OFFERING MEMORANDUM

NOT FOR DISTRIBUTION
IN THE UNITED STATES

Volvo Car AB

€500,000,000 3¼% Senior Notes due 2021

Volvo Car AB, a Swedish public limited liability company (the "***Issuer***"), is offering €500 million aggregate principal amount of its 3¼% Senior Notes due 2021 (the "***Notes***"). Interest on the Notes will be payable semi-annually in arrears on 18 May and 18 November, commencing 18 November 2016. The Notes will mature on 18 May 2021.

Some or all of the Notes may be redeemed by paying 100% of the principal amount of such Notes plus a "make-whole" premium. In addition, up to 40% of the aggregate principal amount of the Notes may be redeemed with the net proceeds of certain equity offerings at the redemption price set forth in this offering memorandum.

Upon the occurrence of certain change of control events, each holder of the Notes may require the Issuer to repurchase all or a portion of its respective Notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any. In the event of certain developments affecting taxation, the Issuer may redeem all, but not less than all, of the Notes, as applicable.

The Notes will be the Issuer's senior obligations and will rank *pari passu* in right of payment with all other existing and future senior debt of the Issuer that is not expressly subordinated in right of payment to the Notes. The Notes will be senior in right of payment to all existing and future indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes. The Notes will be guaranteed (the "***Guarantee***") on a senior unsecured basis by the Issuer's subsidiary, Volvo Car Corporation (the "***Guarantor***"). The Guarantee will rank *pari passu* in right of payment with all of the existing and future indebtedness of the Guarantor that is not expressly subordinated in right of payment to the Guarantee. The Guarantee will rank senior in right of payment to all existing and future indebtedness of the Guarantor that is expressly subordinated in right of payment to the Guarantee. The Notes and the Guarantee will be effectively subordinated to all of the Issuer's and the Guarantor's future secured debt to the extent of the value of the assets securing such debt. The Notes and the Guarantee will be structurally subordinated to all existing and future obligations and other liabilities of the Issuer's other subsidiaries that do not guarantee the Notes.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Luxembourg Stock Exchange's Euro MTF Market. The Euro MTF Market is not a regulated market pursuant to the provisions of Directive 2004/39/EC. This offering memorandum shall constitute a prospectus for the purpose of the Luxembourg law dated July 10, 2015 (as amended) on prospectuses for securities.

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 18.

Issue price for the Notes: 100% plus accrued interest from the issue date, if any.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "*U.S. Securities Act*"), or the securities laws of any other jurisdiction. The Notes are being offered and sold in offshore transactions outside the United States in compliance with Regulation S under the U.S. Securities Act ("*Regulation S*"). The Notes may not be offered, sold or delivered within the United States (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. See "*Important Information*" and "*Notice to Investors*" for further details about eligible offerees and "*Transfer Restrictions*" for transfer and resale restrictions.

The Notes will be represented on issuance by a global note, which we expect will be delivered in book-entry form through Euroclear S.A./N.V. ("***Euroclear***") and Clearstream Banking, *société anonyme* ("***Clearstream***"), on or about 18 May 2016. Interests in the global note will be exchangeable for the relevant definitive notes only in certain limited circumstances. See "*Book-Entry, Delivery and Form*".

Global Coordinators and Joint Bookrunners

Barclays **HSBC**

Joint Lead Managers and Joint Bookrunners

ING **Nordea Markets** **Société Générale Corporate & Investment Banking** **Swedbank**

The date of this offering memorandum is 18 May 2016.

Prospective investors should rely only on the information contained in this preliminary offering memorandum (the "*offering memorandum*"). Neither the Issuer nor the Initial Purchasers (as defined herein) has authorised anyone to provide prospective investors with different information, and prospective investors should not rely on any such information. Neither the Issuer nor the Initial Purchasers is making an offer of these Notes in any jurisdiction where this offer is not permitted. Prospective investors should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum. The offering memorandum may only be used for the purposes for which it has been prepared.

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IMPORTANT INFORMATION

You should base your decision to invest in the Notes solely on information contained in this offering memorandum. The "***Initial Purchasers***" are Barclays Bank PLC, HSBC Bank plc, ING Bank N.V., London Branch, Nordea Bank Danmark A/S, Société Générale and Swedbank AB (publ). Neither we nor the Initial Purchasers have authorised any dealer, salesperson or other person to give any information or represent anything to you other than the information contained in this offering memorandum. You must not rely on unauthorised information or representations.

This offering memorandum does not offer to sell or solicit offers to buy any of the securities in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who cannot legally be offered the securities.

The information in this offering memorandum is current only as of the date on the cover page, and our business and financial condition, along with other information in this offering memorandum, may change after that date. For any time after the cover date of this offering memorandum, we do not represent that our affairs are the same as described or that the information in this offering memorandum is correct, nor do we imply those things by delivering this offering memorandum or selling securities to you. You acknowledge and agree that neither we nor the Initial Purchasers represent that the information herein is complete.

If you purchase the Notes, you will be deemed to have made certain acknowledgements, representations and warranties as detailed under "*Notice to Investors*". You may be required to bear the financial risk of an investment in the Notes for an indefinite period. Neither we nor the Initial Purchasers are making an offer to sell the Notes in any jurisdiction where the offer and sale of the Notes is prohibited. We do not make any representation to you that the Notes are a legal investment for you. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose.

Each prospective purchaser of the Notes must comply with all applicable laws and rules and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither we nor the Initial Purchasers shall have any responsibility therefor.

The Notes have not been, and will not be, registered under the U.S. Securities Act, or with any securities regulatory authority of any state or jurisdiction of the United States, and may not be offered, sold, pledge or otherwise transferred except in offshore transactions in compliance with Regulation S under the U.S. Securities Act.

We have prepared this offering memorandum solely for use in connection with the offer of the Notes in accordance with Regulation S under the U.S. Securities Act, for application to list the Notes on the Official List of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF Market of the Luxembourg Stock Exchange. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes.

You are not to construe the contents of this offering memorandum as investment, legal or tax advice. You should consult your own legal counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. Neither we nor the Initial Purchasers is making any representation to you regarding the legality of an investment in the Notes by you.

The information contained in this offering memorandum has been furnished by us and other sources we believe to be reliable. No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of any of the information set out in this offering memorandum, and nothing contained in this offering memorandum is or shall be relied upon as a promise or representation by the Initial Purchasers, whether as to the past or as to the future. This offering memorandum contains summaries, believed to be accurate in all material respects, of certain of the terms of specified documents, but reference is made to the actual documents for complete information. All summaries of such documents contained herein are qualified in their entirety by this reference.

By receiving this offering memorandum, you acknowledge that you have had an opportunity to request from us for review, and that you have received, all additional information you deem necessary to verify the accuracy and completeness of the information contained in this offering memorandum. You also acknowledge that you have not relied on the Initial Purchasers in connection with your investigation of the accuracy of this information or your decision whether to invest in the Notes.

