | 750 | 3 | 750 | 5 |
| – payable position ²⁾ | 4,920 | -20 | 4,777 | -13 |
| Subtotal | 5,670 | -17 | 5,527 | -8 |
| Derivative instruments for hedging of electricity price risk | | | | |
| <i>Forward contracts</i> | | | | |
| – receivable position ¹⁾ | 80 | 29 | 201 | 45 |
| – payable position ²⁾ | 27 | -4 | 101 | -17 |
| Subtotal | 107 | 25 | 302 | 28 |
| Total | 112,035 | 1,612 | 117,873 | -2,827 |

1) Financial instruments included in the balance sheet under other non-current assets and other current assets.

2) Financial instruments included in the balance sheet under other non-current liabilities and other current liabilities.

The table below shows how gains and losses as well as interest income and expenses have affected the income statement divided on the different categories of financial instruments.

Net gains/losses, interest income and expenses related to financial instruments

| | 2017 | | | 2016 | | |
|---|--------------|-----------------|-------------------|--------------|-----------------|-------------------|
| | Gains/losses | Interest income | Interest expenses | Gains/losses | Interest income | Interest expenses |
| Recognised in operating income | | | | | | |
| Financial assets and liabilities at fair value through profit and loss | | | | | | |
| Derivative instruments for hedging of currency risk in future commercial cash flows rerouted from the hedge reserve, including time value in options and cross currency options | -115 | — | — | 366 | — | — |
| Electricity derivatives | -5 | — | — | 72 | — | — |
| Other financial liabilities, loans and receivables | | | | | | |
| Accounts receivable/accounts payable ¹⁾²⁾ | -292 | — | — | 211 | — | — |
| Effect on operating income | -412 | — | — | 649 | — | — |
| Recognised in financial items | | | | | | |
| Financial assets and liabilities at fair value through profit and loss | | | | | | |
| Derivative instruments for hedging of currency risk related to financial assets and liabilities | 223 | 17 | — | 540 | 32 | — |
| Derivative instruments for hedging of interest rate risk | 12 | 7 | — | -14 | — | -3 |
| Financial liabilities at fair value through profit and loss | -90 | — | — | -73 | — | — |
| Marketable securities | -22 | 36 | — | -14 | 3 | — |
| Other financial liabilities, loans and receivables | | | | | | |
| Loans and receivables ¹⁾ | -23 | — | — | -200 | — | — |
| Cash and cash equivalents ¹⁾ | -338 | 251 | — | 406 | 180 | — |
| Financial liabilities at amortised cost including currency effects ¹⁾ | 192 | — | -995 | -665 | — | -984 |
| Effect on financial items | -46 | 311 | -995 | -20 | 215 | -987 |

1) The total income and expenses from items that are not measured at fair value through profit and loss amounts to MSEK 443 (797) and MSEK -1,648 (-1,849) respectively.

2) Unrealised and realised foreign exchange effect on accounts receivable and accounts payable

NOTE 22 – MARKETABLE SECURITIES AND CASH AND CASH EQUIVALENTS

| Marketable securities | Dec 31, 2017 | Dec 31, 2016 |
|------------------------|-----------------|-----------------|
| Commercial papers | 991 | 2,720 |
| Time deposits in banks | 3,001 | 2,018 |
| Total | 3,992 | 4,738 |

Marketable securities comprise of interest-bearing investments with a term of more than three months from acquisition date.

| Cash and cash equivalents | Dec 31, 2017 | Dec 31, 2016 |
|---------------------------------|-----------------|-----------------|
| Cash in banks | 21,421 | 25,575 |
| Time deposits in banks | 12,201 | 8,243 |
| Commercial papers ¹⁾ | 1,780 | 4,817 |
| Total | 35,402 | 38,635 |

1) Commercial papers which mature within three months of the date of acquisition.

Cash and Cash equivalents includes MSEK 1,672 (1,030) where limitations exist, mainly liquid funds in certain countries where exchange controls or other legal restrictions apply. It is not possible to immediately use the liquid funds in other parts of Volvo Car Group, however there is normally no limitation for use in the Group's operation in the respective country.

NOTE 23 – EQUITY

The share capital consists of 50,000,000 ordinary A-shares and 500,000 preference P-shares. Each ordinary A-share carries ten votes, and each preference share carries one vote. An ordinary A-share entitles its holder to a dividend that is determined in due course. A preference P-share entitles its holder to an annual dividend of SEK 250¹⁾ per share. Board of Directors' proposal of the 250 SEK dividend per preference share is submitted to the annual general meeting for decision. All issued shares are fully paid.

In 2016, a directed new issue of 500,000 preference shares was made, whereby MSEK 5,000 was added to the equity of Volvo Car Group. Pricing of the new shares took into consideration the preferential status (priority over ordinary shares in the payment of dividends and upon liquidation) of these shares over ordinary shares, a pre-stated size of yearly dividend and a future conversion of preference shares to listed ordinary shares in a structure that is not 1:1²⁾.

The preference shares constitute equity instruments, since payment of dividends is subject to a decision by a general meeting of the shareholders and a possible redemption (exercising of an embedded call option) of preference shares is on Volvo Car AB's (publ.) initiative. Thus, it is discretionary for the company whether payment of dividends

or redemption of these preference shares occurs and consequently no contractual obligation exists to pay out funds. In addition, in the event of conversion of preference shares into ordinary shares, the conversion ratio on Volvo Car Group level is fixed 1:1²⁾.

A conversion of preference shares to ordinary shares is subject to a decision by the annual general meeting. Subject to such a decision, a conversion is mandatory for the shareholders. At the conversion, the preferential status of the preference shares will cease.

Volvo Car AB (publ.) has a call option to redeem the preference shares for a consideration of 112.5 per cent of the nominal amount. This call option is classified as an equity instrument.

- 1) 36 months after the issue, increased to at least SEK 750 per share.
- 2) Subject to certain contractual conditions are being met and subject to a decision by the annual general meeting of the shareholders of Volvo Car AB (publ.), the main owner of Volvo Car AB (publ.), Geely Sweden Holdings AB, shall reallocate shares to the investors. If a conversion is carried out, the transaction will occur outside of the Volvo Car Group. The number of potential shares to be transferred is dependent on certain conditions at the time of the conversion.

Share capital trend

| Day | Month | Year | Event | Change in number of shares | Total number of outstanding shares | Par value per share, SEK | Change in share capital, SEK | Total share capital, SEK |
|-----|-------|------|--|----------------------------------|--|--------------------------------|------------------------------------|--------------------------------|
| 07 | 06 | 2010 | Start date | 100,000 | 100,000 | 1.00 | 100,000 | 100,000 |
| 04 | 05 | 2016 | Bonus issue | — | 100,000 | 5.00 | 400,000 | 500,000 |
| 22 | 12 | 2016 | Split | 400,000 | 500,000 | 1.00 | — | 500,000 |
| 22 | 12 | 2016 | Bonus issue | 49,500,000 | 50,000,000 | 1.00 | 49,500,000 | 50,000,000 |
| 22 | 12 | 2016 | Directed new issue of preference shares | 500,000 | 50,500,000 | 1.00 | 500,000 | 50,500,000 |

The share premium relates to issue in kind attributable to Zhejiang Geely Holding Group Co., Ltd's acquisition in year 2010. Share premium also include capital received (reduced by transaction costs) in excess of par value of issued capital.

Other contributed capital consists of Group contribution to Geely Sweden Holdings AB and unconditional shareholders' contribution from Shanghai Geely Zhaoyuan International Investment Co., Ltd.

The currency translation reserve comprises exchange rate differences of hedge instruments of net investments in foreign operations and all exchange rate differences resulting from the translation of financial reports of foreign operations that have prepared their financial reports in a currency other than Volvo Car Group's reporting currency. The parent company and Volvo Car Group present their financial reports in SEK.

The other reserve consists of the change in fair value of commercial cash flow hedging instruments in cases where hedge accounting is applied according to IAS 39, Financial Instruments: Recognition and Measurement.

Retained earnings comprises net income for the year and preceeding years as well as remeasurements of post-employment benefits. Retained earnings also include the effects of business combinations under common control within the Geely group and dividend to shareholders.

Non-controlling interests refers to the share of equity that belongs to Zhejiang Geely Holding Group Co., Ltd without a controlling influence. Volvo Car Group holds 50 per cent of the equity in the joint venture companies; Daqing Volvo Car Manufacturing Co., Ltd, Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd and Shanghai Volvo Car Research and Development Co., Ltd and has the decision-making power over the operation. In the consolidated financial statements, these joint venture companies are classified as subsidiaries and fully consolidated with a non-controlling interest of 50 per cent. The non-controlling interest increased during the year through the establishment of a new joint venture company, Polestar New Energy Vehicle Co., Ltd with MSEK 631 (140).

At year end 2017, non-controlling interests amounted to MSEK 5,931 (3,774).

Total equity consists of the equity attributable to the owners of the parent company and non-controlling interests. At year end 2017, the Volvo Car Group's total equity amounted to MSEK 54,660 (43,310).

| Change in other reserves | 2017 | 2016 |
|---|--------------|---------------|
| Balance at January 1 | -2,203 | 871 |
| Change in fair value of currency and electricity risk derivatives during the year | 3,040 | -3,170 |
| Currency risk contracts recognised in the income statement ³⁾ | 1,413 | -771 |
| Tax attributable to items recognised in other comprehensive income | -980 | 867 |
| Balance at December 31 | 1,270 | -2,203 |

3) Included in the income statement under Net revenue/cost of sales.

NOTE 24 – POST EMPLOYMENT BENEFITS

Volvo Car Group has various schemes for post-employment benefits, mainly relating to pension plans. Other benefits can in some locations include disability, life insurance and health benefits. Pension plans are classified either as defined contribution or defined benefit plans. Volvo Car Group has both defined contribution and defined benefit plans.

Defined contribution plans

Under a defined contribution plan, Volvo Car Group pays fixed contributions into a separate entity outside Volvo Car Group and will have no future financial obligations. The contributions are recognised as employee benefit expense in the income statement.

Defined benefit plans

Defined benefit plans are all plans that are not classified as defined contribution plans. A defined benefit plan is a pension plan where the employee will receive a defined pension benefit upon retirement, usually dependent on factors such as age, years of service and compensation. Volvo Car Group has defined benefit plans for qualifying employees in some subsidiaries and the largest plans are in Sweden and Belgium.

Sweden

In Sweden, Volvo Car Group has five retirement plans of which three are funded. The largest plan overall is the Swedish ITP 2 plan which is a collectively agreed pension plan for white collar employees. ITP 2 is a final salary-based plan. For the defined benefit plans operated, Volvo Car Group has the obligation for the future benefits. Volvo Car Group's defined benefit plans are secured in three ways: as a liability in the balance sheet, assets held in separate pension funds or funded through insurance payments. The "funded through insurance payments" plans are defined benefit plans accounted for as defined contribution plans. These plans in Sweden are secured with the mutual insurance company Alecta.

The portion secured through insurance with Alecta refers to a defined benefit plan that comprises several employers and is reported according to a pronouncement by the Swedish Financial Reporting Board, UFR 10. For 2017, Volvo Car Group did not have access to the information to report its proportionate share of the plan's obligations, assets under management and cost, that would make it possible to report this plan as a defined benefit plan. The ITP 2 pension plan, which is secured through insurance with Alecta, is therefore reported as a defined contribution plan. The Group estimates it will pay premiums of about MSEK 141 to Alecta in 2018. The Group's share of the total saving premiums for ITP2 in Alecta as at December 31, 2017 amounted to 0.27 (0.24) per cent and the Group's share of the total number of active policy holders amounted to 1.41 (1.35) per cent.

The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance obligations calculated in accordance with Alecta's actuarial methods and assumptions, which do not conform to IAS 19. The collective funding ratio should normally be allowed to vary between 125 and 155 per cent. 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. At year end 2017, Alecta's surplus in the form of the collective funding ratio amounted to 154 (148) per cent.

In case local legal requirements exist, funded or unfunded plans are credit insured with an external party.

Belgium

In Belgium, Volvo Car Group has three retirement – indemnity plans, all are funded. All three are based on the Collective Labor Agreement applicable to the company. The pension plan for white collar employees and the closed plan for blue collar employees who were in service before 2009 are defined benefit plans. The benefits are based on the final salary and the seniority within the company. The pension plan for blue collars who are in service as from 2009 is a defined contribution plan. The pension obligations are secured through a transfer of the required funds to a separate pension fund. The funding of the obligations under these defined benefit and defined contribution pension plans is fully externalised through a number of pension funds and through insurance contracts.

In Belgium, the Volvo Car Group also has early retirement arrangements (termination benefits – bridge plans) as well as seniority premiums (other long-term benefits). The early retirement arrangements are unfunded and the seniority premiums are funded.

Summary of provision for post-employment benefits

The obligations for post-employment benefits have been recorded in the balance sheet as follows:

| | Dec 31, 2017 | Dec 31, 2016 |
|----------------------------|--------------|--------------|
| Post-employment benefits | 6,525 | 6,348 |
| Other provisions (Note 25) | 276 | 262 |
| Closing balance | 6,801 | 6,610 |

The tables below show the Group's obligations for post employment benefits, the assumptions used to determine these obligations and the assets relating to these obligations for employee benefits, as well as the amounts recognised in the income statement and balance sheet. The Group's reported pension liability totals MSEK 6,801 (6,610), which sum includes endowment insurances and similar undertakings totalling MSEK 276 (262) in respect of defined premium pension plans in Sweden.

| Financial year ending on | Total Dec 31, 2017 | of which Sweden Dec 31, 2017 | of which Belgium Dec 31, 2017 | Total Dec 31, 2016 | of which Sweden Dec 31, 2016 | of which Belgium Dec 31, 2016 |
|--|-----------------------|---------------------------------|----------------------------------|-----------------------|---------------------------------|----------------------------------|
| Amounts recognised in the statement of financial position | | | | | | |
| Defined benefit obligation | 19,653 | 12,916 | 3,450 | 18,420 | 11,252 | 3,558 |
| Fair value of plan assets | 13,128 | 8,135 | 2,458 | 12,072 | 7,343 | 2,261 |
| Funded status | 6,525 | 4,781 | 992 | 6,348 | 3,909 | 1,297 |
| Net liability (asset) as recorded in the balance sheets | 6,525 | 4,781 | 992 | 6,348 | 3,909 | 1,297 |
| Principal actuarial assumptions | | | | | | |
| <i>Weighted average assumptions to determine benefit obligations</i> | | | | | | |
| Discount rate, % | 2.50 | 2.70 | 1.60 | 2.62 | 2.90 | 1.63 |
| Rate of salary increase, % | 3.09 | 3.00 | 3.08 | 3.14 | 3.00 | 3.17 |
| Rate of price inflation, % | 1.92 | 1.75 | 1.91 | 1.82 | 1.50 | 2.00 |
| Rate of pension indexation, % | 1.89 | 1.75 | N/A | 1.76 | 1.50 | N/A |

The actuarial assumptions comprise the most significant assumptions applied when calculating defined benefit obligations at the balance sheet date. The company determines the discount rate based on AA-rated corporate bonds and mortgage bonds that match the duration of the obligations. If no such corporate bonds and mortgage bonds are available, government bonds are used.

Inflation assumptions are based on a combination of central banks targets, implicit market expectations and long-term analyst forecasts.

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory. Mortality assumptions for Sweden are based on the DUS14 (white collar) mortality study, and the DUS14 (white collar) mortality table is generational. Mortality assumptions in Belgium is not significant, since there are lump sum payments.

The actuarial assumptions are annually reviewed by the Volvo Car Group and modified when deemed appropriate to do so.

| Financial year ending on | Total Dec 31, 2017 | of which Sweden Dec 31, 2017 | of which Belgium Dec 31, 2017 | Total Dec 31, 2016 | of which Sweden Dec 31, 2016 | of which Belgium Dec 31, 2016 |
|--|-----------------------|---------------------------------|----------------------------------|-----------------------|---------------------------------|----------------------------------|
| Change in defined benefit obligation | | | | | | |
| Defined benefit obligation at end of prior year | 18,420 | 11,252 | 3,558 | 17,145 | 10,126 | 3,132 |
| Service cost | 526 | 419 | 124 | 597 | 370 | 173 |
| Interest expense | 474 | 322 | 58 | 502 | 330 | 68 |
| Cash flows | -484 | -257 | -130 | -1,236 | -248 | -85 |
| Remeasurements | 697 | 1,180 | -261 | 1,356 | 674 | 133 |
| Effect of changes in foreign exchange rates | 20 | — | 101 | 56 | — | 137 |
| Defined benefit obligation at end of year | 19,653 | 12,916 | 3,450 | 18,420 | 11,252 | 3,558 |

| Financial year ending on | Total | of which Sweden | of which Belgium | Total | of which Sweden | of which Belgium |
|---|---------------|-----------------|------------------|---------------|-----------------|------------------|
| | Dec 31, 2017 | Dec 31, 2017 | Dec 31, 2017 | Dec 31, 2016 | Dec 31, 2016 | Dec 31, 2016 |
| Change in fair value of plan assets | | | | | | |
| Fair value of plan assets at end of prior year | 12,072 | 7,343 | 2,261 | 12,444 | 7,316 | 2,085 |
| Interest income | 320 | 213 | 39 | 372 | 241 | 49 |
| Cash flows | 500 | 500 | 24 | -651 | — | 48 |
| Remeasurements | 240 | 79 | 64 | -74 | -214 | -8 |
| Effect of changes in foreign exchange rates | -4 | — | 70 | -19 | — | 87 |
| Fair value of plan assets at end of year | 13,128 | 8,135 | 2,458 | 12,072 | 7,343 | 2,261 |
| Components of defined pension cost | | | | | | |
| Service cost | 526 | 419 | 124 | 597 | 370 | 173 |
| Net interest cost | 153 | 109 | 19 | 130 | 88 | 19 |
| Remeasurements of Other long term benefits | 28 | — | 27 | 2 | — | 7 |
| Administrative expenses and taxes | 18 | — | 15 | 21 | — | 19 |
| Total pension cost for defined benefit plans | 725 | 528 | 185 | 750 | 458 | 218 |
| Pension cost for defined contribution plans | 2,865 | 2,473 | 209 | 2,481 | 2,150 | 190 |
| Total pension cost recognised in P&L | 3,590 | 3,001 | 394 | 3,231 | 2,608 | 408 |
| Remeasurements (recognised in other comprehensive income) | 431 | 1,101 | -351 | 1,422 | 889 | 132 |
| Effect of changes in demographic assumptions | -354 | — | -293 | — | — | — |
| Effect of changes in financial assumptions | 982 | 1,022 | 6 | 1,688 | 921 | 207 |
| Effect of experience adjustments | 42 | 158 | — | -334 | -247 | -78 |
| Return on plan assets (excluding interest income) | -239 | -79 | -64 | 68 | 215 | 3 |
| Total defined benefit cost recognised in P&L and OCI | 1,156 | 1,629 | -166 | 2,172 | 1,347 | 350 |
| Net defined benefit liability (asset) reconciliation | | | | | | |
| Net defined benefit liability (asset) | 6,348 | 3,909 | 1,296 | 4,701 | 2,810 | 1,047 |
| Defined benefit cost included in the income statement | 725 | 528 | 185 | 750 | 458 | 218 |
| Total remeasurements included in OCI | 431 | 1,101 | -351 | 1,422 | 889 | 132 |
| Cash flows | -1,003 | -757 | -170 | -601 | -248 | -147 |
| Employer contributions | -689 | -500 | -139 | -291 | — | -114 |
| Employer direct benefit payments | -314 | -257 | -31 | -310 | -248 | -33 |
| Effect of changes in foreign exchange rates | 24 | — | 32 | 76 | — | 46 |
| Net defined benefit liability (asset) as of end of year | 6,525 | 4,781 | 992 | 6,348 | 3,909 | 1,296 |
| Defined benefit obligation | | | | | | |
| Defined benefit obligation by participant status | | | | | | |
| Actives | 11,484 | 7,323 | 2,881 | 10,891 | 6,169 | 3,029 |
| Vested deferreds | 3,676 | 2,499 | 323 | 3,440 | 2,169 | 305 |
| Retirees | 4,493 | 3,094 | 246 | 4,089 | 2,914 | 224 |
| Total | 19,653 | 12,916 | 3,450 | 18,420 | 11,252 | 3,558 |

Plan assets

| Fair value of plan assets | 2017 | 2016 | Of which with a quoted market price | |
|---------------------------|---------------|---------------|-------------------------------------|---------------|
| | | | 2017 | 2016 |
| Cash and cash equivalents | 675 | 307 | 675 | 304 |
| Equity instruments | 2,050 | 1,577 | 2,050 | 1,284 |
| Debt instruments | 3,269 | 3,086 | 3,269 | 2,844 |
| Real estate | 124 | 427 | 54 | 57 |
| Investment funds | 5,700 | 5,622 | 5,202 | 5,565 |
| Other | 1,310 | 1,053 | 1,309 | 1,040 |
| Total | 13,128 | 12,072 | 12,559 | 11,094 |

Responsibility for the management of the pension plans rest with the Company and therefore pension funds have been set up in different countries. Assets in these pension funds are held by long-term employee benefit funds that is legally separate from the Company. These assets are available to be used to pay or fund employee benefits only. Sweden, Belgium and United Kingdom have the largest pension funds. The pension funds are managed by a capital preservation strategy where the risk exposure is adjusted accordingly. The investment strategy is furthermore long term and the distribution of assets ensures that investment portfolios are well diversified and corresponds to the volatility target determined by the trustees. Capital is managed in accordance with the guidelines approved by the investment policy of

the pension funds, said policy is reviewed and updated on a yearly basis. Continuous monitoring is done by the trustees on a monthly basis to ensure that capital is allocated and managed according to the guidelines set forth. In Sweden the minimum funding target is decided by PRI Pensionsgaranti, this is mandatory in order to stay in the system and receive insurance for the pension liability.

Volvo Car Group has a wholly-owned subsidiary, VCG Investment Management AB ("VCGIM") to manage the Group's pension fund assets. Volvo Cars shared-services approach to group pension fund management aims to strengthen the control over group pension assets and VCGIM have a strategic advisory role and run a central cross-border investment management and advisory services to Volvo Cars pension funds based in Europe or elsewhere. VCGIM is authorised and regulated by the Swedish Financial Services Authority as Investment Advisor and Discretionary Portfolio Management and is furthermore also licensed to operate in the United Kingdom and Belgium to perform the services mentioned above.

The in-house management of group pension assets on a global basis, benefit from investment accountability, consolidation of capital allocation, risk management and cost efficiency. The investment management model for pension assets is focused on risk adjusted returns and alpha generation and has dramatically reduced the dependence on marketable securities beta.

The actual return on plan assets amounts to MSEK 560 (298).

Risks

There are mainly three categories of risks related to defined benefit obligations and pension plans. The first category relates to risks affecting the actual pension payments. Increased longevity and inflation of salary and pensions are the principle risks that may increase the future pension payments and hence, increase the pension obligation. The second category relates to investment return. Pension plan assets are invested in a variety of financial instruments and are exposed to market fluctuations. Poor investment return may reduce the value of investments and render them insufficient to cover future pension payments. The final category relates to measurement and affects the accounting for pensions. The discount rate used for measuring the present value of the obligation may fluctuate which impacts the valuation of the defined benefit obligation. The discount rate also impacts the size of the interest income and expense that is reported in the financial items and the service cost. The risk related to pension obligations, i.e. mortality exposure, discount rate and inflation, are monitored on an ongoing basis.

| Sensitivity analysis on defined benefit obligation | Sweden | Belgium |
|--|--------|---------|
| Discount rate +0,5% | -1,319 | -199 |
| Discount rate -0,5% | 1,508 | 222 |

The weighted average duration of the obligation is 21.8 years for Sweden and 12.2 years for Belgium.

NOTE 25 – CURRENT AND OTHER NON-CURRENT PROVISIONS

| | Warranties | Service contracts | Other sales generated obligations | Other provisions | Total |
|-------------------------------------|--------------|-------------------|-----------------------------------|------------------|----------------|
| Balance at January 1, 2017 | 6,415 | 4,050 | 8,440 | 3,461 | 22,366 |
| Provided for during the year | 7,613 | 3,969 | 29,843 | 12,840 | 54,265 |
| Utilised during the year | -6,053 | -3,716 | -26,986 | -12,329 | -49,084 |
| Reversal of unutilised amounts | -36 | -15 | -148 | -110 | -309 |
| Translational differences and other | -141 | -250 | -136 | -27 | -554 |
| Balance at December 31, 2017 | 7,798 | 4,038 | 11,013 | 3,835 | 26,684 |
| Of which current | 3,440 | 1,849 | 11,013 | 2,782 | 19,084 |
| Of which non-current | 4,358 | 2,189 | — | 1,053 | 7,600 |

Warranties

Warranty provisions include the cost for the company of satisfying the customers with specific contractual warranty obligations, as well as other costs not covered by contractual commitments. The provision comprise of confirmed claims and estimated future obligations.

Service contracts

Volvo Car Group is, on some markets, offering service contracts for customers, this is normally referred to as Extended Service Business. The customer sign up for regular services, paid for upfront or by monthly payments. The contracts can also be a marketing promotion.

Other sales generated obligations

Provisions for sales revenue generated obligations not effectuated at the closing date, all variable marketing programs.

Other provisions

Other provisions cover a wide range of identified risks and uncertain obligations such as incentive programs and residual value guarantee issued to independent financing providers. For residual value guarantees a provision is recorded for the residual value risk related to the guarantee based upon estimations of the used products' future net realisable values. For additional information regarding accounting principles for provisions and the related risks, see Note 1 – Accounting principles and Note 2 – Critical accounting estimates and judgements.

NOTE 26 – NON-CURRENT LIABILITIES

| | Dec 31, 2017 | Dec 31, 2016 |
|---|-------------------------|-------------------------|
| Bonds | | |
| Bonds | 12,735 | 7,699 |
| Total | 12,735 | 7,699 |
| | Dec 31, 2017 | Dec 31, 2016 |
| Non-current liabilities to credit institutions | | |
| Bank loans | 6,600 | 13,855 |
| Liabilities related to finance lease contracts | 22 | 55 |
| Total | 6,622 | 13,910 |
| | Dec 31, 2017 | Dec 31, 2016 |
| Current liabilities to credit institutions | 7,426 | 2,813 |

Liabilities to credit institutions

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 21 - Financial risks and financial instruments.

| | | |
|---|-------------------------|-------------------------|
| Volvo Car Group has the following undrawn committed credit facilities: | Dec 31, 2017 | Dec 31, 2016 |
| – Expiring after one year but within five years | 12,792 | 6,305 |
| – Expiring after five years | 2,411 | — |
| Total | 15,203 | 6,305 |

| | Dec 31, 2017 | Dec 31, 2016 |
|--|-----------------|-----------------|
| Other non-current liabilities | | |
| Liabilities related to repurchase agreements | 1,146 | 941 |
| Deferred leasing revenue | 429 | 372 |
| Derivative liabilities | 223 | 1,843 |
| Participation in joint venture company ¹⁾ | 162 | — |
| Other liabilities ²⁾ | 1,700 | 2,662 |
| Total | 3,660 | 5,818 |

1) For further information, see Note 14 - Investments in joint ventures and associates.

2) Whereof liabilities to related parties MSEK 300 (1,383). For further information regarding related parties, see Note 5 - Related parties.

NOTE 27 – OTHER CURRENT LIABILITIES

| | Dec 31, 2017 | Dec 31, 2016 |
|--|-----------------|-----------------|
| Accrued expenses and prepaid income | 10,971 | 9,055 |
| Liabilities related to repurchase agreements | 6,329 | 5,818 |
| Personnel related liabilities | 5,067 | 4,571 |
| VAT liabilities | 2,768 | 2,343 |
| Derivative liabilities | 571 | 2,063 |
| Deferred leasing revenue | 1,280 | 917 |
| Other liabilities | 2,316 | 1,387 |
| Total | 29,302 | 26,154 |

NOTE 28 – PLEDGED ASSETS

| | Dec 31, 2017 | Dec 31, 2016 |
|-----------------------|-----------------|-----------------|
| Restricted cash | 544 | 535 |
| Inventory | 312 | 367 |
| Real estate mortgages | 161 | 161 |
| Floating charges | 154 | 149 |
| Other pledged assets | 520 | 273 |
| Total | 1,691 | 1,485 |

NOTE 29 – CONTINGENT LIABILITIES

| | Dec 31, 2017 | Dec 31, 2016 |
|--|-----------------|-----------------|
| Guarantees to insurance company FPG | 140 | 133 |
| Legal claims ¹⁾ | 49 | 271 |
| Tax claims ^{1) 2)} | 144 | 88 |
| Guarantee commitments | 33 | 7 |
| Other contingent liabilities ³⁾ | 161 | 197 |
| Total | 527 | 696 |

1) Legal proceedings and tax processes are further explained in Note 2 – Critical accounting estimates and judgements.

2) In addition to the contingent liabilities related to tax claims there are also tax related contingent assets amounting to MSEK 32 (39).

3) Apart from the above contingent liabilities, there are other commitments and guarantees that are not recognised since the likelihood of an outflow of resources is very low.

NOTE 30 – CASH FLOW STATEMENTS

| | 2017 | 2016 |
|--|------------|------------|
| Adjustments for items not affecting cash flow consist of: | | |
| Capital gains/losses on sale of tangible and intangible assets | 223 | 758 |
| Share of income in joint ventures and associates | -200 | -418 |
| Interest effect from the measurement of repurchase obligations | -185 | -215 |
| Provision for variable pay | 1,141 | 348 |
| Provision for repurchase commitments | -143 | — |
| Deferred income | -623 | — |
| Other non-cash items | -91 | 49 |
| Total | 122 | 522 |

"Other" under cash flow from financing activities is attributable to realised result from financial instruments MSEK 291 (481) and change in other non-current liabilities MSEK -20 (-120).

| | | Cash flows | | Non-cash changes | | | | |
|--|-------------|------------|-------------|------------------------|---------------------------------|-----------------------|------------------------------|--------------|
| | | | | | | | | |
| Change in net debt/net cash | Jan 1, 2017 | | Acquisition | Reclassi- fications | Foreign exchange movement | Fair value changes | Other non-cash changes | Dec 31, 2017 |
| Liabilities to credit institutions (non-current) | 13,910 | 48 | — | -7,025 | -326 | — | 15 | 6,622 |
| Bonds ¹⁾ | 7,693 | 4 914 | — | — | 126 | -20 | 36 | 12,749 |
| Other interest-bearing non-current liabilities | 84 | — | — | — | — | — | — | 84 |
| Liabilities to credit institutions (current) | 2,813 | -2 415 | — | 7,025 | -45 | — | 48 | 7,426 |
| Marketable securities | -4,738 | 785 | — | — | 12 | -51 | — | -3,992 |
| Cash and cash equivalents | -38,635 | 2,610 | -143 | — | 766 | — | — | -35,402 |
| Net debt/net cash | -18,873 | 5,942 | -143 | — | 533 | -71 | 99 | -12,513 |

| Change in net debt/net cash | Jan 1, 2016 | | | | | | | Dec 31, 2016 |
|--|-------------|---------|------|--------|------|----|----|--------------|
| Liabilities to credit institutions (non-current) | 15,168 | -94 | 352 | -2,349 | 794 | — | 39 | 13,910 |
| Bonds ¹⁾ | — | 7,579 | — | — | 108 | 6 | — | 7,693 |
| Other interest-bearing non-current liabilities | — | — | 84 | — | — | — | — | 84 |
| Liabilities to credit institutions (current) | 6,246 | -5,844 | 44 | 2,349 | 15 | — | 3 | 2,813 |
| Marketable securities | -3,512 | -1,189 | — | — | -51 | 14 | — | -4,738 |
| Cash and cash equivalents | -25,623 | -12,130 | -177 | — | -705 | — | — | -38,635 |
| Net debt/net cash | -7,721 | -11,678 | 303 | — | 161 | 20 | 42 | -18,873 |

1) The bonds are presented above at amortised cost. The MEUR 500 bond issued in May 2016 is recognised in the balance sheet with a fair value adjustment and the fair value component amounted to MSEK -14 (6).