We accept responsibility for the information contained in this offering memorandum. To the best of our knowledge and belief, the information contained in this offering memorandum is in accordance with the facts and does not omit anything that would make the information contained herein misleading in any material respect. No person is authorized in connection with the Offering made pursuant to this offering memorandum to give any information or to make any representation not contained in this offering memorandum, and, if given or made, any other information or representation must not be relied upon as having been authorized by us or the Initial Purchasers.

We and the Initial Purchasers reserve the right to reject all or a part of any offer to purchase the Notes, for any reason. The Initial Purchasers also reserve the right to allot less than the full amount of the Notes sought by investors. The Initial Purchasers and certain related entities may acquire a portion of the Notes for their own account.

This offering memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Notes in any jurisdiction in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. You must comply with all laws that apply to you in any place in which you buy, offer or sell any Notes or possess this offering memorandum. You must also obtain any consents or approvals that you need in order to purchase any Notes. Neither we nor the Initial Purchasers are responsible for your compliance with these legal requirements.

The distribution of this offering memorandum and the offer and sale of the Notes may be restricted by law in some jurisdictions. See "*Notice to Investors".* Persons into whose possession this offering memorandum or any of the Notes come must inform themselves about, and observe any restrictions on the transfer and exchange of, the Notes. The Notes are subject to restrictions on resale and transfer as described under "*Plan of Distribution*" and "*Notice to Investors*". By purchasing any Notes, you will be deemed to have made certain acknowledgments, representations and agreements as described in those sections of this offering memorandum. You may be required to bear the financial risks of investing in the Notes for an indefinite period of time.

The information contained under "*Exchange Rate Information*" includes extracts from information and data publicly released by official and other sources. While we accept responsibility for accurately summarizing the information concerning exchange rate information, we accept no further responsibility in respect of such information. The information set out in relation to sections of this offering memorandum describing clearing and settlement arrangements, including the section entitled "*Book-Entry, Delivery and Form*," is subject to change in, or reinterpretation of, the rules, regulations and procedures currently in effect. We accept responsibility for accurately summarizing the information concerning Euroclear and Clearstream, as applicable, but we do not accept further responsibility in respect of such information.

The Notes will be available in book-entry form only. We expect that the Notes sold pursuant to this offering memorandum will be issued in the form of a global note, which will be deposited and registered in the name of a common depositary, or its nominee, for Euroclear and Clearstream, as applicable. Beneficial interests in the global notes will be shown on, and transfers of the global note will be effected only through, records maintained by Euroclear and Clearstream, as applicable, and their respective participants. After the initial issuance of the global note, notes in certificated form will be issued in exchange for the global note only as set forth in the Indenture. See "*Book-Entry, Delivery and Form*".

We cannot guarantee that our application for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange will be approved as of the settlement date for the Notes or at any time thereafter, and settlement of the Notes is not conditioned on obtaining this listing.

STABILIZATION

IN CONNECTION WITH THIS OFFERING HSBC BANK PLC (THE "*STABILIZATION MANAGER*") (OR PERSON(S) ACTING ON BEHALF OF THE STABILIZATION MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCES THAT THE STABILIZATION MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILIZATION MANAGER) WILL UNDERTAKE ANY SUCH STABILIZATION ACTION. SUCH STABILIZATION ACTION, IF COMMENCED, MAY BEGIN ON OR AFTER THE DATE OF ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES AND MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE ISSUE DATE AND 60 CALENDAR DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OR OVER ALLOTMENT MUST BE CONDUCTED BY THE STABILIZATION MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILIZATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

NOTICE TO INVESTORS

European Economic Area ("EEA"). In relation to each member state of the EEA that has implemented the Prospectus Directive (each, a "***Relevant Member State***"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, it has not made and will not make an offer of Notes which are the subject of the Offering contemplated by this offering memorandum to the public in that Relevant Member State other than: (a) to any legal entity that is a "qualified investor" as defined in the Prospectus Directive; (b) to fewer than 150, natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by us for any such offer; or (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; *provided that* no such offer of the Notes shall require the publication by us or any Initial Purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive or a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive other than in reliance on Article 3(2)(b).

For the purposes of this provision, the expression "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "*Prospectus Directive*" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measures in the Relevant Member State.

Each subscriber for or purchaser of the Notes in the Offering located within a member state of the EEA will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. We, the Initial Purchasers and their affiliates and others will rely upon the trust and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a "qualified investor" and who has notified the Initial Purchasers of such fact in writing may, with the consent of the Initial Purchasers, be permitted to subscribe for or purchase the Notes in the Offering.

Hong Kong. The Notes may not be offered or sold by means of any document other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or do not constitute an offer to the public within the meaning of that Ordinance, and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

Japan. The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "***Financial Instruments and Exchange Law***") and each Initial Purchaser has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

People's Republic of China. This offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the People's Republic of China ("***China***"). Other than to qualified domestic institutional investors in China, the Notes are not being offered and may not be offered or sold, directly or indirectly, in China to or for the benefit of, legal or natural persons of China. According to the laws and regulatory requirements of China, with the exception of qualified domestic institutional investors in China, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-Chinese natural or legal persons in any country other than China.

Singapore. This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "***SFA***"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (in the case of such corporation) where the transfer arises from an offer referred to in Section 275(1A) of the SFA or (in the case of such trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA, (2) where no consideration is or will be given for the transfer, (3) where the transfer is by operation of law, or (4) as specified in Section 276(7) of the SFA.

Sweden. This offering memorandum is not a prospectus for the purposes of, and has not been prepared in accordance with, the prospectus requirements provided for in the Swedish Financial Instruments Trading Act (Sw. *lagen* (*1991:980*) *om handel med finansiella instrument*) nor any other Swedish enactment. Neither the Swedish Financial Supervisory Authority (Sw. *Finansinspektionen*) nor any other Swedish public body has examined, approved or registered this offering memorandum or will examine, approve or register this offering memorandum. Accordingly, this offering memorandum may not be made available, nor may the Notes otherwise be marketed and offered for sale, in Sweden other than in circumstances that constitute an exemption from the requirement to prepare a prospectus under the Swedish Financial Instruments Trading Act.

Switzerland. The Notes offered hereby are being offered in Switzerland on the basis of a private placement only. This offering memorandum does not constitute a prospectus within the meaning of Art. 652A of the Swiss Federal Code of Obligations.

United Kingdom. The issue and distribution of this offering memorandum is restricted by law. This offering memorandum is not being distributed by, nor has it been approved for the purposes of Section 21 of the FSMA by, a person authorised under the FSMA. This offering memorandum is directed solely at persons who: (i) are investment professionals, as such term is defined in Article 19(5) of the Financial Promotion Order; (ii) are persons falling within Article 49(2)(a) to 49(2)(d) ("high net worth companies, unincorporated associations, etc".) of the Financial Promotion Order; (iii) are outside the United Kingdom; or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any Notes may otherwise be lawfully communicated or caused to be communicated (all such persons together being referred to as "relevant persons").