NOTE 31 – BUSINESS COMBINATIONS

Automotive Components Floby AB

On July 27, 2017, Volvo Car Group acquired by way of appropriation 100 per cent of the shares in Amtek Components Sweden AB, renamed to Automotive Components Floby AB, a Swedish component factory. The acquired company consists of the Floby plant that supplies vehicle components to Volvo Cars as well as other external customers.

| Purchase price | 2017 |
|---|-------------|
| Purchase consideration | 644 |
| Total cost of the combination | 644 |
| Acquired assets and liabilities at fair value | |
| Tangible assets | 385 |
| Inventories | 128 |
| Current receivables | 199 |
| Other current assets | 4 |
| Cash and cash equivalents | 143 |
| Deferred tax liabilities | -39 |
| Current liabilities | -257 |
| Total fair value of net assets | 563 |
| Goodwill | 81 |
| Cash effect on business combination | |
| Purchase consideration | -644 |
| Part of consideration used to amortise previous debt to Volvo Car Group | 358 |
| Acquired cash and cash equivalents | 143 |
| Change in cash and cash equivalents due to acquisitions | -143 |

Goodwill attributable to the acquisition is explained by the strategic importance of ensuring the component supply and also from the future estimated increased income from the acquired business. Acquisition-related costs for 2017 amounted to MSEK 9 and have been reported as administration costs in the income statement. There were no contingent liabilities assumed or collateral pledged arising from the acquisition. The fair value of the acquired receivables (which primarily comprises account receivables) corresponds to the gross contractual value and amounts to MSEK 199. All receivables are expected to be collectible.

The acquired business contributed revenues of MSEK 562 and net profit of MSEK 26 to the Group for the period from August 1 to December 31, 2017. The total cost of combination and fair values have

been determined provisionally, thus, the acquisition analyses may be subject to adjustment during a twelve months period.

Adoption of preliminary acquisition analysis

An acquisition analysis is preliminary until adopted which must take place within 12 months from the acquisition. The preliminary acquisition analysis previously recognised for First Rent A Car Group was adopted in 2017, resulting in a MSEK 6 reduction of the negative goodwill that arose on the acquisition.

NOTE 32 – SEGMENT REPORTING

Operating segments are defined as components of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance.

Volvo Car Group is managed by the Executive management team (EMT) with fourteen members, led by the CEO and overseen by the Board of Directors. EMT takes all significant operating decisions and members of EMT have the responsibility for implementation of decisions in their respective areas. The operating decision-making is at EMT level as a whole and Volvo Car Group consider the EMT to be the Chief operating decision-making body.

Volvo Car Group, as a whole, operates in the automotive business. The automotive business includes all activities related to development, design, manufacturing, assembly and sale of vehicles, as well as sale of related parts and accessories from which the Group derives its revenues. All decisions regarding allocation of resources as well as the assessment of the performance is based on the Group as a whole. Volvo Car Group only has one operating segment, so no separate segment report is given.

For further information of the geographic spread of Net revenue, see Note 3 – Net revenue. The geographic spread of non-current assets is disclosed below.

| | Sweden | China | Rest of the World |
|---------------------|--------|-------|-------------------|
| Dec 31, 2017 | | | |
| Non-current assets | 69% | 16% | 15% |
| Dec 31, 2016 | | | |
| Non-current assets | 73% | 15% | 12% |

NOTE 33 – NEW ACCOUNTING STANDARDS IMPLEMENTED ON JANUARY 1, 2018

IFRS 15 – Revenue from contracts with customers Effects on the financial statements

IFRS 15 represents a new framework for recognising revenue with additional disclosure requirements. The framework establishes principles about the nature, amount, timing and uncertainty of revenue and cash flow arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the goods or service. IFRS 15 replaces IAS 11 Construction contracts and IAS 18 Revenue. The standard was endorsed by the EU in September 2016 and is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted, though Volvo Cars has not applied IFRS 15 until January 1, 2018.

Volvo Car Group has analysed all material revenue streams and reviewed significant contracts with customers, in order to understand the impact on revenue recognition caused by implementation of IFRS 15. As a backbone for the analysis, IFRS 15 five-step model has been used, whereby areas like bundle of goods and services, identification of performance obligations, repurchase agreements, variable considerations and timing of transfer of control to customer have been included in the analysis, areas that are relevant to consider for Volvo Car Group in an IFRS 15 review.

Based on our review procedures, Volvo Car Group has concluded that the financial impact of implementation of IFRS 15 is insignificant. Alas, there is no transition effect in applying IFRS 15, and no restatement of prior year figures. Prior to January 1, 2018, Volvo Car Group has recorded revenue from contracts with customers in accordance with IAS 18, which Volvo Car Group considers correspond to the standards set out in IFRS 15. In the case of bundled goods and services, Volvo Car Group already under IAS 18 separates these transactions in two performance obligations, both of them with separately allocated transaction price set to market rate, defined as either stand-alone selling price or a cost plus method. Sales transactions including repurchase obligations have been recorded as operating lease contracts. Also in other areas, transactions recorded prior to January 1, 2018 corresponds to the requirements set out in IFRS 15.

IFRS 15 requires additional disclosures about revenue from contracts with customers. This impacts Volvo Car Group as follows:

- Certain disclosures shall be implemented in the annual report 2018.
- Contract liabilities shall be classified on a separate financial statement line. Therefore, per January 1, 2018, provisions for expected discounts, deferred revenue for service contracts and extended warranties as well as advance payments from customers, are re-classified to the financial statement line Contract liabilities, with no impact on the consolidated income statements.
- Additional disclosures about accounting principles, see below.

Accounting principles applied in 2018 – IFRS 15 Revenue from contracts with customers

Sale of products and related goods and services

Volvo Car Group manufactures and sells cars, parts and accessories mainly to dealers and distributors. There are no material costs in the Group to obtain or fulfil contracts with customers, such as sales commissions. Revenue is recognised when control has been transferred, according to agreed delivery terms. At the point of revenue recognition, there is no material unfulfilled obligation that could affect the dealer's acceptance. Revenue recognition occurs when substantially all indicators of transfer of control have been satisfied. Delivery, revenue recognition and payment take place essentially simultaneously.

The cars may be sold with volume discounts based on aggregate sales over a 3-12 months period, depending on market praxis. Revenue from these sales is recognised based on the price specified in the

contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. Volvo Car Group does not have any material loyalty programs or incentives that grants customers a material right that they would not have received without entering into a contract.

Volvo Car Group sells maintenance contracts and extended warranties to end customers. Revenue from these sales is deferred and recognised on a linear basis over the contract period. Based on experience and historical data, Volvo Car Group considers this to be a good approximate. The deferred revenue is presented as a contract liability, since the customers payment is made before the service is transferred.

When an extended warranty contract is included in the sales price of the car, and it is assessed to be common practise in the market to include such extended warranty, it is accounted for as a provision and the full expense is recognised in the income statement at the time of the car sale as a warranty cost. Where an extended warranty is included in the sale of a car and the offer goes beyond common practise in the market, it is accounted for as a separate performance obligation; a standalone selling price is identified and revenue is recognised on a linear basis over the contract period. Where the stand alone selling price is not directly observable, it is in general estimated based on expected cost plus reasonable margin method.

Sale of licenses and royalties

Revenue related to licenses can be recognised at a point in time or over time, depending on whether the sold license gives a right to use or a right to access the underlying asset. Volvo Car Group have both types of contracts and revenue are therefore recognised in accordance with the substance of the relevant agreement. Revenue related to royalties is recognised in accordance with the substance of the agreement.

Revenue from rental and leasing business

Revenues from rental business is partly a subscription fee recognised linear over the subscription period and partly a rental fee recognised in the period the rental occurs.

Revenues related to an operating lease arrangement are recognised straight-line over the lease period. This includes the Volvo Car Group subscription product "Care by Volvo". It also includes sale of vehicles combined with a repurchase agreement.

Significant financing components

Volvo Car Group does not have contracts including significant financing components. Contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year include above all maintenance contracts and extended warranties. These contracts are each of small amounts and stretches over a few years, and therefore does not include any significant financing component. As a consequence, Volvo Car Group does not adjust any of the transaction prices for the time value of money.

Significant judgements in the application of IFRS 15

Note 2 – Critical accounting estimates and judgements discloses judgements made in relation to Residual value guarantees and repurchase agreements. This note still applies, with the following additions.

Revenue from sale of a vehicle to a customer, subject to an issuance of a residual value guarantee to an independent financing provider, is recognised at the time of sale, less an amount corresponding to a provision reflecting the estimated residual value risk, provided that the control of the vehicle has been transferred to the customer.

Sale of a vehicle to a customer combined with a repurchase agreement (the right or obligation to buy back the car) is recorded as an operating lease, as the customer has not obtained the control of the vehicle. Therefore, revenue is recognised on a straight-line basis over the leasing period. Vehicles sold with a put option, meaning that Volvo Car Group is obliged to repurchase the vehicle at the customer's request, is treated as operating leases since the customers are expected to have significant economic incentives to take advantage of this opportunity.

IFRS 9 - Financial instruments

Effects on the financial statements

IFRS 9 was endorsed by the EU in November 2016 and is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted, though Volvo Car Group has not applied IFRS 9 until January 1. The standard replaces IAS 39, and is divided into three parts:

- **Classification and Measurement:** IFRS 9 establishes three primary measurement categories for financial assets (other than derivatives and equity instruments): amortised cost, fair value through Other comprehensive income and fair value through profit and loss. The basis for classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Derivative and equity instruments are classified as instruments recorded at fair value through profit and loss. For financial liabilities the only change relates to recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit and loss. Volvo Car Group does not have such liabilities.
- **Hedge accounting:** IFRS 9 aborts the hedge effectiveness tests. Instead, there is a requirement of an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes.
- **Impairment:** IFRS 9 introduces the concept of expected credit losses, in contrast to the concept of incurred losses in IAS 39. The effect is that a provision for expected credit losses shall be added on top of the existing bad debt allowance, the provision recorded for incurred losses under IAS 39.

Volvo Car Group has analysed the financial impact of these three parts of IFRS 9. Based on our review procedures, we have concluded that the financial impact of implementation of IFRS 9 is insignificant. Also, there is no transition effect in applying IFRS 9, and no restatement of prior year figures.

There is no financial impact when it comes to Classification and Measurement.

Volvo Car Group has applied IFRS 9 to hedge accounting. The impact to the financial statements is insignificant, time value in options will be recorded in the consolidated comprehensive income rather than in the consolidated income statements. All hedge relationships assessed to be effective under IAS 39, are also effective under IFRS 9.

Also in the case of Impairment, the impact to the financial statements is insignificant on January 1, 2018. Receivables in Volvo Car Group relevant for IFRS 9 impairment analysis is mainly related to accounts receivables with a duration of far less than a year. The majority of the accounts receivables is related to transactions with dealers, retailers and distributors, with whom Volvo Car Group has experienced stable business relationships over many years. The simplified model in IFRS 9 will be applied on these accounts receivables, and also on lease receivables that result from transactions that are within the scope of IFRS 16 – Leases, whereby Volvo Car Group measures the loss allowance at an amount equal to lifetime expected credit losses. Customer financing is, in all material aspects, outsourced to independent financing providers, where also the credit risk for the customer financing receivables generally rest. Volvo Car Group actively strives to

transfer credit risk embedded in accounts receivables to third-party financial institutions in the form of various guarantees, securities and credit insurances. Additionally, invoiced sales are in certain cases subject to factoring arrangements with a third party (bank or other financial institution). This enables Volvo Car Group to receive payment for its accounts receivables within a few days after billing and thus free liquidity at an earlier stage, while also transferring the credit risk for the invoices. Occasionally, Volvo Car Group also requires customer prepayment prior to delivery of cars. These factors, independently or combined, help to explain the very limited historical receivable write-offs (see also Note 20 – Accounts receivables and other current assets), and therefore also help to explain why the effect of the IFRS 9 expected loss model is insignificant. Forward-looking macroeconomic data for 2018, incorporated in the model to establish expected credit losses for 2018, supports an insignificant increase of expected credit losses for 2018.

Accounting principles applied in 2018 – IFRS 9 Financial Instruments

Financial assets and liabilities in Volvo Car Group

Financial instruments are any form of contract that gives rise to a financial asset in one company and a financial liability or equity instrument in another company. For further information regarding financial instruments refer to Note 21 – Financial risks and financial instruments.

Financial assets in the consolidated balance sheet of Volvo Car Group encompass interest-bearing investments (marketable securities), accounts receivables, other financial assets, derivative assets and cash and cash equivalents. Derivative instruments include forwards, options and swaps used to cover exposure for currency risks, interest risks and price fluctuations on electricity.

Financial liabilities in the consolidated balance sheet of Volvo Car Group mainly consist of liabilities to credit institutions, issued bonds, accounts payables, other financial liabilities and derivative liabilities, including issued warrants related to share-based incentive program (see Note 9 – Employees and remuneration).

Classification of financial assets and liabilities

Derivatives with positive or negative values as well as equity instruments are carried at fair value through profit and loss. Volvo Car Group does not apply the IFRS 9 exception of equity instruments not held for trading, in which case fair value is recorded over the consolidated comprehensive income.

For "other financial assets", IFRS 9 establishes three primary measurement categories:

- carried at fair value through profit and loss
- carried at amortised cost
- carried at fair value through consolidated comprehensive income

Classification takes place at initial recognition. The basis for classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. "Other financial assets" that are held for trade are carried at fair value through profit and loss. In Volvo Car Group, this encompass interest-bearing investments (marketable securities). All remaining "other financial assets" are held to collect contractual cash flows and are carried at amortised cost. Consequently, Volvo Car Group does not have any financial assets carried at fair value through consolidated comprehensive income.

The Group classifies its financial liabilities in below categories. Classification takes place at initial recognition

- Financial liabilities carried at fair value through profit and loss
- Other financial liabilities

For financial liabilities, the only change in IFRS 9 relates to recognition of changes in own credit risk in consolidated comprehensive income,

for liabilities designated at fair value through profit and loss. Volvo Car Group does not have financial liabilities carried at fair value through profit and loss.

Initial recognition and final derecognition of financial assets and liabilities.

Financial assets and liabilities are recognised in the balance sheet when the Volvo Car Group becomes a party to the contractual terms and conditions, i.e. at the transaction date.

A financial asset or a portion of a financial asset is derecognised in the balance sheet when all significant risks and benefits linked to the asset have been transferred to a third party. Where Volvo Car Group concludes that all significant risks and benefits have not been transferred, the portion of the financial assets corresponding to Volvo Car Group's continuous involvement continues to be recognised.

A financial liability or a portion of a financial liability is derecognised from the balance sheet when the obligation in the contract has been fulfilled, cancelled or has expired.

Financial assets are initially recognised at fair value plus transaction costs, except for those financial assets carried at fair value through the income statement. Financial assets carried at fair value through the income statement are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial liabilities are initially recognised at fair value less transaction costs, except for those financial liabilities carried at fair value through the income statement. Financial liabilities carried at fair value through the income statement are initially recognised at fair value, and transaction costs are expensed in the income statement.

Invoiced sales are in certain cases subject to contracts for factoring with a third party (bank or financial institution). This enables Volvo Car Group to receive payment for its accounts receivables within a few days after billing and thus free liquidity at an earlier stage. If the criteria for derecognition of accounts receivable are not fulfilled, the receivable remains on the balance sheet.

Financial assets and liabilities carried at fair value through profit and loss

In Volvo Car Group's balance sheet, financial instruments carried at fair value through profit or loss consists of derivatives, including issued warrants related to share-based incentive program (see Note 9 – Employees and remuneration), equity investments as well as marketable securities.

Changes in fair value of these instruments are recognised in the income statement. Changes in fair value are reported as financial income/expense. If a derivative instrument has been designated to a hedge accounting relationship, changes in fair value are reported either in profit or loss or in consolidated comprehensive income, depending on the substance of the hedge. In the case of cash flow hedges, changes in fair value are reported in consolidated comprehensive income as long as there is no underlying receivable/payable recorded in the balance sheet. Derivatives with positive fair values (unrealised gains) are recognised as other current, or non-current assets. Derivatives with negative fair values (unrealised losses) are recognised as other current, or non-current liabilities.

Fair value is generally determined by reference to official market quotes in an active market. When market quotes are not available the fair value is determined using generally accepted valuation methods such as discounted future cash flows.

Financial instruments are classified within level 1–3 based on the degree that market data have been utilised when measuring fair value. All financial instruments measured at fair value held by Volvo Car Group are classified as level 2, with the exception of Other long-term securities holdings classified as level 3. For further details see Note 21 – Financial risks and financial instruments. In level 2, valuation of financial instruments is based on market conditions using quoted market data existing at each balance sheet date. For these financial

instruments no quoted prices on identical instruments in active markets exist. In level 3, the small amount invested in Other long-term securities holdings is valued at cost, as this is the best approximate of fair value.

Financial assets carried at amortised cost

In Volvo Car Group, all financial assets, other than those carried at fair value through profit and loss (described in above paragraph), are recorded at amortised cost. These assets include accounts receivables, other financial assets as well as cash and cash equivalents. The business model and the contractual cash flow characteristics for accounts receivables and other financial assets is to collect the payment for these financial assets once they are due. In certain defined cases, accounts receivables are subject to factoring arrangements where Volvo Car Group transfers the risk to the buyer and derecognise the receivables. As these receivables are being derecognised in very close proximity to them being issued, these accounts receivables are also valued at amortised cost.

These financial assets are recognised in the balance sheet at fair value plus transaction costs and subsequently measured at amortised cost. Amortised cost is calculated using the effective interest method, where any premiums or discounts and directly attributable transaction costs are capitalised over the contract period using the effective interest rate. Accounts receivables are recognised at the amount expected to be received, i.e. after deduction of bad debts allowance. A bad debt allowance is incurred when there has been a triggering event for the customer's inability to pay. The bad debts on accounts receivable are recognised as operating expenses. In addition to the bad debts allowance, an allowance for expected credit losses is recorded, as stipulated by IFRS 9. The expected credit loss allowance is based on a multiplier consisting of average historical write-offs and forward-looking macroeconomic data.

Other financial liabilities

Financial liabilities to credit institutions, issued bonds, accounts payables and other financial liabilities are assigned to this category. These liabilities are reported as either current or non-current liabilities.

Other financial liabilities are recognised in the balance sheet at fair value less transaction costs and subsequently measured at amortised cost. Amortised cost is calculated using the effective interest method, where any premiums or discounts and directly attributable transaction costs are capitalised over the contract period using the effective interest rate.

Hedge accounting

Hedge accounting is adopted for derivative instruments that are included in a documented hedge relationship. For hedge accounting to be applied, a direct connection between the hedge and the hedged item is required. At the inception of the hedge, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management strategy and objectives for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

In applying hedge accounting, derivatives are initially recognised at fair value at trade date and subsequently re-measured at fair value. The Group designates certain derivatives as either:

- a) Fair value hedges: a hedge of the fair value of recognised liabilities;
- b) Net investment hedges: a hedge of a net investment in a foreign operation;
- c) Cash flow hedges: a hedge of currency risk in future commercial cash flows, as well as a hedge of electricity price risk in future electricity consumption;

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

a) Fair value hedges

The purpose of fair value hedges is to hedge the variability in the recorded fair value adjustment of fixed-rate debt (issued bond) from changes in the relevant benchmark yield curve for its entire term by converting fixed interest payments to a floating rate (e.g. STIBOR or LIBOR) by using interest rate swaps (IRS). The credit risk is not hedged. The fixed leg of the IRS is matched against the cash flows of the hedged loan/bond. Hereby, the fixed-rate bond is converted into a floating-rate debt. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value adjustment related to the interest component of the of the hedged liability (issued bond) that are attributable to the hedged risk, when hedge accounting is applied. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. Both gains and losses relating to the interest rate swaps hedging fixed rate borrowings and the changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within Financial expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the remaining period to maturity.

b) Net investment hedges

Volvo Car Group applies hedge accounting of net investments in foreign operations. Hedging of net investments in foreign operations refers to hedges held to reduce the effect of changes in the value of a net investment in a foreign operation due to changes in foreign exchange rates. The foreign currency gains and losses on hedging

instruments are recognised in the consolidated comprehensive income. A gain or loss relating to an ineffective portion is recognised immediately in the income statement within Financial income or expense.

In the event of a divestment, the accumulated result from the hedge is immediately transferred from the hedge reserve in equity to the income statement. For further information regarding accounting treatment related to foreign currency, see section Foreign currency in Note 1 – Accounting Principles. See also Note 21 – Financial risks and financial instruments for more information regarding financial instruments.

c) Cash flow hedges

Hedge accounting is applied for derivative instruments that are acquired for the purpose of hedging expected future commercial cash flows in foreign currencies against currency rate risks, as well as for the purpose of hedging expected future electricity consumption against electricity price risk. In cash flow hedge accounting, the derivative is recognised in the balance sheet at fair value, and changes in the fair value is recognised in the consolidated comprehensive income and accumulated in the other reserves in equity. Fair value accumulated in other reserves in equity is recycled to the income statement in the same period as an underlying sales/cost of sales transaction is being entered in the income statement. The effect from realised cash flow hedges is classified as Net revenue and Cost of sales, respectively, depending on the underlying substance of the transaction.

The hedging relationship is regularly tested up until its maturity date. If the identified relationships are no longer deemed effective, the fluctuation in fair value on the hedging instrument from the last period the instrument was considered effective is recognised in the income statement. If the hedged transaction is no longer expected to occur, the hedge's accumulated changes in value are immediately transferred from comprehensive income to the income statement and are included in operating income

DEFINITIONS OF PERFORMANCE MEASURES

Performance measures disclosed in the annual report are those that are deemed to give the most true and fair as well as relevant view of Volvo Car Group's financial performance for a reader of the annual report.

Gross margin

Gross margin is Gross income as a percentage of Net revenue and represents the percent of total Net revenue that Volvo Cars retains after incurring the direct costs associated with producing the goods and services sold.

EBIT

EBIT represents earnings before interest and taxes. EBIT is synonymous with operating income which measures the profit Volvo Car Group generates from its operations.

EBIT margin

EBIT margin is EBIT as a percentage of Net revenue and measures Volvo Car Group's operating efficiency.

EBITDA

EBITDA represents earnings before interest, taxes, depreciations and amortisation, and is another measurement of the operating performance. It measures the profit Volvo Car Group generate from its operations without effect from previous periods capitalisation levels.

EBITDA margin

EBITDA margin is EBITDA in percentage of Net revenue.

Equity ratio

Total equity divided by total assets, is a measurement of Volvo Car Group's long-term solvency and financial leverage.

Net cash/net debt

Net cash/net debt is an indicator of Volvo Car Group's ability to meet its financial obligations. It is represented by liabilities to credit institutions, bonds and other interest-bearing non-current liabilities, less cash and cash equivalents and marketable securities. If negative, the performance measure is referred to as net cash and if positive the performance measure is referred to as net debt.

Liquidity

Liquidity consist of cash and cash equivalents, undrawn credit facilities and marketable securities.

RECONCILIATION TABLES OF PERFORMANCE MEASURES

| Gross Margin | 2017 | 2016 |
|--|--------------|--------------|
| Gross income in % of Net revenue | 22.1 | 21.4 |
| EBIT Margin | 2017 | 2016 |
| Operating income (EBIT) in % of Net revenue | 6.7 | 6.1 |
| EBITDA/EBITDA Margin | 2017 | 2016 |
| Operating income | 14,061 | 11,014 |
| Depreciation and amortisation of non-current assets | 12,098 | 10,527 |
| EBITDA | 26,159 | 21,541 |
| EBITDA in % of Net revenue | 12.4 | 11.9 |
| Equity ratio | Dec 31, 2017 | Dec 31, 2016 |
| Total equity | 54,660 | 43,310 |
| Total assets | 190,164 | 161,413 |
| Equity in % total assets | 28.7 | 26.8 |
| Net debt/Net cash | Dec 31, 2017 | Dec 31, 2016 |
| Liabilities to credit institutions (non-current) | 6,622 | 13,910 |
| Bonds ¹ | 12,749 | 7,693 |
| Other interest-bearing non-current liabilities ²⁾ | 84 | 84 |
| Liabilities to credit institutions (current) | 7,426 | 2,813 |
| Marketable securities | -3,992 | -4,738 |
| Cash and cash equivalents | -35,402 | -38,635 |
| Net cash (Net debt if positive) | -12,513 | -18,873 |

1) The bond loans are presented above at amortised cost. The MEUR 500 bond is recognised in the balance sheet with a fair value adjustment and the fair value component amounted to MSEK -14 (6).

2) Included in Other non-current liabilities in the Balance sheet.

| Liquidity | Dec 31, 2017 | Dec 31, 2016 |
|---------------------------|--------------|--------------|
| Cash and cash equivalents | 35,402 | 38,635 |
| Marketable securities | 3,992 | 4,738 |
| Undrawn credit facilities | 15,203 | 6,305 |
| Liquidity | 54,597 | 49,678 |

INCOME STATEMENTS AND COMPREHENSIVE INCOME

– PARENT COMPANY

| MSEK | Note | 2017 | 2016 |
|---|------|--------------|-------------|
| Administrative expenses | 4 | -20 | -10 |
| Operating income | 3, 5 | -20 | -10 |
| Income from participation in subsidiary ¹⁾ | 3 | 1,565 | — |
| Financial income | 6 | 243 | 107 |
| Financial expenses | 6 | -481 | -414 |
| Income before tax | | 1,307 | -317 |
| Income tax | 7 | 43 | 71 |
| Net income | | 1,350 | -246 |

1) Received dividend from subsidiary of MSEK 1,565, passed through to the shareholders.

Other comprehensive income and Net income are consistent since there are no items in other comprehensive income.

BALANCE SHEETS – PARENT COMPANY

| MSEK | Note | Dec 31, 2017 | Dec 31, 2016 |
|---|------|---------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Participation in subsidiary | 8 | 10,267 | 10,267 |
| Deferred tax assets | 7 | 2,148 | 2,104 |
| Receivables from group companies | 3 | 12,781 | 7,729 |
| Total non-current assets | | 25,196 | 20,100 |
| Current assets | | | |
| Receivables from group companies | 3 | 4,893 | 5,021 |
| Other current assets | | 2 | — |
| Total current assets | | 4,895 | 5,021 |
| TOTAL ASSETS | | 30,091 | 25,121 |
| EQUITY & LIABILITIES | | | |
| Equity | 9 | | |
| <i>Restricted equity</i> | | | |
| Share capital (50,500,000 shares with par value of 1 SEK) | | 51 | 51 |
| | | 51 | 51 |
| <i>Non-restricted equity</i> | | | |
| Share premium reserve | | 11,405 | 11,424 |
| Retained earnings | | -5,375 | -3,564 |
| Net income | | 1,350 | -246 |
| | | 7,380 | 7,614 |
| Total equity | | 7,431 | 7,665 |
| Non-current liabilities | | | |
| Bonds | 10 | 12,781 | 7,728 |
| Non-current liabilities to group companies | 3 | 9,601 | 9,473 |
| Other non-current liabilities | | 220 | 137 |
| Total non-current liabilities | | 22,602 | 17,338 |
| Current liabilities | | | |
| Liabilities to group companies | 3 | — | 33 |
| Other current liabilities | | 1 | — |
| Accrued expenses and prepaid income | | 57 | 85 |
| Total current liabilities | | 58 | 118 |
| TOTAL EQUITY & LIABILITIES | | 30,091 | 25,121 |

CHANGES IN EQUITY – PARENT COMPANY

| MSEK | Restricted equity | Non-restricted equity | | | Total |
|-------------------------------------|-----------------------------|-----------------------|---------------------------|-------------------|--------|
| | Share capital ¹⁾ | Share premium reserve | Other contributed capital | Retained earnings | |
| Balance at January 1, 2016 | — | 6,509 | -3,514 | — | 2,995 |
| Net income for the year | — | — | — | -246 | -246 |
| Transactions with owners | | | | | |
| Bonus issue | 50 | — | -50 | — | — |
| New issue of preference shares | 1 | 4,915 | — | — | 4,916 |
| Balance at December 31, 2016 | 51 | 11,424 | -3,564 | -246 | 7,665 |
| Net income for the year | — | — | — | 1,350 | 1,350 |
| Transactions with owners | | | | | |
| Dividend to shareholders | — | — | — | -1,565 | -1,565 |
| Issue of preference shares | — | -19 | — | — | -19 |
| Balance at December 31, 2017 | 51 | 11,405 | -3,564 | -461 | 7,431 |

1) Share capital amounts to SEK 50,500,000 (50,500,000)

STATEMENT OF CASH FLOWS – PARENT COMPANY

| MSEK | Note | 2017 | 2016 |
|--|------|--------|--------|
| OPERATING ACTIVITIES | | | |
| Operating income | | -20 | — |
| Interest received | | 6 | — |
| Interest paid | | -33 | — |
| | | -47 | — |
| <i>Movements in working capital</i> | | | |
| Change in current receivables group companies | 3 | -12 | -5,021 |
| Change in current liabilities group companies | 3 | 106 | — |
| Change in current liabilities | | 35 | 45 |
| Cash flow from movements in working capital | | 129 | -4,976 |
| Cash flow from operating activities | | 82 | -4,976 |
| Cash flow from investing activities | | — | — |
| Cash flow from operating and investing activities | | 82 | — |
| FINANCING ACTIVITIES | | | |
| Proceeds from bond issuance | 10 | 4,914 | 7,621 |
| Change in non current receivables group companies | 3 | -4,914 | -7,624 |
| Dividend received from subsidiary | | 1,565 | — |
| Dividend paid to shareholders | | -1,565 | — |
| Proceeds from issuance of preference shares, net | 9 | -82 | 4,979 |
| Cash flow from financing activities | | -82 | 4,976 |
| Cash flow for the year | | — | — |
| Cash and cash equivalents at beginning of year | | — | — |
| Cash and cash equivalents at end of year | | — | — |

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

All amounts are in MSEK unless otherwise stated.
Amounts in brackets refer to the preceding year.

NOTE 1 – ACCOUNTING PRINCIPLES

Basis of preparation

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. Changes in RFR 2 applicable to the fiscal year beginning January 1, 2017, have had no material impact on the financial statements of the Parent Company.

The accounting principles applied by the Volvo Car Group are described in Note 1 – Accounting principles, to the consolidated financial statements. The main deviations between the accounting policies applied by the Volvo Car Group and the Parent Company are described below.

Shares and participations in Group companies

Shares and participations in Group companies are recognised at cost in the Parent Company's balance sheet and test for impairment is performed annually. Dividends are recognised in the income statement. All shares and participations are related to business operations and profit and loss from these are reported within Operating income.

Transaction costs directly attributable to acquisitions of shares and participations in Group companies are accounted for as an increase in the carrying amount of the shares.

Distributed group contributions to subsidiaries are reported as an increase of investments in these subsidiaries. A review is made whether or not there is an impairment need on the shares of the subsidiaries having received the group contributions. Tax effect of these distributed group contributions are reported in accordance with RFR 2 IAS 12 in the income statement. Distributed group contributions to parent company are recorded in equity, along with the tax effect.