This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this offering memorandum or any of its contents. No part of this offering memorandum should be published, reproduced, distributed or otherwise made available in whole or in part to any person who is not a relevant person without our prior written consent. The Notes are not being offered or sold to any person in the United Kingdom, except in circumstances which will not result in an offer of securities to the public in the United Kingdom within the meaning of Part VI of the FSMA.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains various forward-looking statements that reflect management's current views with respect to future events and anticipated financial and operational performance. Forward-looking statements as a general matter are all statements other than statements as to historical facts or present facts and circumstances. The words "aim," "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "guidance," "intend," "may," "might," "plan," "potential," "predict," "projected," "should," or "will" or, in each case, the negative of such terms, or other variations or comparable terminology, identify certain of these forward-looking statements. Forward-looking statements can also be identified in the context in which the statements are made. Forward-looking statements appear in a number of places throughout this offering memorandum, including, without limitation, "*Summary*," "*Risk Factors*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Industry*," and "*Business*" and include, among other things, statements relating to:

- our strategy, including statements relating to the next phase in our transformation and our next generation of cars, outlook and growth prospects;
- our operational and financial targets and our medium-term and long-term annual sales goals, including our medium-term goal of annual sales of more than 800,000 cars globally;
- our liquidity, capital resources, capital expenditures and access to funding;
- our planned investments;
- our plans for future operations and facilities;
- expectations as to future demand for our cars;
- general global economic trends and trends in the automotive industry and the premium passenger car segment in particular;
- the impact of regulations and laws on us and our operations; and
- the competitive environment in which we operate.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that they will materialise or prove to be correct. Because these statements are based on assumptions or estimates and are subject to risks and uncertainties, the actual results or outcome could differ materially from those set out in the forward-looking statements as a result of, among others:

- changes in international, national and local economic, political, regulatory, business, industry, labour and social conditions;
- changes in underlying customer behaviour, including changes in customer buying trends and patterns, customer preference and demand and consumer purchasing power;
- competition in the markets we operate;
- changes in laws, regulations and governmental policies, including tax law and fiscal policy;
- our ability to successfully develop and implement new products, designs, technologies and innovations;
- changes in technology and automotive trends;
- our ability to forecast customer trends and preferences and demand for our cars;
- the availability and cost of consumer financing for cars;
- changes in the availability and cost of suppliers, raw materials and key inputs;
- disruptions to our facilities;
- fluctuations in currency exchange rates;
- developments relating to product liability, warranties and recalls with respect to our cars;
- our ability to protect our intellectual property;
- our ability to generate the funds needed to service our debt and receive external financing;
- changes regarding our brand reputation and brand image;

- changes in our business strategy, development and investment plans;
- announcements by our competitors and others as to regulatory and similar matters, compliance with regulations, exposures to litigation and other matters of similar nature which may cause capital markets to downgrade investments in our industry; and
- costs associated with ensuring our facilities meet the requirements of applicable environmental, health and safety laws.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*".

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this offering memorandum. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this offering memorandum, such results or developments may not be indicative of results or developments in subsequent periods.

These forward-looking statements speak only as of the date of this offering memorandum. We expressly undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements herein.

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires otherwise in this offering memorandum:

"***China Development Bank Facility***" means the facilities agreement dated as of 30 November 2012 (as subsequently amended and restated on 22 November 2013, 9 November 2015 and 6 May 2016), between, among others, Volvo Car Corporation as borrower, Volvo Car AB and Geely Sweden Holdings AB as guarantors and China Development Bank Corporation, Bank of China Limited, Luxembourg Branch, Bank of Communications Co., Ltd., Offshore Banking Unit and Industrial and Commercial Bank of China (Europe) S.A., Sucursal En España as lenders, China Development Bank Corporation as agent and InterTrust CN (Sweden) AB as security agent;

"***Chinese Joint Ventures***" means the joint ventures Daqing Volvo Car Manufacturing Co., Ltd, Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. and Shanghai Volvo Car Research and Development Co., Ltd;

"***Company***", "***Group***" or "***Volvo Cars***" means Volvo Car AB and its consolidated subsidiaries, and prior to the merger of Geely Sweden AB into Volvo Car Corporation in December 2015, Geely Sweden AB and its consolidated subsidiaries; references to "***we***", "***our***" and "***us***" are to the same entities, as the case may be;

"***Geely***" means Zhejiang Geely Holding Group Co. Ltd.;

"***Guarantor***" means Volvo Car Corporation (legal name, Volvo Personvagnar Aktiebolag);

"***IFRS***" means the International Financial Reporting Standards of the International Accounting Standards Board, as adopted by the European Union;

"***Indenture***" means the indenture governing the Notes to be entered into on the Issue Date;

"***Issue Date***" means 18 May 2016;

"***Issuer***" means Volvo Car AB, as the issuer of the Notes;

"***Notes***" means the €500 million aggregate principal amount of the Issuer's 3¼% Senior Notes due 2021 offered hereby;

"***Offering***" means the issuance of Notes offered hereby;

"***Retail sales***" means sales to end customers.

"***Revolving Credit Facility***" means the revolving credit facility dated 30 June 2014 (as amended and restated by a supplemental agreement dated 30 June 2015, a supplemental agreement dated 9 December 2015 and a supplemental agreement dated 7 March 2016), between, among others, Volvo Car Corporation as borrower, Volvo Car AB as guarantor and DNB Bank ASA, Sweden Branch, Swedbank AB (publ), ANZ Bank (Europe) Limited, Bank of China Limited, Luxembourg Branch, Barclays Bank PLC, BNP Paribas Fortis SA/NV Bankfilial Sverige, HSBC Bank PLC, ING Belgium NV/SA, Lloyds Bank PLC, Nordea Bank AB (publ), Santander Bank, Zweigniederlassung Der Santander Consumer Bank AG and Société Générale as original lenders;

"***Term Credit Facility***" means the term credit facility dated as of 25 June 2015 (as subsequently amended and restated on 4 March 2016), between Volvo Car Corporation as borrower, Volvo Car AB as guarantor and AB Svensk Exportkredit (publ) as lender;

"***Trustee***" means HSBC Corporate Trustee Company (UK) Limited, in its capacity as trustee under the Indenture; and

"***U.S. Securities Act***" means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

This offering memorandum includes:

- the audited consolidated financial statements of the Issuer and its subsidiaries as of and for the years ended 31 December 2015 and 31 December 2014 (the "***Issuer Consolidated Financial Statements***");
- the audited consolidated financial statements of Geely Sweden AB, the Issuer's predecessor entity (as described under "—Organisational Structure" below), and its subsidiaries as of and for the years ended 31 December 2014 and 31 December 2013 (the "***Geely Sweden AB Consolidated Financial Statements***", and together with the Issuer Consolidated Financial Statements, the "***Audited Consolidated Financial Statements***"); and
- the unaudited consolidated financial statements of the Issuer and its subsidiaries as of and for the quarters ended 31 March 2016 and 31 March 2015 (the "***Interim Financial Statements***", and together with the Audited Consolidated Financial Statements, the "***Consolidated Financial Statements***").

The 2014 financial information presented in this offering memorandum, as extracted from the Issuer Consolidated Financial Statements, has been restated and reflects the consolidation of the Chinese Joint Ventures during 2015 as described below under "—*Chinese Joint Ventures*".

The Audited Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU and have been audited by our independent auditors, Deloitte AB ("***Deloitte***"), as set forth in their audit reports included herein. The Interim Financial Statements have been prepared in accordance with IFRS and have been reviewed by Deloitte, as set forth in their review report included herein.

Our financial data for the twelve months ended 31 March 2016 has been derived by taking, without adjustments, the results of the year ended 31 December 2015 and subtracting the results for the quarter ended 31 March 2015 and then adding the results for the quarter ended 31 March 2016. Our financial data for the twelve months ended 31 March 2016 has been prepared for illustrative purposes only and is not prepared in the ordinary course of our financial reporting. Such financial data is not necessarily representative of our results of operations for any future period or our financial condition at any future date.

Organisational Structure

In December 2015, in order to simplify our organisational structure, Geely Sweden AB was merged into its subsidiary, Volvo Car Corporation, with Volvo Car Corporation as the surviving entity. As a result of this transaction, Geely Automotive Sweden AB became the new parent of Volvo Car Corporation and changed its name to Volvo Car AB. Volvo Car AB is a subsidiary of Geely Sweden Holdings AB, with ultimate ownership held by Geely. In 2013 and 2014, the parent company of Volvo Car Corporation was Geely Sweden AB. This change of parent company in 2015 had no significant impact on the financial statements as the parent company solely held shares in Volvo Car Corporation and did not conduct any operating activities. Accordingly, for 2013 and 2014, we present the consolidated financial statements of Geely Sweden AB.

Chinese Joint Ventures

On 25 June 2015, we acquired an additional 20% interest in each of Daqing Volvo Car Manufacturing Co., Ltd, Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. and Shanghai Volvo Car Research and Development Co., Ltd (together, the "***Chinese Joint Ventures***")from Shanghai Geely Zhaoyuan International Investment Co., Ltd., a subsidiary of Geely ("***Shanghai Geely***"). As a result of these acquisitions, we now hold a 50% interest in each of the Chinese Joint Ventures. Additionally, Daqing Volvo Car Manufacturing Co., Ltd acquired from Shanghai Geely 100% of the shares in three other entities, including Volvo Car (Asia Pacific) Investment Holding Co., Ltd. (formerly Zhongjia Automobile Manufacturing (Shanghai) Co., Ltd) ("***Volvo Car (Asia Pacific)***"). Volvo Car (Asia Pacific) holds 100% of the shares of Zhongjia Automobile Manufacturing (Chengdu) Co., Ltd., a Chinese entity that owns the Chengdu car plant. After the acquisitions, we effectively control these entities through our shareholding and contractual arrangements. The Chinese Joint Ventures have been reclassified as subsidiaries and have been fully consolidated into the Issuer Consolidated Financial Statements as of 1 January 2015. The acquisition of the additional 20% interest in each of the Chinese Joint Ventures was a transaction under common control. We have chosen to apply predecessor accounting for common control transactions, and, as a result, the 2014 financial information contained in the Issuer Consolidated Financial Statements has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. This is in accordance with IFRS for common control transactions.

Accordingly, due to the changed organisational structure and the restatement of the 2014 financial information in the Issuer Consolidated Financial Statements to reflect the consolidation of the Chinese Joint Ventures as of 1 January 2014, we present the financial information included in the consolidated financial statements of Geely Sweden AB for 2013 and the Issuer Consolidated Financial Statements for 2015 and 2014 (restated). Please see the Issuer Consolidated Financial Statements.

Preparation of the Consolidated Financial Statements

In making an investment decision, you must rely upon your own examination of the terms of the offering of the Notes and the financial information contained in this offering memorandum. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to our financial statements are disclosed in our Consolidated Financial Statements.

Our Consolidated Financial Statements have been prepared based on a calendar year or a three-month quarter and are presented in SEK rounded to the nearest million. Therefore, discrepancies in the tables between totals and the sums of the amounts listed may occur due to such rounding. Percentages and amounts reflecting changes over time periods relating to financial data set forth in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" are calculated using the numerical data in the Consolidated Financial Statements or the tabular presentation of other data (subject to rounding) contained in this offering memorandum, as applicable, and not using the numerical data in the narrative description thereof.

Non-IFRS Measures

This offering memorandum contains non-IFRS measures and ratios, including EBITDA and coverage ratios, which are not required by, or presented in accordance with IFRS or the accounting standards of any other jurisdiction. We present non-IFRS measures because management uses them to measure operating performance, in presentations to our directors and as a basis for strategic planning and forecasting, as well as to monitor certain aspects of our operating cash flow and liquidity. We also believe that non-IFRS measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

We define "***EBITDA***" as income before income tax, financial income, financial expenses, and depreciation and amortization for the period presented.

Our non-IFRS measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. Non-IFRS measures and ratios, such as EBITDA, are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to operating profit or profit for the year or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities.

The non-IFRS measures we present may also be defined differently from the corresponding terms under the Indenture. Some of the limitations of these non-IFRS measures are:

- they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future and EBITDA does not reflect any cash requirements that would be required for such replacements; and

- other companies in our industry may calculate these measures differently from the way we do, limiting their usefulness as comparative measures.

Because of these limitations, our non-IFRS measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our IFRS results and using these non-IFRS measures only to supplement your evaluation of our performance.

We have included in this offering memorandum unaudited pro forma consolidated financial information of the Issuer to give pro forma effect to the offering of the Notes and the use of the proceeds therefrom. The unaudited pro forma consolidated financial information is for informational purposes only and is not intended to represent or be indicative of the consolidated results of operations or financial position that we have reported had the offering been completed as of (i) 1 April 2015 for purposes of the calculation of interest payable and other metrics drawn from our income statement data and cash flow data and (ii) 31 March 2016 for purposes of the calculation of net borrowings and other metrics drawn from our balance sheet data and should not be indicative of our future consolidated results of operations or financial position. The unaudited pro forma consolidated financial data has not been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act, the Prospective Directive or any generally accepted accounting standards. Neither the assumptions underlying the pro forma adjustments nor the resulting pro forma consolidated financial information have been audited or reviewed in accordance with any generally accepted audited standards.

PRESENTATION OF MARKET DATA

Market and Industry Data

In this offering memorandum, we rely on and refer to statistical and other information regarding our business and the markets in which we operate and compete. The market data and certain economic and industry data and forecasts used in this offering memorandum were obtained generally from industry publications and reports prepared by industry consultants based on market research, governmental and other publicly available information. In particular, certain market and industry data relating to our business was derived from the LMC Automotive Limited ("***LMC Automotive***") report entitled "Global Car and Truck Forecast, Quarter 4, 2015", the European Automobile Manufacturers' Association. Industry publications and other third-party surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. While we have endeavoured to accurately extract and reproduce data from such sources, we have not independently verified such data and cannot guarantee the accuracy or completeness thereof.