Received group contributions from subsidiaries are recorded as financial income. Tax effect on these received group contributions are reported in accordance with RFR 2, IAS 12 in the income statement. Received group contributions from parent company are recorded in equity, along with the tax effect.

Distributed shareholders' contributions are recognised in shares in subsidiaries and as such they are subject to impairment testing.

Mergers of subsidiaries (100 per cent ownership) are recorded according to BFNAR 1999:1 (recommendation 1999:1 from the Swedish Accounting Standards Board). Downstream mergers are

recorded in accordance with RedR9 (recommendation 9 from the Swedish Institute of Authorised Public Accountants).

Financial guarantees

The Parent Company applies the exception in the application of IAS 39 (IFRS 9 from January 1, 2018) which concerns accounting and measurement of financial contracts of guarantee in favour of subsidiaries and associated companies. The Parent Company recognises the financial contracts of guarantee as contingent liabilities.

Post-employment benefits

According to RFR 2, application of the regulations in IAS 19 regarding defined-benefit plans is not mandatory for legal entities. However, IAS 19 shall be adopted regarding supplementary disclosures when applicable. RFR 2 refers to the Swedish law on safeguarding of pension commitments ("tryggandelagen") regarding recording of "Provisions for post employment benefits" in the balance sheet and of plan assets in pension foundations. In neither 2017 nor 2016 were there any employees in the parent company.

Income taxes

Deferred tax liability on untaxed reserves are included in untaxed reserves in the parent company.

Equity

In accordance with the Swedish Annual Accounts Act, equity is split between restricted and non-restricted equity.

NOTE 2 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of the financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR 2 requires the Company's Executive Management and Board of Directors to make estimations and assessments as well as to make assumptions that affect application of the accounting policies and the reported assets, liabilities, income and expenses. Critical accounting estimates and judgements applied by the Volvo Car Group are described in Note 2 – Critical accounting estimates and judgements, to the consolidated financial statements. None of these critical accounting estimates are applicable to the parent company, with the exception of impairment. Shares and participations in Group companies recognised at cost in the Parent Company are being tested for impairment annually.

NOTE 3 – RELATED PARTIES

During the year, the parent company entered into the following transactions with related parties:

| | Sales of goods, services and other | | Purchase of goods, services and other | |
|--------------------------------------|------------------------------------|------|---------------------------------------|------|
| | 2017 | 2016 | 2017 | 2016 |
| Companies within the Volvo Car Group | — | — | 1% | 100% |

| | Receivables | | Payables | |
|--------------------------------------|--------------|--------------|--------------|--------------|
| | Dec 31, 2017 | Dec 31, 2016 | Dec 31, 2017 | Dec 31, 2016 |
| Companies within the Volvo Car Group | 17,674 | 12,750 | 9,601 | 9,506 |
| whereof short-term | 4,893 | 5,021 | — | 33 |

Business transactions between the parent company and related parties all arise in the normal course of business and are conducted on the basis of arm's length principles. During 2017, Volvo Car AB (publ.) has received dividend of MSEK 1,565 (-) from its subsidiary, Volvo Car Corporation. Volvo Car AB (publ.) has paid dividend of MSEK 1,500 (-) to its shareholder Geely Sweden Holdings AB and MSEK 65 (-) to its

preference shareholders. Volvo Car Group does not engage in any transactions with Board members or senior executives except ordinary remunerations for services. For further information regarding remunerations, see Note 9 - Employees and remuneration in the consolidated financial statements.

NOTE 4 – AUDIT FEES

Audit fees involve review of the Annual Report, financial accounts and the administration by the Board of Directors and the Managing Director. The audit also includes advice and assistance as a result of the observations made in connection with the audit. The audit fees for 2017, invoiced by Volvo Car Group's appointed external auditors (Deloitte), amounted to TSEK -83 (-83).

NOTE 5 – REMUNERATION TO THE BOARD OF DIRECTORS

Information on remuneration to Board members by gender is shown in Note 9 – Employees and remuneration, in the consolidated statements.

NOTE 6 – FINANCIAL INCOME AND EXPENSES

| | 2017 | 2016 |
|-----------------------------------|-------------|-------------|
| Financial income | | |
| Interest income from subsidiaries | 243 | 107 |
| Total | 243 | 107 |
| Financial expenses | | |
| Interest expenses to subsidiaries | -218 | -234 |
| Interest expenses | -263 | -107 |
| Other | — | -73 |
| Total | -481 | -414 |

NOTE 7 – TAXES

| Income tax recognised in income statement | 2017 | 2016 |
|--|-----------|-----------|
| Deferred taxes | 43 | 71 |
| Total | 43 | 71 |
| Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate | | |
| Income before tax for the year | 1,307 | -317 |
| Tax according to applicable Swedish tax rate, 22 % | -288 | 70 |
| Costs non-deductable | -20 | — |
| Non-taxable dividends | 344 | — |
| Non-taxable income | 6 | 1 |
| Income tax related to prior year | 1 | — |
| Total | 43 | 71 |

Total deferred tax assets MSEK 2,148 (2,104) relates to loss-carry forward. Deferred tax assets are only accounted for to the extent there are taxable temporary differences or other factors that convincingly indicate there will be sufficient future taxable profit. The tax loss-carry forward has an indefinite period of utilisation.

NOTE 8 – PARTICIPATION IN SUBSIDIARY

| | Dec 31, 2017 | Dec 31, 2016 |
|---|---------------|---------------|
| At beginning of the year/acquired acquisition value | 10,267 | 10,267 |
| Total | 10,267 | 10,267 |

| Volvo Car AB's (publ.) investments in subsidiaries: | Corp. ID no. | Registered office | No. of shares | % interest held | Book value Dec 31, 2017 | Book value Dec 31, 2016 |
|---|--------------|---------------------|---------------|-----------------|-------------------------|-------------------------|
| Volvo Personvagnar AB ¹⁾ | 556074-3089 | Gothenburg / Sweden | 723,530 | 100 | 10,267 | 10,267 |

Details of Volvo Car Corporation's direct wholly owned subsidiaries at the end of the reporting period are presented in below table.

| Legal entity | Corp. ID no. | Registered office | % interest held |
|---|--------------|---------------------|-----------------|
| Sweden | | | |
| Automotive Components Floby AB | 556981-8874 | Falköping / Sweden | 100 |
| VCG Investment Management AB | 556955-7118 | Gothenburg / Sweden | 100 |
| Volvo Bil i Göteborg AB | 556056-6266 | Gothenburg / Sweden | 100 |
| Volvo Car Australia Holding AB | 556152-2680 | Gothenburg / Sweden | 100 |
| Volvo Car Investment and Borrowing AB | 556130-4246 | Gothenburg / Sweden | 100 |
| Volvo Car NSC Holding AB | 556754-8283 | Gothenburg / Sweden | 100 |
| Volvo Car Overseas Corporation AB | 556223-0440 | Gothenburg / Sweden | 100 |
| Volvo Car PHEV Holding AB | 556785-9375 | Gothenburg / Sweden | 100 |
| Volvo Car Real Estate and Assets 1 AB | 556205-7298 | Gothenburg / Sweden | 100 |
| Volvo Car Försäkrings AB | 556877-5778 | Gothenburg / Sweden | 100 |
| Volvo Car Technology Fund AB ²⁾ | 556877-5760 | Gothenburg / Sweden | 100 |
| Volvo Car Services 3 AB | 556955-6441 | Gothenburg / Sweden | 100 |
| Volvo Car Sverige AB | 556034-3484 | Gothenburg / Sweden | 100 |
| Volvo Personvagnar Norden AB | 556413-4848 | Gothenburg / Sweden | 100 |
| Volvo Car Center Uddevalla AB | 556651-0193 | Uddevalla / Sweden | 100 |
| Volvo Car Uddevalla AB | 556232-0142 | Uddevalla / Sweden | 100 |
| Europe | | | |
| Volvo Car Austria GmbH | | Austria | 100 |
| Volvo Car Czech Republic s.r.o. | | Czech Republic | 100 |
| Volvo Car Denmark A/S | | Denmark | 100 |
| Volvo Car Finland Oy Ab | | Finland | 100 |
| Volvo Car France SAS | | France | 100 |
| Volvo Car Germany GmbH | | Germany | 100 |
| Volvo Car Hellas Anonymous ³⁾ | | Greece | 100 |
| Volvo Car Hungary Trading and Service Ltd ⁴⁾ | | Hungary | 100 |
| Volvo Car Gallery Ltd ⁴⁾ | | Hungary | 100 |
| Volvo Car Ireland Ltd | | Ireland | 100 |
| Volvo Car Italia S.p.A. | | Italy | 100 |
| Volvo Car Nederland B.V. | | The Netherlands | 100 |
| SNEBE Holding B.V. | | The Netherlands | 100 |
| SNITA Holding B.V. | | The Netherlands | 100 |
| SWENE Holding B.V. | | The Netherlands | 100 |
| Volvo Car Norway AS | | Norway | 100 |
| Volvo Car Poland Sp. z o.o. | | Poland | 100 |
| Volvo Car Portugal S.A. | | Portugal | 100 |
| Volvo Car Espana S.L. | | Spain | 100 |
| Volvo Car Switzerland AG | | Switzerland | 100 |
| Volvo Car UK Ltd | | United Kingdom | 100 |

| Legal entity | Registered office | % interest held |
|---|-------------------|-----------------|
| North and South America | | |
| Volvo Car Brasil Importacao e Comercio de Veiculos Ltda | Brazil | 100 |
| Volvo Car do Brasil Automoveis Ltda | Brazil | 100 |
| Volvo Car Canada Ltd | Canada | 100 |
| Volvo Car Mexico S.A. de C.V. | Mexico | 100 |
| Volvo Car Financial Services U.S., LLC | USA | 100 |
| Volvo Car North America, LLC | USA | 100 |
| Africa and Asia | | |
| Volvo Cars (China) Investment Co., Ltd. ⁵⁾ | China | 100 |
| Volvo Cars Technology (Shanghai) Co., Ltd. | China | 100 |
| Volvo Auto India Pvt. Ltd | India | 100 |
| Volvo Car Japan Ltd | Japan | 100 |
| Volvo Car Korea Co., Ltd | Korea | 100 |
| Volvo Car Manufacturing Malaysia Sdn Bhd | Malaysia | 100 |
| Volvo Car Taiwan Ltd | Taiwan | 100 |
| Volvo Car Turkey Otomobil Ltd Sirketi | Turkey | 100 |
| Volvo Car Singapore PTE Ltd | Singapore | 100 |
| Volvo Car South Africa Pty Ltd | South Africa | 100 |

1) Referred to as Volvo Car Corporation

2) Prior name: Volvo Car Services 2 AB

3) Legal name in full: Volvo Car Hellas Anonymous and Industrial company of car and spare parts imports and trade

4) Demerger of Volvo Car Hungary Trading and Service Ltd effective as from November 1, 2017. Volvo Car Gallery Ltd is the demerged company.

The share of voting power corresponds to holdings in per cent as per above. The countries where the subsidiaries are registered are also where their main operations are carried out.

Significant restrictions

For some subsidiaries there are restrictions on the Volvo Car Group's ability to access or use cash from these subsidiaries, for more information on cash that is not available or with other limitations, see Note 22 – Marketable securities and cash and cash equivalents in the consolidated financial statements.

Details of non-wholly owned subsidiaries that have material non-controlling interests⁵⁾

On June 25, 2015 Volvo Car Group has, through one of its wholly owned subsidiaries, Volvo Cars (China) Investment Co., Ltd, acquired an additional 20 per cent in Volvo Cars' Chinese joint venture companies. In the consolidated financial statements, these joint venture com-

panies are classified as subsidiaries and fully consolidated with a non-controlling interest of 50 per cent since Volvo Car Group has the decision-making power over the operations. Additionally, Daqing Volvo Car Manufacturing Co., Ltd has acquired 100 per cent of the shares in Volvo Car (Asia Pacific) Investment Holding Co., Ltd which holds 100 per cent of Zhongjia Automobile Manufacturing (Chengdu) Co., Ltd and Shanghai Zhawo Auto Sales Co., Ltd.

On September 22, 2017 Volvo Cars (China) Investment Co., Ltd has, through one of its wholly owned subsidiary, Polestar Automotive (Shanghai) Co., Ltd, established a new joint venture company Polestar New Energy Vehicle Co., Ltd together with Zhejiang Haoqing Automobile Manufacturing Co., Ltd, 40 per cent shareholding, and Chengdu Zhaoyuan New Energy Vehicle Investment Co., Ltd, 10 per cent shareholding. Both companies are owned subsidiaries to Zhejiang Geely Holding Group Co., Ltd. In the consolidated financial statements, this joint venture company is classified as a subsidiary and fully consolidated with a non-controlling interest of 50 per cent since Volvo Car Group has the decision-making power over the operation.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests.

| Legal entity: | Registered office | % held by Zhejiang Geely Holding Group Co., Ltd. | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|-------------------|--|--------------|---|--------------|---------------------------------------|--------------|
| | | Dec 31, 2017 | Dec 31, 2016 | Dec 31, 2017 | Dec 31, 2016 | Dec 31, 2017 | Dec 31, 2016 |
| Daqing Volvo Car Manufacturing Co., Ltd. | China | 50 | 50 | 2,233 | 1,475 | 4,165 | 2,638 |
| Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. | China | 50 | 50 | 49 | 39 | 912 | 892 |
| Shanghai Volvo Car Research and Development Co., Ltd. | China | 50 | 50 | 1 | 2 | 101 | 104 |
| Polestar New Energy Vehicle Co., Ltd | China | 50 | — | -7 | — | 624 | — |
| Total non-controlling interests | | | | 2,276 | 1,516 | 5,802 | 3,634 |

NOTE 9 – EQUITY

In December 2016, Volvo Car AB (publ.) directed a new issue of 500,000 preference shares to a group of institutional investors, whereby MSEK 5,000 (reduced by transaction costs) was added to equity. The preference shares may be repurchased or converted into listed ordinary shares, both upon the majority shareholder's decision. At year end 2017, no such decision has been taken. The issued preference shares are classified as equity instruments, for further information, see Note 23 – Equity in the consolidated financial statements.

NOTE 10 – BONDS

During the year, Volvo Car AB (publ.) has closed the issuance of a new bond. The bond, a 7,2 year, MEUR 500 and fixed coupon rate of 2 per cent was issued under the new Euro Medium Term Note-program. In 2016, the first bond, a 5 year MEUR 500 bond was issued in May.

The senior unsecured notes issued mature as of May 2021 and carry a fixed coupon rate of 3.25 per cent. The second bond was issued in November 2016, a 5.25 year MSEK 3,000 bond split on a floating and fixed tranche. The fixed tranche carry a coupon of 2.50 per cent and the floating tranche a coupon of Stibor 3m +235bps. The notes mature in March 2022. All three bonds are listed on the Euro MTF list on the Luxembourg stock exchange (Société de la bourse de Luxembourg). For more information see Note 21 – Financial risks and financial instruments in the consolidated financial statements.

No fair value hedge is applied in Volvo Car AB (publ.).

PROPOSED DISTRIBUTION OF NON-RESTRICTED EQUITY

The parent company

The following funds are at the disposal of Annual General Meeting (AGM):

| | | |
|-----------------------------------|------------|----------------------|
| Share premium reserve | SEK | 11,405,115,511 |
| Retained earnings brought forward | SEK | -5,375,115,307 |
| Net income for the year | SEK | 1,350,269,802 |
| At the disposal of the AGM | SEK | 7,380,270,006 |

The Board proposes the following allocations of funds:

| | | |
|---|------------|----------------------|
| To the preference shareholders, a dividend of SEK 126,71 per share | SEK | 63,355,000 |
| Carried forward | SEK | 7,316,915,006 |
| Total | SEK | 7,380,270,006 |

In view of the Board of Directors' proposal to the Annual General Meeting to be held March 22, 2018 to decide on the distribution of a dividend of SEK 126,71 per preference 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. 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 record date for determining who is entitled to receive dividend is proposed to be on March 26, 2018.