Market data and statistics are inherently predictive and speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that: (i) the markets are often defined differently; (ii) the underlying information was often gathered by different methods; and (iii) different assumptions were often applied in compiling the data. Accordingly, the market statistics included in this offering memorandum should be viewed with caution and no representation or warranty is given by any person as to their accuracy.

The market share data presented in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Retail Volume Performance by Region*" refers to our share in the premium segment as defined by LMC Automotive. Market share calculations are based on our reported retail sales and data from LMC Automotive as of 31 December 2015 for competitors.

In addition, in many cases we have made statements in this offering memorandum regarding our industry and position in the industry based on our experience, internal estimates and our own investigation of market conditions, including through the use of information made available to the public by our competitors. We cannot assure you that any of these assumptions are accurate or correctly reflect our position in the industry, and none of our internal surveys or information has been verified by any independent sources.

TRADEMARKS

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Each trademark, trade name or service mark of any other company appearing in this offering memorandum is the property of its respective owner.

TAX CONSIDERATIONS

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences of purchasing, holding and disposing of the Notes, as well as any consequences to them under the laws of any taxing jurisdiction, and the consequences of purchasing the Notes at a price other than the initial issue price in the Offering. See "*Certain Tax Considerations*".

CURRENCY PRESENTATION AND DEFINITIONS

In this offering memorandum, all references to: (i) "SEK" and "krona" are to Swedish kronor, the lawful currency of Sweden; and (ii) "euro," "EUR" or "€" are to the single currency of the participating member states of the European and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

The Consolidated Financial Statements included elsewhere in this offering memorandum are presented in SEK. However, some of the financial information included elsewhere in this offering memorandum that has been derived from the Consolidated Financial Statements has been translated from SEK amounts into euros. Unless otherwise indicated, euro translations for all periods and period end dates have been made using the average Bloomberg Composite Rate applicable during the relevant period or as of the relevant date. This conversion rate differs significantly from the actual conversion rates in other periods presented or currently available market exchange rates. Our use of this rate is not meant to suggest that the SEK amounts actually represent such euro amounts or that such amounts could have been converted into euros at any particular rate. If we had selected, or we subsequently select, euros as our reporting currency, then the historical SEK reporting currency financial statements included elsewhere in this offering memorandum in SEK would be translated into the reporting currency in euros by applying period-end exchange rates to assets and liabilities in our Consolidated Financial Statements, current or period-average exchange rates to our consolidated income statement, and historical exchange rates to equity. See "*Exchange Rate Information*".

EXCHANGE RATE INFORMATION

We present our Consolidated Financial Statements in Swedish krona. We have set forth in the table below, for the periods and dates indicated, period average, high, low and period end Bloomberg Composite Rate expressed as SEK per €1.00.

The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

The exchange rate of the euro on 4 May 2016 was SEK 9.2699 = €1.00.

	Period End	Average	High	Low
	SEK per €1.00			
Year				
2011	8.9182	9.0326	9.3624	8.7085
2012	8.5802	8.7060	9.1513	8.1821
2013	8.8605	8.6524	9.0884	8.2821
2014	9.4390	9.1024	9.5608	8.7589
2015	9.1880	9.3566	9.6419	9.1025
Month				
November 2015	9.2204	9.3151	9.3939	9.2204
December 2015	9.1707	9.2475	9.3420	9.1537
January 2016	9.2918	9.2811	9.3835	9.1873
February 2016	9.3150	9.4062	9.5046	9.2860
March 2016	9.2268	9.2860	9.3700	9.2149
April 2016	9.1965	9.2095	9.2957	9.1588
May 2016 (through 4 May)	9.2699	9.2386	9.2699	9.1800

The rates in the foregoing table may differ from the actual rates used in the preparation of the Consolidated Financial Statements and other financial information appearing in this offering memorandum. We have provided these exchange rates solely for the convenience of potential investors. The rates should not be construed as a representation that SEK amounts could have been, or could be, converted into euros at the rates set forth herein or at any other rate.

For information on the impact of fluctuations in exchange rates on our operations, see "*Risk Factors—Risks Associated with Our Businesses—Interest rate, currency and exchange rate fluctuations could adversely affect our results of operations". and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Quantitative and Qualitative Disclosures About Market Risk—Currency Risk*".

SUMMARY

This summary highlights selected information about us and the Offering contained in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the Notes. This summary should be read in conjunction with, and the following summary is qualified in its entirety by, the more detailed information included in this offering memorandum, including our Consolidated Financial Statements, and the related notes thereto. You should carefully read this offering memorandum in its entirety to understand our business, the nature and terms of the Notes, and tax and other considerations which are important to your decision to invest in the Notes, including "Description of the Notes" and "Risk Factors".

Overview

Founded in 1927, we are a global automotive brand focused on the design, engineering, manufacture, distribution and sale of premium cars, as well as related parts and services. Our long heritage is underpinned by a reputation for safety and technology, and we are credited with industry leading innovations such as the introduction of the three-point safety belt, the rear-facing child safety seat and the child booster cushion.

Headquartered in Gothenburg, Sweden, we design, develop, manufacture, market and sell a range of premium cars, including sedans, wagons, sportswagons, cross country vehicles and SUVs. Our range of premium cars is recognised for its design, safety and technological innovation. In 2015, we sold more than half a million cars for the first time in the Company's history, with sales of thirteen models across three series: the XC Series, the V Series and the S Series. In the twelve months ended 31 March 2016, the XC Series represented 48.8% of our retail sales, the V Series represented 37.5% of our retail sales and the S Series represented 13.7% of our retail sales. We will begin selling two new models, the Volvo V90 (which will replace the Volvo V70 model) and the Volvo S90 (which will replace the Volvo S80), in 2016. Our product range is headlined by the all new Volvo XC90, which is built on our new proprietary Scalable Product Architecture ("***SPA***") and equipped with Drive-E powertrain from our Vehicle Engine Architecture ("***VEA***"), both of which are the foundation for our next generation of cars. Our all new Volvo XC90 has won more than 50 accolades, including numerous prestigious awards such as the Red Dot "Best of the Best" Product Design Award, the 2016 North American Truck of the Year and the Auto Express New Car Awards—Car of the Year 2015 and Large SUV of the Year 2015.

Our 2016 product portfolio includes:

- the Volvo XC series, which range comprises three models: XC90, XC70 and XC60. The Volvo XC90 is a large luxury crossover SUV, the Volvo XC70 is a station wagon with off-road capabilities and the Volvo XC60 is a compact crossover SUV.
- the Volvo V Series, which range comprises six models: V90, V70, V60 (including the Cross Country model) and V40 (including the Cross Country model). The Volvo V90 is a five-door premium station wagon, the Volvo V70 is a large five-door station wagon, the Volvo V60 is a sporty five-door premium sportswagon, and the Volvo V40 is a five-door hatchback.
- the Volvo S Series, which range comprises five models: S90, S80, S60 (including the Cross Country and S60L models). The Volvo S90 is a luxury sedan, the Volvo S80 is a mid-size executive sedan, and the Volvo S60 is a four-door compact executive sedan, with the Volvo S60L being the long wheel base version of the Volvo S60.