The Board of Directors and the President hereby affirm that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU and provide a true and fair view of the Group's financial position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting principles and provides a fair and true view of the parent company's financial position and earnings. The Board of Directors report for the Group and the parent company provides a true and fair overview of the development of the operations, financial position and earnings of the Group and parent company and describes material risks and uncertainty factors facing the parent company and the companies included in the Group.

Gothenburg, March 22, 2018

Li Shufu

Chairman of the Board

Håkan Samuelsson

Board member and CEO

Mikael Olsson

Vice Chairman of the Board

Dr. Peng Zhang

Board member

Li Donghui

Board member

Lone Fønss Schrøder

Board member

Carl Peter Forster

Board member

Betsy Atkins

Board member

Winnie K.W. Fok

Board member

Thomas Johnstone

Board member

Marko Peltonen

Employee representative

Jörgen Olsson

Employee representative

Glenn Bergström

Employee representative

Our audit report was submitted on March 22, 2018
Deloitte AB

Jan Nilsson

Authorized Public Accountant

AUDITOR'S REPORT

This auditor's report is a translation of the Swedish language original. In the events of any differences between this translation and the Swedish original the latter shall prevail.

**To the general meeting of the shareholders
of Volvo Car AB (publ.)
corporate identity number 556810-8988**

Report on the annual accounts and consolidated accounts Opinions

We have audited the annual accounts and consolidated accounts of Volvo Car AB (publ.) for the financial year 2017-01-01 - 2017-12-31. The annual accounts and consolidated accounts of the company are included on pages 101 - 168 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 the parent company as of 31 December 2017 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 2017 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.

Other Information than the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises pages 1 -100 and 169 -183 in this document but does not include the annual accounts, consolidated accounts and our auditor's report thereon. 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.

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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We

also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

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 Volvo Car AB (publ.) for the financial year 2017-01-01 - 2017-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to 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 fulfill 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Gothenburg 22nd of March 2018
Deloitte AB

Signature on Swedish original

Jan Nilsson
Authorized public accountant



BOARD OF DIRECTORS

BOARD OF DIRECTORS VOLVO CAR AB (PUBL.)

Volvo Car AB (publ.) is the parent company of Volvo Car Group.



Li Shufu

Chairman of the Board of Directors
Since: August 2010
Born: 1963
Education: Master of Science in Mechanical Engineering and Bachelor of Science in Management Engineering
Other assignments:
Founder and Chairman of the Board of Directors Zhejiang Geely Holding Group
Chairman of the Board of Directors Geely Sweden Holdings AB



Mikael Olsson

Vice Chairman of the Board of Directors
Since: November 2015
Member of the Board of Directors
Since: October 2013
Born: 1957
Education: Industrial Economy
Other assignments:
Member of the Board of Directors Ikano S.A., Tesco plc., Lindengruppen AB and The Royal Schiphol Group



Winnie K. W. Fok

Member of the Board of Directors
Since: August 2010
Born: 1956
Education: Bachelor's Degree in Commerce
Other assignments:
Member of the Board of Directors G4S Plc., Kemira Oyj and HOPU Investments Co. Ltd.
Member of the Board of Directors and Audit Committee Skandinaviska Enskilda Banken AB



Li Donghui

Member of the Board of Directors
Since: April 2011
Born: 1970
Education: MBA and Master of Science in Mechanical Engineering
Other assignments:
Member of the Board of Directors Zhejiang Geely Holding Group and Geely Sweden Holdings AB



Lone Fønss Schrøder

Member of the Board of Directors
Since: August 2010
Born: 1960
Education: Master of Science in Law and Master of Science in Economics
Other assignments:
Chairman of the Board of Directors Nustay A/S
Vice Chairman of the Board of Directors and Chairman of the Audit Committee Aker ASA
Member of the Board of Directors and Member of the Audit Committee INGKA (Ikea Group)
Member of the Board of Directors and Chairman of the Audit Committee Kvaerner
Member of the Board of Directors Bilfinger SE



Dr. Peng Zhang

Member of the Board of Directors
Since: December 2010
Born: 1966
Education: PhD in Economics
Other assignments:
Director of Chairman's Office Volvo Cars



Håkan Samuelsson

Member of the Board of Directors and President and CEO
Since: August 2010
Born: 1951
Education: Master of Science in Mechanical Engineering
Other assignments:
Member of the Board of Directors AB Volvo and Teknikföretagen



Carl Peter Forster

Member of the Board of Directors
Since: January 2013
Born: 1954
Education: Master of Science in Economics and Aeronautical Engineering
Other assignments:
Chairman of the Board of Directors FriedlaTech GmbH, ZMDi and Lead Equities AB
Member of the Board of Directors Geely Automobile Holdings, Gordon Murray Design Ltd., The Mobility House AG, Cosworth Group Holdings Ltd., IMI plc., and Rexam plc.

BOARD OF DIRECTORS VOLVO CAR AB (PUBL.) CONT.

UNION REPRESENTATIVES

**Thomas Johnstone**

Member of the Board of Directors
Since: January 2015

Born: 1955

Education: Master of Arts

Other assignments:

Member of the Board of Directors Investor AB
and Husqvarna AB

**Betsy Atkins**

Member of the Board of Directors
Since: January 2016

Born: 1953

Education: Bachelor's Degree in Liberal Arts

Other assignments:

Chairman of the Advisory Board SAP AG
CEO Baja Corp

**Glenn Bergström**

Union Representative of the Board of
Directors

Since: August 2010

Appointed by: IF Metall

Born: 1955

Employed by Volvo Cars: 1974

**Marko Peltonen**

Union Representative of the Board of
Directors

Since: August 2010

Appointed by: IF Metall

Born: 1965

Employed by Volvo Cars: 1984

**Jörgen Olsson**

Union Representative of the Board of
Directors

Since: March 2016

Appointed by: Unionen

Born: 1968

Employed by Volvo Cars: 1988

**Björn Ohlsson**

Deputy Union Representative of the Board of
Directors

Since: 2009

Appointed by: IF Metall

Born: 1963

Employed by Volvo Cars: 1981

**Anna Margitin**

Deputy Union Representative of the Board of
Directors

Since: 2016

Appointed by: Akademikerna

Born: 1969

Employed by Volvo Cars: 1994

EXECUTIVE MANAGEMENT TEAM

EXECUTIVE MANAGEMENT TEAM VOLVO CAR CORPORATION

Volvo Car Corporation is a subsidiary of Volvo Car AB (publ.). Volvo Car Corporation is managed by the Executive Management Team, led by the CEO and overseen by the Board of Directors of Volvo Car AB (publ.). Besides from managing Volvo Car Corporation, the Executive Management Team also set out the directions for the operations in the rest of the businesses in Volvo Cars.



Håkan Samuelsson

President and CEO
Since: October 2012
Born: 1951
Education: Master of Science in Mechanical Engineering
Previous positions:
CEO MAN AG and MAN Nutzfahrzeuge AG
Member of the Executive Board of Directors Scania Group



Hans Oscarsson

Senior Vice President and CFO
Since: August 2013
Born: 1965
Education: Master's Degree in Finance
Previous positions:
Deputy CFO and Group Controller Volvo Cars
Vice President and Controller Marketing, Sales and Services Volvo Cars



Xiaolin Yuan

Senior Vice President APAC Region
Since: March 2017
Born: 1969
Education: Master's Degree
Previous positions:
Deputy Senior Vice President and President APAC Region Volvo Cars
Secretary of the Board of Directors Volvo Cars
Head of Chairman's Office Volvo Cars



Martina Buchhauser

Senior Vice President Procurement
Since: October 2017
Born: 1966
Education: Master's Degree in Management
Previous positions:
Senior Vice President Purchasing and Supplier Network for Interior BMW
Various senior purchasing positions MAN and GM



Maria Hemberg

Senior Vice President Group Legal and General Counsel
Since: March 2012
Born: 1964
Education: Master of Law
Previous positions:
Legal Counsel AB SKF
Lawyer and Senior Associate Mannheimer Swartling
Legal Counsel SCA Hygiene Products AB



Thomas Ingenlath

Senior Vice President and Chief Design Officer
Since: July 2012
Born: 1964
Education: Master of Arts
Previous positions:
Director Design VW Group
Head of Design Skoda Design Studio
Head of Exterior Design VW



Lex Kerssemakers

Senior Vice President EMEA Region
Since: August 2017
Born: 1960
Education: Degree in Automotive Business Management
Previous positions:
Senior Vice President Americas Region Volvo Cars
Senior Vice President Product Strategy and Vehicle Line Management Volvo Cars
President Volvo Car Overseas Corporation



Henrik Green

Senior Vice President Research and Development
Since: December 2016
Born: 1973
Education: Master of Science in Computer Engineering
Previous positions:
Vice President Product Strategy and Vehicle Line Management Volvo Cars
Vice President Product Strategy and Vehicle Line Management Volvo Car China

EXECUTIVE MANAGEMENT TEAM VOLVO CAR CORPORATION CONT.

**David Ibison**

Senior Vice President
Corporate Communications
Since: June 2017
Born: 1966
Education: Master of Science in Politics and
International Relations

Previous positions:
Nordic Bureau Chief and International
Correspondent Financial Times

**Javier Varela**

Senior Vice President Manufacturing and
Logistics
Since: November 2016
Born: 1964
Education: Industrial Engineering

Previous positions:
Executive Vice President Automobile Opera-
tions Toyota Peugeot Citroën Czech Republic
Head of Manufacturing Operations PSA
Peugeot Citroën France
President and CEO PSA Peugeot Citroën
Argentina

**Anders Gustafsson**

Senior Vice President Americas Region
Since: August 2017
Born: 1968

Previous positions:
Senior Vice President EMEA Region Volvo
Cars
President Volvo Car Sweden
CEO Hertz Sweden

**Mårten Levenstam**

Senior Vice President Product Strategy and
Business Ownership
Since: January 2018
Born: 1964
Education: Master of Science in Vehicle
Engineering and PhD in Fluid Mechanics

Previous positions:
Vice President Product Strategy Volvo Cars
Various senior product safety positions
Volvo Cars

**Atif Rafiq**

Senior Vice President and Chief Digital Officer
Since: January 2017
Born: 1973
Education: MBA in Finance and Marketing

Previous positions:
Chief Digital Officer McDonald's Corporation
General Manager Kinde Direct Purchasing
amazon.com
Head of Local Business Yahoo

**Björn Annwall**

Senior Vice President Strategy, Brand and
Retail
Since: October 2016
Born: 1974
Education: Master of Science in Business
Administration

Previous positions:
Senior Vice President Marketing, Sales and
Customer Services Volvo Cars
Partner McKinsey & Co.

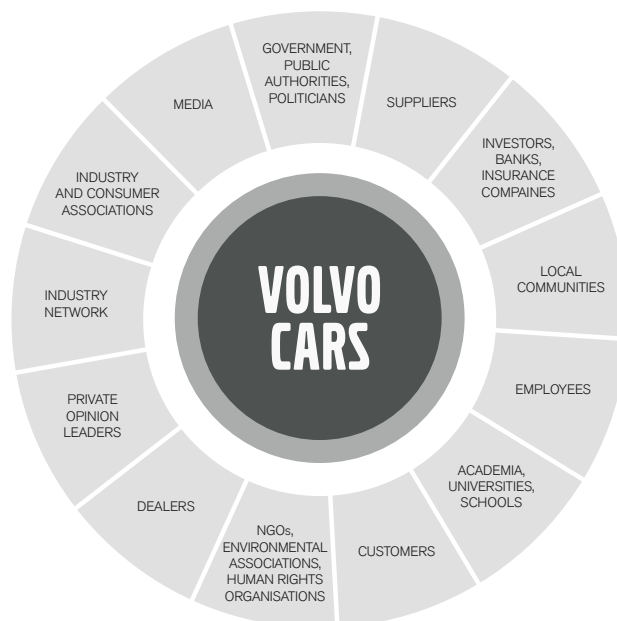
**Hanna Fager**

Senior Vice President Human Resources
Since: October 2016
Born: 1975
Education Bachelor of Science in Human
Resource Development and Labour Relations

Previous positions:
HR Manager Marketing Sales and Service
and Corporate Functions Volvo Cars
Senior Manager Compensation and Benefits
Volvo Cars
Various senior HR positions Volvo Cars

STAKEHOLDER ENGAGEMENT & MATERIALITY ANALYSIS

Our stakeholder involvement provides guidance on how we should develop and communicate our sustainability work. One indicator of our success, is whether our stakeholders chose to buy our products and/or do business with us. We have an open dialogue with our major stakeholders not only through networks, conferences, our website or at citizen@volvocars.com, but also through deeper interviews, surveys and analysis.



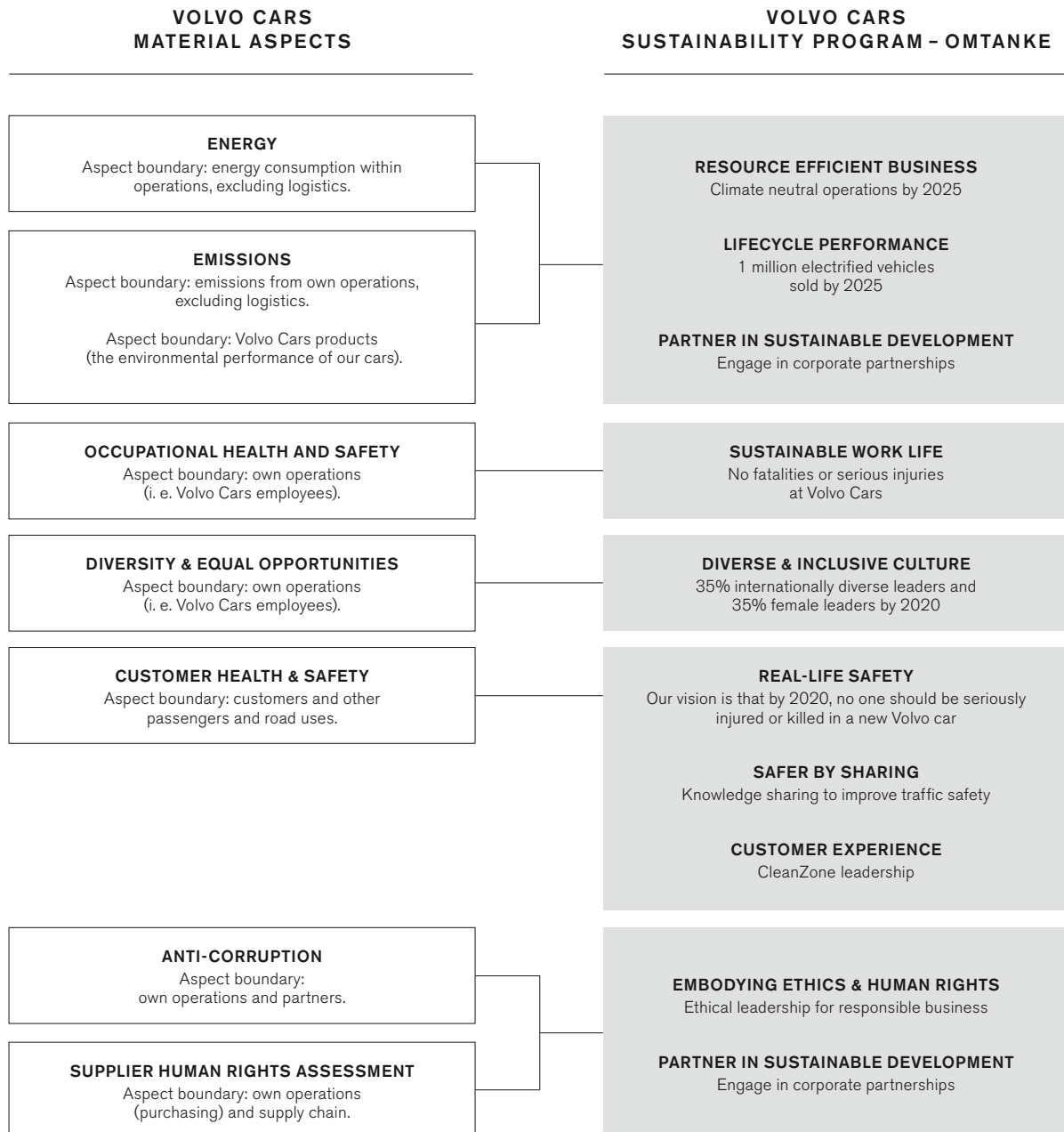
In an online survey in 2015, external and internal stakeholders were asked to indicate which sustainability areas they considered to be of greatest relevance to Volvo Cars. This resulted in a list of

13 aspects that were voted by at least 40 per cent of the respondents as important:

| Prioritised topics | Proportion of respondents that rated the topic as important |
|--|---|
| Fuel economy and car emissions | 77% |
| Car and traffic safety (product responsibility) | 71% |
| Social and environmental requirements on suppliers/dealers | 65% |
| Energy efficiency and emissions (production) | 61% |
| Future mobility | 61% |
| Code of conduct and integrity | 58% |
| Occupational health and safety | 47% |
| Research and development | 47% |
| Assessing, evaluating and auditing suppliers | 43% |
| Technology and knowledge sharing | 43% |
| Materials, recycling and waste | 42% |
| Satisfaction of customers and business partners | 42% |
| Environmental management | 40% |

We gathered this analysis and input from our stakeholders and aligned them with our internal strategies, together with the Sustainability Board, in order to define what we consider to be our

most relevant material aspects. The Sustainability Board then developed the structure and focus areas of our Sustainability Program Omtanke, with clear priorities and commitments.