We have a global manufacturing footprint with an integrated third-party supply chain that allows for production flexibility, responsiveness to market demand and cost optimization. We operate four car plants, one assembly plant, two engine plants, and one body component plant across Europe and Asia, with an additional car plant currently under construction, planned to commence production in 2018 in North America. We also operate four research and design centres in Europe, Asia and North America. During the first quarter of 2016, we employed, on average, 28,000 full time employees globally.

Following the acquisition by Geely of Volvo Car Corporation from Ford Motor Company ("***Ford***") in 2010, we implemented a strategic transformation of the Company, from a division within a large automobile group into a standalone premium car manufacturer. Between 2010 and 2015, we made significant investments in technology, our geographical footprint and our internal organisation to establish the foundation on which we target to profitably grow in the future. With this period of significant investment complete, we are now building on this foundation and will substantially refresh our product portfolio in the next three years while expanding our three-pillar geographic strategy focused on Europe, China and the United States. With more than 88,000 orders for the Volvo XC90 in 2015, and production of the Volvo S90 and V90 to begin in 2016, we believe in the benefits of these investments.

In 2015, approximately 2,290 Volvo Cars dealers sold 503,127 cars in more than 100 countries around the world generating SEK 164,043 million and SEK 16,019 million of revenue and EBITDA, respectively.

The following table presents our total retail sales, including retail sales in our key markets as a percentage of total retail sales, net revenue, average net revenue per car and EBITDA for the years ended 31 December 2013, 2014 and 2015, the quarters ended 31 March 2015 and 2016 and the twelve months ended 31 March 2016.

(SEK millions, except retail sales and average net revenue per car)	Year ended 31 December			Quarter ended 31 March		Twelve Months ended 31 March
	2013	2014[1]	2015[2]	2015[2]	2016	2016
Retail Sales	**427,840**	**465,866**	**503,127**	**107,721**	**120,591**	**515,997**
Western Europe[3]	38.9%	39.1%	39.4%	40.4%	40.9%	39.5%
China	14.3%	17.5%	16.2%	16.1%	16.3%	16.3%
Sweden	12.2%	13.2%	14.2%	13.1%	13.3%	14.2%
United States	14.3%	12.1%	13.9%	12.7%	13.6%	14.1%
Other Markets[4]	20.3%	18.1%	16.3%	17.7%	15.9%	16.0%
Net Revenue	**122,245**	**137,590**	**164,043**	**33,651**	**41,757**	**172,149**
Average Net Revenue per Car	**285,726**	**295,342**	**326,047**	**312,390**	**346,269**	**333,624**
EBITDA	**9,057**	**9,491**	**16,019**	**2,237**	**5,588**	**19,370**

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(3) Excluding Sweden.

(4) Other Markets includes markets such as Japan, Russia and South Korea, among others.

Our Competitive Strengths

We believe we have the following competitive strengths:

Differentiated premium brand "Designed around You"—Human-centric technology with modern values and leadership in safety

Founded in 1927, we have a long-standing history as a leader in safety and technological innovation. Our cars are currently sold in more than 100 countries worldwide. We believe that the long history and global appeal of the Volvo brand lies at the heart of our commercial success.

We have been a leading innovator in safety for decades, and the Volvo brand is synonymous with leadership in passenger safety. We introduced the first three-point safety belt in 1959, the first rear-facing child safety seat in 1964, the first side impact protection and whiplash protection in 1991 and 1998, respectively, and the first demonstration of adaptive cruise control in 2013. We believe our excellence at technological innovations related to safety has also enabled us to become an early leader in autonomous driving technology, as evidenced by our participation in, what, to our knowledge, is the first large-scale autonomous driving pilot project on public roads with customers in self-driving cars, which will commence in 2017. Our brand has also long been associated with efficiency and environmental leadership. We introduced the first plug-in diesel hybrid car in 2012, launched our Drive-E powertrain in 2013, and introduced the twin engine concept combining an electrical engine and 4-cylinder engine in 2015. We also believe we are the first car manufacturer to commit to a 3- and 4-cylinder strategy across our entire product portfolio. We believe these innovations strengthen the quality and commercial appeal of our brand and products.

First unveiled in our 2013 concept cars, our next generation of cars reflects a modern human-centric Scandinavian design focused on increasing the premium and emotional appeal of our products. This premium design language is expressed in our all new Volvo XC90 which has been met with market and critical acclaim, winning the "Best of the Best" Product Design Award by Red Dot in 2015, and in the Volvo S90 and the Volvo V90, both launched in 2016.

Non-complex, fully invested base modular architecture—leads to cost efficiencies and rapid product renewals

In 2015, we produced our first car on our new proprietary SPA, which marks the completion of several years of research and development investment. This product architecture is highly flexible and will form the basis of all our upcoming new mid-sized and large sedans, wagons, cross-overs and SUVs (i.e., the 60 and 90 models), substantially reducing the incremental costs associated with future models.

Our SPA uses shared modules and scalable systems and components, which allow for a wide range of cars and technologies of different complexities to be built on the same architecture. Material and component costs can be shared across different models on the architecture. By maximizing the number of models and units produced on the same architecture, we are able to reduce unit costs. The SPA increases our ability to leverage the increased scale of shared components across models, reduce new car development costs and the time taken to bring new models to market and increase the flexibility of our production lines.

This approach is mirrored in our new powertrain architecture, which consolidates several separate architectures into a single, proprietary architecture, VEA, launched in 2013 and consisting of one petrol and one diesel 4-cylinder engine, together called the Drive-E. These engines are highly flexible in variants, offering power outputs ranging from 122bhp to more than 400bhp (in combination with an electric motor), which makes them well suited to power the majority of our existing and future model line-up. This flexibility also enables cost savings due to the high component commonality between individual engines and production efficiencies due to increased economies of scale and easier installation. The increased commonality between engines in the range also enables greater flexibility to adapt production to changes in demand for different car models and engines.

We have a diverse product portfolio to cater to different types of consumer demand. Our retail sales performance reflects the full diversity of this portfolio, with a balance of sales between different models and car sizes. For example, in the twelve months ended 31 March 2016, 48.8% of our retail sales were SUVs and cross-over models (XC series), 37.5% were wagons (V Series) and 13.7% were sedans (S Series). Our best-selling model, the XC60, which received a redesign in 2013, was the number one selling mid-size SUV in Europe in 2015, according to LMC Automotive.