In 2017, we continued to promote our Sustainability Program to our stakeholders through press releases, our website, social media, presentations at conferences and in individual meetings.

We will carry on doing so in 2018. We will also conduct a new stakeholder survey to gain their insight on our material aspects, as well as receive feedback on our program and current direction.

SUSTAINABILITY SCORECARD

ECONOMIC DIMENSION

| | 2017 | 2016 | 2015 | 2014 ²⁾ | 2013 ¹⁾ |
|----------------------|---------|---------|---------|--------------------|--------------------|
| Retail sales (units) | 571,577 | 534,332 | 503,127 | 465,866 | 427,840 |
| Net revenue (MSEK) | 210,912 | 180,902 | 164,043 | 137,590 | 122,245 |

1) Not restated after the acquisitions of the Chinese industrial entities in 2015.

2) The comparative figures for 2014 are restated to include the new Volvo Car Group structure including the acquired Chinese industrial entities. For further descriptions refer to the Volvo Car Group Annual Report 2015.

ENVIRONMENTAL DIMENSION

| Energy use, Operations Europe (MWh) ¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---------|---------|---------|---------|---------|
| Total direct energy use ²⁾ | 177,000 | 227,000 | 254,000 | 249,000 | 297,000 |
| Total indirect energy use ³⁾ | 593,000 | 539,000 | 499,000 | 497,000 | 493,000 |
| Total energy use (direct and indirect) | 770,000 | 766,000 | 753,000 | 746,000 | 790,000 |
| Energy use per manufactured vehicle (MWh/vehicle) ⁴⁾ | 1.1 | 1.2 | 1.2 | 1.2 | 1.3 |

1) The Volvo Cars facilities included in the 2017 data are Volvo Cars Torslanda Plant (Gothenburg, Sweden), Volvo Cars Ghent Plant (Ghent, Belgium), Volvo Cars Skövde – Engines (Skövde, Sweden), and Volvo Cars Olofström – Body Components (Olofström, Sweden). Data for Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia) is included in data to 2014 (since 2015, included in Asia figures). Data for Volvo Cars Floby (Floby, Sweden) is included up to 2015.

2) Energy produced on site for own consumption.

3) Purchased electricity and heating.

4) Energy use in Volvo Cars Torslanda Plant (Gothenburg, Sweden) and Volvo Cars Ghent Plant (Ghent, Belgium). Data for Malaysia – CKD (Kuala Lumpur, Malaysia) is included up to 2014.

| Direct energy use by source Europe (MWh) ¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|---------|---------|---------|---------|---------|
| Natural gas/LPG | 163,000 | 213,000 | 234,000 | 230,000 | 278,000 |
| Oil/diesel/ petrol | 250 | — | 3,800 | 3,900 | 4,200 |
| Renewables (non-biomass, wind) | 12,500 | 12,900 | 14,500 | 13,500 | 13,900 |
| Renewables (biomass) | — | — | — | — | — |
| Coal | — | — | — | — | — |
| Other/unspecified, water | 1,300 | 1,100 | 1,100 | 1,000 | 1,000 |

1) The Volvo Cars facilities included in the 2017 data are Volvo Cars Torslanda Plant (Gothenburg, Sweden), Volvo Cars Ghent Plant (Ghent, Belgium), Volvo Cars Skövde – Engines (Skövde, Sweden), and Volvo Cars Olofström – Body Components (Olofström, Sweden). Data for Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia) is included in data to 2014 (since 2015, included in Asia figures). Data for Volvo Cars Floby (Floby, Sweden) is included up to 2015.

| Energy use, Operations Asia (MWh) ¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---------|---------|---------|------|------|
| Total direct energy use ²⁾ | 270,000 | 201,000 | 177,000 | — | — |
| Total indirect energy use ³⁾ | 154,000 | 116,000 | 102,000 | — | — |
| Total energy use (direct and indirect) | 422,000 | 317,000 | 279,000 | — | — |
| Energy use per manufactured vehicle Asia (MWh/vehicle), MWh ⁴⁾ | 3.0 | 3.8 | 4.2 | — | — |

1) The Volvo Cars facilities included in the 2017 data are Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia), Volvo Cars Chengdu Plant (Chengdu, China), Volvo Cars Daqing Plant (Daqing, China) and Volvo Cars Zhangjiakou – Engines (Zhangjiakou, China). 2015 was the first year when Volvo Cars started reporting figures for China.

2) Energy produced on site for own consumption.

3) Purchased electricity and district heating used for own consumption.

4) Figures include Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia), Volvo Cars Chengdu Plant (Chengdu, China) and Volvo Cars Daqing Plant (Daqing, China).

| Direct energy use by source Asia (MWh) ¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|---------|---------|---------|------|------|
| Natural gas/LPG | 270,000 | 201,000 | 176,000 | - | - |
| Oil/diesel/ petrol ²⁾ | - | - | 800 | - | - |
| Renewables (non-biomass) | - | - | - | - | - |
| Renewables (biomass) | - | - | - | - | - |
| Coal | - | - | - | - | - |
| Other/unspecified | - | - | - | - | - |

1) The Volvo Cars facilities included in the 2017 data are Volvo Cars Malaysia - CKD (Kuala Lumpur, Malaysia), Volvo Cars Chengdu Plant (Chengdu, China), Volvo Cars Daqing Plant (Daqing, China), and Volvo Cars Zhangjiakou - Engines (Zhangjiakou, China). 2015 was the first year Volvo Cars started reporting figures for China.

| Emissions, Operations Europe (tonnes) ¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|--------|--------|--------|--------|--------|
| CO ₂ emissions per manufactured vehicle (tonnes/vehicle) ²⁾ | 0.06 | 0.08 | 0.10 | 0.09 | 0.11 |
| Direct emissions of CO ₂ from natural gas and renewables | 34,000 | 41,600 | 46,900 | 44,000 | 51,000 |
| Indirect emissions of CO ₂ from electricity ³⁾ | — | — | — | 4,500 | 4,200 |
| Indirect emissions of CO ₂ from district heating | 1,600 | 1,300 | 800 | 1,200 | 4,200 |
| Total emissions of CO ₂ | 35,000 | 42,800 | 47,700 | 49,900 | 59,700 |
| Emissions of SO _x ⁴⁾ | <1 | <1 | <1 | <1 | <1 |
| Emissions of NO _x ⁵⁾ | 80 | 80 | 80 | 77 | 76 |
| Emissions of VOC ⁶⁾ | 590 | 630 | 580 | 675 | 725 |

1) The Volvo Cars facilities included in the 2017 data are Volvo Cars Torslanda Plant (Gothenburg, Sweden), Volvo Cars Ghent Plant (Ghent, Belgium), Volvo Cars Skövde - Engines (Skövde, Sweden), and Volvo Cars Olofström - Body Components (Olofström, Sweden). Data for Volvo Cars Malaysia - CKD (Kuala Lumpur, Malaysia) is included in data up to 2014 (since 2015, included in Asia figures). Data for Volvo Cars Floby (Floby, Sweden) is included up to 2015.

2) The Volvo Cars facilities included are Volvo Cars Torslanda Plant (Gothenburg, Sweden) and Volvo Cars Ghent Plant (Ghent, Belgium).

3) Indirect emissions are estimated based on our assumptions for the primary energy sources for the countries in which we operate. The primary energy source for electricity in Europe is hydropower, which is climate-neutral, while the primary energy source in Malaysia is coal.

4) SO_x emissions are calculated on the basis of the sulphur content in the fuel.

5) The NO_x emissions are calculated based on the quantity of fuel. Spot tests are also performed.

6) Calculations of VOC emissions are based mainly on the amount of solvents in materials used and on measurements of the degree of purification of the equipment.

| Emissions, Operations Asia (tonnes) ¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---------|---------|--------|------|------|
| CO ₂ emissions per manufactured vehicle (tonnes/vehicle) | 1.04 | 1.18 | 1.10 | — | — |
| Direct emissions of CO ₂ from natural gas and renewables ²⁾ | 54,000 | 40,600 | 36,000 | — | — |
| Indirect emissions of CO ₂ from electricity ³⁾ | 97,000 | 64,000 | 42,000 | — | — |
| Indirect emissions of CO ₂ from district heating ³⁾ | 2,300 | 3,000 | 2,600 | — | — |
| Total emissions of CO ₂ | 154,000 | 107,700 | 80,000 | — | — |

1) The Volvo Cars facilities included in the 2017 data are Volvo Cars Malaysia - CKD (Kuala Lumpur, Malaysia), Volvo Cars Chengdu Plant (Chengdu, China), Volvo Cars Daqing Plant (Daqing, China) and Volvo Cars Zhangjiakou - Engines (Zhangjiakou, China). 2015 was the first year when Volvo Cars started reporting figures for China. Figures are not directly comparable as different emission factors were used in 2015.

2) Indirect CO₂ emissions from electricity are estimated based on our assumptions for the primary energy sources for the countries in which we operate. The electricity production in Malaysia for 2017 is based on 51.7 per cent natural gas, 19.8 per cent oil and 16.7 per cent hydropower. (The primary energy source in Malaysia for 2016 was coal: emission factor 0.720 tonnes CO₂/MWh). For Chengdu in 2017, the CO₂ emission factor was 0.5257 tonnes CO₂/MWh from Regional Grid 2012 (2016 emission factor: 0.2475 tonnes CO₂/MWh, Sichuan Province 2012 from NDRC). For Daqing in 2017, the CO₂ emission factor was 0.7769 tonnes CO₂/MWh from NDRC 2012 Grid average (2016 emission factor: 1.1291 tonnes CO₂/MWh, North East China Grid Index 2014). For Zhangjiakou in 2017, the CO₂ emission factor was 0.8843 tonnes CO₂/MWh from NDRC 2012 Grid average (2016 emission factor: 1.0416 tonnes CO₂/MWh, North China Grid Index 2014).

3) Assumption for district heating in Volvo Cars Zhangjiakou - Engines (Zhangjiakou, China) 2017 is 331 kg CO₂/MWh (coal). (2016: 350 kg CO₂/MWh (coal)).

| Emissions, Other | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|---------|---------|---------|---------|-------|
| CO ₂ emissions of products - EU fleet average (CO ₂ g/km) | 125 | 121 | 123 | 126 | 132 |
| Electrified vehicles sold - accumulated figures | 68,936 | 46,129 | 26,153 | 15,994 | 7,620 |
| Global transports total CO ₂ emissions (tonnes) ¹⁾ | 649,597 | 496,567 | 447,267 | 333,971 | — |
| CO ₂ emissions per manufactured vehicle (kg/vehicle) from logistics ¹⁾ | 1,136 | 929 | 882 | 826 | — |

1) Includes CO₂ emissions from inbound and outbound transports managed and paid for by Volvo Cars. The first year of reporting on transport emissions is 2014.

| Waste, Operations Europe (tonnes)¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|-------------|-------------|
| Hazardous waste | 13,000 | 10,500 | 14,200 | 10,600 | 9,800 |
| Non-hazardous waste | 225,000 | 212,000 | 216,000 | 211,000 | 199,000 |
| Total waste, car factories | 24,000 | 26,000 | 21,000 | 16,000 | 13,000 |
| Total waste, all factories | 238,000 | 223,000 | 230,200 | 221,600 | 208,800 |

1) The Volvo Cars facilities included in the 2017 data are Volvo Cars Torslanda Plant (Gothenburg, Sweden), Volvo Cars Ghent Plant (Ghent, Belgium), Volvo Cars Skövde – Engines (Skövde, Sweden), and Volvo Cars Olofström – Body Components (Olofström, Sweden). Data for Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia) is included in data to 2014 (since 2015, included in Asia figures). Data for Volvo Cars Floby (Floby, Sweden) is included up to 2015. Figures in 2016 for Volvo Cars Torslanda Plant (Gothenburg, Sweden) and Volvo Cars Ghent Plant (Ghent, Belgium) have been revised since the last report.

| Waste, Operations Asia (tonnes)¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------------|----------------------|-------------|-------------|-------------|
| Hazardous waste | 2,300 | 1,500 | 1,200 | — | — |
| Non-hazardous waste | 53,000 | 27,700 | 25,000 | — | — |
| Total waste, car factories | 39,000 | 18,000 ²⁾ | 24,000 | — | — |
| Total waste, all factories | 55,400 | 29,200 | 26,000 | — | — |

1) The Volvo Cars facilities included in the 2017 data are Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia), Volvo Cars Chengdu Plant (Chengdu, China), Volvo Cars Daqing Plant (Daqing, China) and Volvo Cars Zhangjiakou – Engines (Zhangjiakou, China). 2015 was the first year when Volvo Cars started reporting figures for China.

2) Figures not directly comparable, in 2015 stamping waste was included.

| Waste per vehicle, Total (kg/vehicle) | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------------|-------------|-------------|-------------|-------------|
| Europe ¹⁾ | 50 | 53 | 47 | 38 | 32 |
| Asia ²⁾ | 300 | 232 | 370 | — | — |

1) The Volvo Cars facilities included in the data are Volvo Cars Torslanda Plant (Gothenburg, Sweden), Volvo Cars Ghent Plant (Ghent, Belgium).

2) The Volvo Cars facilities included in the data are Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia), Volvo Cars Chengdu Plant (Chengdu, China), Volvo Cars Daqing Plant (Daqing, China). Figures are not directly comparable as metal scrap was included in 2015 figures.

| Water use, Operations Europe (m³)¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------------|-------------|-------------|-------------|-------------|
| Total water use, all plants ²⁾ | 756,000 | 748,000 | 715,000 | 761,000 | 767,000 |
| Total water use, car plants ³⁾ | 652,000 | 634,000 | 580,000 | 617,000 | 626,000 |
| Water use per vehicle (m ³ /vehicle) ⁴⁾ | 1.4 | 1.4 | 1.3 | 1.5 | 1.5 |

1) Main source is municipal water supplies.