The recent launch of the all new Volvo XC90, the first model based on the SPA, has also been well received by the market, with more than 88,000 orders received in 2015. The XC90 has won a series of key industry awards for its design, innovativeness and overall product quality and performance, including among others: Auto Express' 2015 "Car of the Year"; Auto Lider's "Automotive Launch of the Year"; Auto Moto & Sport's "Best Big SUV"; Automotive Innovations "Most Innovative Car of 2015"; and Red Dot's "Best of the Best" Design Award. The pricing of XC90 units sold in 2015 represents an increase over the average selling price of its predecessor in 2014, reflecting the model's desirability, enhanced premium position in the market and increased demand for additional options and features. We believe the popularity of this new launch shows the commercial strength of our brand and our new SPA, our Drive-E powertrain and our new design direction that will serve as the basis for our other upcoming new models.

Three "home markets" strategy—Industrial presence, natural hedging and local product insight

We market and sell our cars through a sales and distribution network in more than 100 countries across all key global regions. We have successfully increased the geographic diversity of our sales in recent years, particularly across Asian markets, which we believe gives us well balanced exposure to different global markets. In the twelve months ended 31 March 2016, we sold 39.5% of our cars in Western Europe (excluding Sweden), 16.3% in China, 14.2% in Sweden, 14.1% in the United States and 16.0% in Other Markets.

Our globally diversified sales are supported by our flexible, local sourcing and production model. Our plants in Sweden, Belgium, China and Malaysia ensure both sourcing and manufacturing take place close to the major markets for our products. This model allows us to respond quickly and efficiently to changing demand in local markets, reduces working capital requirements and, to a degree, provides a natural hedge against foreign exchange movements.

Our plants offer the flexibility to expand capacity with minimal or no additional capital expenditure by, for example, increasing the number of shifts operated by plant personnel or investing in more equipment. This flexibility enables us to increase or decrease our production levels in response to changes in market demand at short lead times and in a cost-efficient manner.

Well positioned for technology shift

We believe we are well positioned to benefit from key trends in the premium automotive market given our ongoing investments in areas such as emissions reduction and electrification, autonomous driving and connectivity.

Electrification and emissions reduction

Tighter emissions regulations are being implemented around the world, and we also see growing consumer interest in electrified cars. As one of the largest manufacturers of plug-in hybrid cars in Europe, we are well positioned to meet these standards, in particular the European Union fleet emissions targets. Our average fleet emissions in 2014 were 126 grams of CO_2 per km (112 grams of CO_2 per km if adjusting for allowed phase-in and super credit relief), which we believe compares favourably to our competitors. We believe our strategy of focusing on 3 and 4-cylinder powertrains and electrification and our prior investments in our Drive-E powertrain will serve to further strengthen our position in respect of emissions regulations while also meeting consumer demands. For example, our strategy of combining our 4-cylinder 2.0L engine with an electric motor serves to maximize horsepower performance of the powertrain while minimizing emissions levels.

Autonomous driving

We believe we are on the technological forefront in the development and application of autonomous driving technologies. Both the Volvo S90 and the Volvo V90 include Pilot Assist, the semi-autonomous driving feature in which acceleration, braking and steering are controlled automatically by the car. We are leading "Drive Me", which, to our knowledge, is the world's first large-scale autonomous driving pilot project that places customers in self-driving cars on public roads, in partnership with the Swedish government and regulatory agencies and Lindholmen Science Park. Starting in 2017, this project aims to have 100 self-driving Volvo cars on public roads.

Connectivity

In keeping with our human-centric approach to product design, we have introduced industry-leading connectivity technologies including Sensus Connect, Volvo On Call, Apple CarPlay and Android Auto. Volvo On Call was first launched in 2001 and offers comprehensive connected car services such as a remote safety feature that provides safety tracking services in case of an accident, breakdown or theft, and allows the customer to control the car remotely. Volvo On Call is used by more than 356,000 subscribers in 21 markets worldwide. We are one of the few original equipment manufacturers ("***OEM***") to incorporate this connectivity technology into our cars, and the success of Volvo On Call shows the benefits of our partnership approach with other leading companies to ensure our customers have the best technology incorporated seamlessly into their cars.

New ways to customers

We believe the future customer will be looking for an experience rather than a car only. Therefore, we believe in creating customer centric service products providing the customer with a mobility experience. In order to do that we intend to develop new service concepts focusing on carefree car ownership with personalized connected services.

We also believe it is important to develop new ways to meet our customers. For example, we are working with our dealership network to be at the forefront for offerings through an e-commerce channel. In 2014, we commenced our digital commerce operations with the exclusive online launch of 1,927 all new Volvo XC90 First Edition Cars. The success of the XC90 First Edition (with all cars sold within 47 hours) demonstrates the power of digital commerce for our strategic plan.

Strong management team with solid governance—and a long-term committed shareholder

We are led by a highly experienced management team which combines individuals with deep knowledge and experience of Volvo Cars and extensive industry experience. In particular, our CEO, Håkan Samuelsson, was formerly CEO of DAX listed MAN from 2005 to 2009. Our Company is also supported by an independent, international and experienced Board of Directors, with a combined wealth of experience from the automotive industry and other sectors.

We benefit from a highly committed shareholder in Geely. Geely is also the largest shareholder in Geely Automotive Holdings Ltd. ("***Geely Automotive***"), one of China's largest non-state owned automotive manufacturers and publicly listed on the Hong Kong Stock Exchange. Geely supports our operational independence while also facilitating important co-operation with Geely Automotive. For example, we are co-operating with Ningbo Geely Automobile Research & Development Co., Ltd., ("***Ningbo Geely***") and its wholly owned subsidiary, China Euro Vehicle Technology AB, based in Gothenburg ("***CEVT***"), in the development of the compact vehicle platform, called Compact Modular Architecture ("***CMA***"), which will form the basis of our upcoming C-segment cars (i.e, the 40 models).

Our industrial arrangement with Geely provides us with a unique position in the Chinese market and allows us to capture the benefits from this industrial structure globally. This structure enables us to more easily leverage our production bases in China to export both components and cars to different markets, and flexibly shift our production between domestic manufacturing and imports to respond to different levels of demand. The structure also positions us as the only international passenger car OEM to fully consolidate the financial results of its China joint ventures, increasing the transparency of our financial results.

Strategy

We are a leading global manufacturer of premium cars. Our approach is human-centric: we design, develop and build cars for people. We intend to build upon our brand strength and heritage of innovation, safety and environment to further strengthen our position as a global premium car manufacturer. Following our acquisition by Geely in 2010, we implemented a strategic transformation of the Company, from a division within a large automobile group into a standalone premium car manufacturer with a focus on people, advanced technology, safety, environment and elegant Scandinavian design.

Our strategy encompasses two clearly defined phases. The first phase, initiated in 2010 and completed in 2015, was a period of investment in advanced industrialization to establish the foundation on which we target to profitably grow in the future. During the first phase, we undertook the largest investment programme in our history. Our selected areas of focus during the first phase included technology (e.g., vehicle and powertrain architecture), our industrial footprint and our internal organisation. The all new Volvo XC90 is the first of a series of models reflecting the benefits of these investments. The second phase ("***Phase 2***") builds upon the foundation laid during the first phase, aiming to substantially refresh our product portfolio with the roll out of a wide range of new products based on our SPA and Drive-E powertrain, leverage upon our next generation engine architecture and continue our three-pillar geographic strategy focused on Europe, China and the United States. With our first phase complete, we have already begun to see the results of our investments. In 2015, we sold more than half a million cars for the first time in the Company's history, while at the same time tripling our operating income from the prior year.