2) The Volvo Cars facilities included in the 2017 data are Volvo Cars Torslanda Plant (Gothenburg, Sweden), Volvo Cars Ghent Plant (Ghent, Belgium), Volvo Cars Skövde – Engines (Skövde, Sweden), and Volvo Cars Olofström – Body Components (Olofström, Sweden). Data for Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia) is included in data up to 2014 (since 2015, included in Asia figures). Data for Volvo Cars Floby (Floby, Sweden) is included up to 2015.

3) The Volvo Cars facilities included are Volvo Cars Torslanda Plant (Gothenburg, Sweden) and Volvo Cars Ghent Plant (Ghent, Belgium). As of 2015, Volvo Cars Malaysia is included in data for Asia.

4) Water use/vehicle is based on the number of produced cars in car manufacturing plants; Volvo Cars Torslanda Plant (Gothenburg, Sweden) and Volvo Cars Ghent Plant (Ghent, Belgium).

| Water use, Operations Asia (m³)¹⁾ | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------------|-------------|-------------|-------------|-------------|
| Total water use, all plants ²⁾ | 1,133,000 | 789,000 | 696,000 | — | — |
| Total water use, car plants ³⁾ | 1,090,000 | 760,000 | 665,000 | — | — |
| Water use per vehicle (m ³ /vehicle) ⁴⁾ | 8.3 | 9.8 | 10.2 | — | — |

1) Main source is municipal water supplies. 2015 was the first year when Volvo Cars started reporting figures for Asia.

2) The Volvo Cars facilities included in the 2017 data are Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia), Volvo Cars Chengdu Plant (Chengdu, China), Volvo Cars Daqing Plant (Daqing, China) and Volvo Cars Zhangjiakou – Engines (Zhangjiakou, China). These figures exclude water used for cooling.

3) Manufacturing car plants are Volvo Cars Malaysia – CKD (Kuala Lumpur, Malaysia), Volvo Cars Chengdu Plant (Chengdu, China) and Volvo Cars Daqing Plant (Daqing, China).

4) Water use/vehicle is based on the number of produced cars in car manufacturing plants.

Materials

| Materials breakdown by car model | Total materials breakdown (kg) | | | | | |
|-------------------------------------|--------------------------------|--------------------------|----------------------|-------|-------|----------|
| | S60 | S60 Long Wheeled Base | V40 Cross Country | XC60 | XC90 | New XC60 |
| Polymers | 246 | 264 | 253 | 293 | 329 | 308 |
| Elastomer | 63 | 76 | 66 | 82 | 168 | 98 |
| Glass | 48 | 52 | 37 | 52 | 63 | 56 |
| Others (incl. liquids) | 56 | 89 | 86 | 104 | 113 | 79 |
| Metals | 1,178 | 1,179 | 1,087 | 1,281 | 1,363 | 1,240 |

| Materials breakdown by car model | Metals breakdown (kg) | | | | | |
|-------------------------------------|-----------------------|--------------------------|----------------------|-------|------|----------|
| | S60 | S60 Long Wheeled Base | V40 Cross Country | XC60 | XC90 | New XC60 |
| Ferrous metal | 955 | 929 | 855 | 1,057 | 974 | 905 |
| Magnesium | 11 | 7 | 3 | 7 | 9 | 11 |
| Aluminium | 165 | 188 | 179 | 168 | 314 | 266 |
| Copper | 23 | 24 | 25 | 24 | 31 | 30 |

| Remanufacturing | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|-------------|-------------|
| Aluminium saved due to remanufacturing (accumulated kg) | 264,507 | 292,569 | 296,730 | 296,868 | 327,003 |
| Remanufactured parts sold | 88,590 | 90,828 | 105,236 | 110,937 | 118,511 |

PEOPLE DIMENSION**Employees**

| Breakdown of employees, excluding Executive Management Team and Board of Directors, according to gender and age group as per December 31, 2017 | Women | | | Men | | |
|---|-------|-------|-----|-----|-------|-----|
| | <30 | 30-50 | >50 | <30 | 30-50 | >50 |
| Sweden | 9% | 13% | 6% | 15% | 35% | 23% |
| Belgium | 5% | 8% | 2% | 21% | 41% | 23% |
| China | 8% | 7% | 0% | 57% | 26% | 1% |
| Rest of the world | 4% | 18% | 7% | 9% | 42% | 20% |
| Total | 8% | 11% | 4% | 24% | 35% | 18% |

| Indicator | 2017 | 2016 | 2015 | 2014 | 2013 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Women in leading positions | 28.0% | 26.2% | 25.6% | 24.5% | 22.9% |
| Internationally diverse leaders | 28.0% | 27.0% | 25.0% | — | — |

Total number of employees by employment contract and gender as per December 31, 2017¹⁾

| | Women | Men | Total |
|--------------------|-------|-----|-------|
| Permanent contract | 23% | 77% | 100% |
| Temporary contract | 32% | 68% | 100% |

1) The main employment form within Volvo Cars is permanent employments, but depending on the need and duration of assignment temporary solutions will be used such as consultants, agency and temporary employment contracts. Key positions should always be employed on a permanent basis. Depending on national labour regulations and market situation the approach may vary in Volvo Cars' different locations.

Total number of permanent employees by employment type as per December 31, 2017¹⁾

| | Women | Men | Total |
|--------------|------------|------------|-------------|
| Total | 27% | 73% | 100% |
| Full-time | 26% | 74% | 100% |
| Part-time | 45% | 55% | 100% |

1) For Volvo Cars in Sweden full-time employments are the main rule, but there is no generic principle on this for Volvo Car Group in total.

Total workforce by employees and supervised workers by gender as per December 31, 2016

| | Employees | Supervised workers (consultants) | Total |
|---------------------|---------------|----------------------------------|---------------|
| | Total FTE | Total FTE | Total FTE |
| Global Total | 37,969 | 4,188 | 41,917 |

Accidents and sick leave¹⁾

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|--------------------------------|------|------|------|------|------|
| Injuries (LTCR) ²⁾ | 0.19 | 0.22 | 0.34 | 0.34 | 0.62 |
| Serious injuries ³⁾ | 18 | 9 | 16 | 14 | 6 |
| Sick leave, employees | 4.5% | 4.8% | 4.7% | 4.5% | 4.5% |

1) Data includes Europe and China.

2) LTCR is defined as the number of work/occupational accidents and illness, reported and at least one day sick leave, divided by 200,000 hours worked (equivalent to 100 man-years).

3) Defined as total number of injuries leading to fractures, lacerations and unconsciousness.

Contractors^{1) 2)}

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------|------|------|------|------|------|
| Injuries | 8 | 7 | 5 | 3 | 9 |
| Fatalities | — | — | — | — | 1 |

1) Independent contractors are defined as contractors involved in the construction/reconstruction of Volvo Cars' factories. Injuries and fatalities among contractors are only reported for projects in which Volvo Cars is the developer.

2) Lost Time Case (LTC) figures only, worked hours for contractors are not measured, therefore no figures for LTCR for contractors.

Board of Directors and Executive Management Team

| Board Members per gender and age group as per December 31, 2017 | Women | | | Men | | |
|---|-------|-------|-----|-----|-------|-----|
| | <30 | 30-50 | >50 | <30 | 30-50 | >50 |
| | — | — | 3 | — | 2 | 8 |
| Executive Management Team Members per gender and age group as per December 31, 2017 | Women | | | Men | | |
| | <30 | 30-50 | >50 | <30 | 30-50 | >50 |
| | — | 1 | 2 | — | 5 | 7 |

| Employer of Choice – Employer Attractiveness Rankings | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------------|-------------|-------------|-------------|-------------|
| Students, MSc Engineering, worldwide | 51 | 47 | 46 | 40 | 50 |
| Students, MSc Engineering, Sweden | 2 | 2 | 6 | 7 | 13 |
| Students, Business, Sweden | 17 | 21 | 30 | 37 | 44 |
| Young Professionals, Engineering, Sweden | 4 | 7 | 7 | 8 | 12 |
| Young Professionals, Business, Sweden | 5 | 6 | 10 | 43 | 41 |

SOCIETAL DIMENSION

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|-------------|-------------|
| Percentage of product categories for which health and safety impacts are assessed for improvement ¹⁾ | 100% | 100% | 100% | 100% | 100% |

1) Safety is the number one priority for Volvo Cars. This means that health and safety concerns are integral in every phase in the development of all cars that are being developed and manufactured by Volvo Cars. For more information about Volvo Cars's work on safety, please see section Product Creation.

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|-------------|-------------|
| Share of independent tests where Volvo Cars received the highest rank | 95% | 96% | 96% | 95% | 95% |

GRI INDEX

GRI 101: Foundation 2017 (does not include disclosures)

GRI 102: General Disclosures 2017 (core)

| Number of disclosure | Disclosure | Comment | Page number(s) and/or URL(s) |
|-------------------------------|--|---|------------------------------|
| Organisational profile | | | |
| 102-1 | Name of the organisation | | Front page |
| 102-2 | Activities, brands, products and services | | 8-11, 32-33, 114 |
| 102-3 | Location of headquarters | | 11 |
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| 102-5 | Ownership and legal form | | 3 |
| 102-6 | Markets served | | 10-11, 62-75, 97-99 |
| 102-7 | Scale of the organisation | | 3-5 |
| 102-8 | Information on employees and other workers | | 77-78, 82, 177-179 |
| 102-9 | Supply chain | | 55-60 |
| 102-10 | Significant changes to the organisation and its supply chain | | 60-61 |
| 102-11 | Precautionary principle or approach | | 28, 52-53, 58-60, 64-66 |
| 102-12 | External initiatives | | 57-59, 83, 113 |
| 102-13 | Membership of associations | | 57-59, 90-95 |
| Strategy | | | |
| 102-14 | Statement from senior decision maker | | 6-7 |
| Ethics and integrity | | | |
| 102-16 | Values, principles, standards and norms of behaviour | | 18-33 |
| Governance | | | |
| 102-18 | Governance structure | | 109-114 |
| Stakeholder engagement | | | |
| 102-40 | List of stakeholder groups | Active stakeholder engagement is a vital part of Volvo Cars' daily operations and sustainability management. The prioritised stakeholders in relation to specific strategic focus areas and processes, as well as the outputs of our engagement with these stakeholders, are described throughout the report. | 113 |
| 102-41 | Collective bargaining agreements | | 85 |
| 102-42 | Identifying and selecting stakeholders | | 113 |
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| 102-44 | Key topics and concerns raised | | 113 |
| Reporting practice | | | |
| 102-45 | Entities included in the consolidated financial statements | | 122-123, 165-166 |
| 102-46 | Defining report content and topic boundaries | | 112-113 |
| 102-47 | List of material topics | Also see list of material topics in GRI Index. | 28 |
| 102-48 | Restatements of information | Restatements of information has been made in this report regarding waste in European operations for 2017. | 176 |
| 102-49 | Changes in reporting | | 113 |
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| 102-54 | Claims of reporting in accordance with the GRI Standards | | 113 |
| 102-56 | External assurance | | 113 |

MATERIAL TOPICS

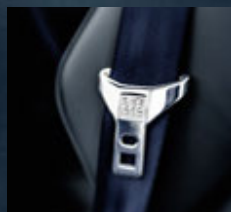
| Number of disclosure | Disclosure | Comment | Page number(s) and/or URL(s) | Omission | Reason for omission |
|--|--|---------|------------------------------|---|--|
| ECONOMIC STANDARDS | | | | | |
| Anti-corruption | | | | | |
| 103-1 – 103-3 | Explanation of the material topic and its boundary | | 88-89 | | |
| 205-3 | Confirmed incidents of corruption and actions taken | | 89 | | |
| ENVIRONMENTAL STANDARDS | | | | | |
| Energy | | | | | |
| 103-1 – 103-3 | Explanation of the material topic and its boundary | | 64-65 | | |
| 302-1 | Energy consumption within the organisation | | 174-175 | Volvo Cars does not sell any electricity, heating, cooling or steam. Hence only energy consumption is reported with the exception of cooling consumption. | Not applicable. |
| Emissions | | | | | |
| 103-1 – 103-3 | Explanation of the material topic and its boundary | | 12, 53, 64-65 | | |
| 305-1 | Direct (Scope 1) GHG emissions | | 63, 175 | | |
| 305-2 | Energy indirect (Scope 2) GHG emissions | | 175 | | |
| 305-3 | Other indirect (Scope 3) GHG emissions | | 175 | | |
| 305-7 | Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions | | 175 | POP, HAP and PM are not reported. | Not applicable. |
| SOCIAL STANDARDS | | | | | |
| Occupational health and safety | | | | | |
| 103-1 – 103-3 | Explanation of the material topic and its boundary | | 82 | | |
| 403-2 | Type of injury and rates of injury, occupational diseases, lost days and absenteeism and total number of work related fatalities | | 82, 177-178 | 1) Data per gender. 2) Data per region. 3) Sick leave, absenteeism, LTCR for contractors. | 1) Not applicable – Volvo Cars does not differentiate health and safety issues on the basis of gender. 2) Not applicable – figures for sick leave etc. is presented on aggregated level. 3) Information unavailable. |
| Diversity and equal opportunity | | | | | |
| 103-1 – 103-3 | Explanation of the material topic and its boundary | | 82-86, 93 | | |
| 405-1 | Diversity of governance bodies and employees | | 82, 177-178 | | |
| Supplier social assessment | | | | | |
| 103-1 – 103-3 | Explanation of the material topic and its boundary | | 56-59 | | |
| 414-1 | New suppliers that were screened using social criteria | | 58 | | |
| Customer health and safety | | | | | |
| 103-1 – 103-3 | Explanation of the material topic and its boundary | | 40-43, 95 | | |
| 416-1 | Assessment of the health and safety impacts of product and service categories | | 179 | | |

LOOKING BACK HELPS US LOOK FORWARD

OUR HERITAGE



1927 Volvo was founded by Assar Gabrielsson and Gustaf Larson



1959 Volvo engineer Nils Bohlin invented the three-point safety belt

70's

1972 Environment was added to our existing core values Safety and Quality. Volvo invented the rearward-facing child safety seat

1976 Volvo 240 and 260 were nominated as The Standard for Safety in the US. Volvo presented the world-first catalytic, exhaust control with the Lambda Sond. It reduces harmful exhaust emissions by 90 per cent

80's and 90's

1984 The sales of Volvo 740 and 760 was a great success

1991 Volvo presented Volvo 850 – the largest product investment then Volvo introduced the Side Impact Protection System

1998 Volvo developed the Inflatable Curtain

1999 Volvo Cars was acquired by Ford Motor Company

1927

1959

1970

1990

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DEFINITIONS

Volvo Car Group and Volvo Cars

Volvo Car AB (publ), Volvo Car Corporation and all its subsidiaries.

Retail sales

Retail sales refer to sales to end customers and is a relevant measure of the demand for Volvo Cars from an end customer point of view.

Europe

Europe is defined as EU28 + EFTA.

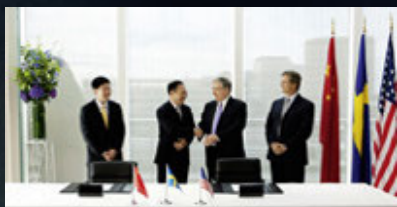
Joint venture companies

Joint ventures refer to companies in which Volvo Car Group, through contractual cooperation together with one or more parties, has a joint control over the operational and financial management.

Wholesales

Wholesales refers to new car sales to dealers and other customers including own units and rentals.





2010 Volvo Cars was acquired by Zhejiang Geely Holding Group

2010



2014 Volvo Cars unveiled the first product developed on the SPA platform – the all-new XC90

2014



2016 Volvo Cars accessed the capital market

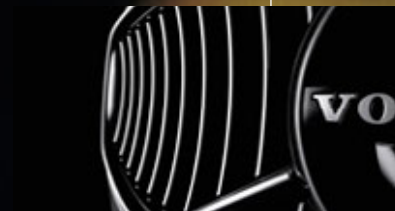
2016

2013



2013 Industrial entities in China were established

2015



2015 Volvo Cars started the construction of a plant in the US

2017



2017 Electrification strategy announced