In the second phase, we aim to focus on execution. We have refined our corporate objectives to enable us to deliver attractive premium products designed to meet our customers' requirements, thereby becoming a true premium alternative in all of our car segments and delivering sustainable growth and profitability. We believe the implementation of the newly defined strategic focus areas outlined below will give direction and impact each of the key areas within the Company: brand, design, product, research & development, purchasing & manufacturing, marketing, sales and customer service and people. We further believe the implementation of the strategic focus areas will enable us to achieve our medium-term goal of annual sales of more than 800,000 cars globally.

Strategic Focus Areas

Deliver sustainable profitability

Over the past five years, we have made major investments in technical streamlining of our base car architecture as well as our powertrain offer which will enable us to reduce complexity, improve flexibility and efficiency, and significantly decrease product costs. These investments in vehicle architecture and powertrains, together with our product renewals, should enable us to position all our new cars in the premium segment, in which we expect to achieve increased pricing power, further enhancing our future product offering. Moving forward, we also aim to reduce lead times for customer orders and optimize inventory levels. We believe the measures referred to above should allow us to continue to improve our profitability, margins and cash flow generation through our active revenue management and intense cost focus.

Further enhance the Volvo brand with customer centricity throughout the value chain

We have adopted a human-centric approach which puts the customer at the heart of everything we do. We are committed to deliver on our brand promises: "We understand you", "We protect what is important to you", and "We make you feel special". Our human-centric approach translates into our commitment to provide safe cars without compromising on performance, innovation or our Scandinavian design. Going forward, all of our cars will reflect the premium nature of the Volvo brand and include our human-centric Scandinavian design signatures. Our cars will offer a large range of features such as effortless connectivity to our customers' devices and highly exclusive and innovative services that simplify our customers' lives.

Leverage on our modular product architecture and strive for leadership in autonomous driving and electrification

We believe electrification and autonomous driving are important technology developments within the premium automotive industry and believe we are well positioned to capitalise on these trends and further enhance our technological strengths. We have a modular product architecture in place which creates a solid base for model renewals and, at the same time, acts as a platform for our initiatives in electrification and autonomous driving.

Following the success of the Volvo V60 Diesel Plug-in hybrid launched in 2012, we have continued to work on our competitiveness within electrification, which translated into the creation of a petrol plug-in hybrid version of the all new Volvo XC90. As part of our electrification strategy, we plan in the future to introduce plug-in hybrids across our entire product range, develop a new range of electrified smaller cars and to build a fully electric car. We strongly believe in the creation of sustainable mobility solutions to create new attractive solutions for our customers.

With our strong heritage and focus on real-life safety in our cars, it is a logical step for us to aim to be a leader in the development and application of autonomous driving technologies. In partnership with the Swedish government, regulatory agencies and Lindholmen Science Park, we are leading "Drive Me", to our knowledge, the world's first large-scale autonomous driving project that places normal customers in self-driving cars on public roads. Starting in 2017, the "Drive Me" project aims to have 100 self-driving Volvo cars on public roads. Similar partnerships with other governments are in the process of being developed, for example, in China and the United Kingdom.

We employ a user-centric approach to connectivity and have established a number of collaborations in order to offer relevant solutions to our customers. We view built-in connectivity solutions as important enablers for increased safety and future mobility experiences.

Value creating standardised services throughout lifecyle and develop additional channels to customers

We believe the future customer will be looking for a unique mobility experience rather than a car only. Therefore, over time we intend to provide an offering of customer centric service products aimed at providing the customer with such a mobility experience. In order to do so, we intend to develop new service concepts focused on carefree car ownership with personalized connectivity services.

We also believe it is important to develop new ways to reach our customers. For example, we are working with our dealership network to be at the forefront for offerings through an e-commerce channel. In 2014, we commenced our digital commerce operations with the exclusive online launch of 1,927 all new Volvo XC90 First Edition Cars. The success of the XC90 First Edition (with all cars sold within 47 hours) demonstrates the power of digital commerce for our strategic plan.

Our financial services and our continuing insurance programs are examples of ways in which we strengthen our product offering and sales presence. We will continue to seek strategic collaborations that deliver benefits to our customers in many different areas.

Leverage our three "home markets"

Our three "home markets" are Europe, China and the United States. We believe that by being close to our customers we develop an in-depth understanding of their specific needs and are better able to design solutions to satisfy these needs. Moreover, a strong global presence will give us better access to talents and technologies that are critical in the fast moving automotive industry with its major upcoming technology shifts.

We also believe that a strong industrial presence in our three "home markets" supports a flexible global footprint. One pillar in our production strategy is to produce where we sell and source where we produce. By doing so, we remain flexible to meet local changes in demand and keep a just-in-time delivery strategy. Our production strategy also provides a partial natural hedge against currency fluctuations ensuring the competitiveness of our products in local markets. The flexible set-up of our plants should also allow us to produce multiple models of cars and car parts at the same plant, and when advantageous, to export cars and car parts to other markets.

In Europe, we are aiming to continue to expand our European volume and profit base on the back of our new and enhanced product portfolio. In China, we intend to continue to produce cars as well as engines both for sale in China and for export to other markets. With our new testing facilities in Shanghai, we intend to further strengthen our local research and development capabilities and growth of local talent. In the United States, in order to locally produce cars for the U.S. market, we began construction on a new car plant in Berkeley County, South Carolina in September 2015, currently planned to be operational in 2018. We view the United States as an important market where we should strengthen our local research and development capabilities beyond our current design center in California.

A global organization with passion for customers, cars and responsible business conduct

Our aim is to reinforce the new global organisation in place to support our three-pillar geographic strategy. Our growth plans in each of Europe, China and the United States are bolstered by our growing presence in each of the markets. Our strategic plan envisions further building a global, nimble organization with a strong customer understanding and with an open and trusting environment where everyone collaborates, embraces change and continuously learns from each other. Being consistent in living our Volvo brand values and sustainability promises makes us an attractive employer for both current employees and young talents outside Volvo Cars.

Recent Developments

April Retail Sales

For the month ended 30 April 2016, retail sales increased to 42,434 cars compared to 38,124 cars during the same period in 2015, an increase of 11.3%. For the four months ended 30 April 2016, retail sales increased to 163,025 cars compared to 145,845 cars during the same period in 2015, an increase of 11.8%. Sales of the all new Volvo XC90 were the main growth driver globally. The Volvo XC60 was our best-selling model during the month ended 30 April 2016, with sales of 11,937 cars, followed by the Volvo XC90 with sales of 8,102 cars.

In the United States, retail sales increased to 6,169 cars in the month ended 30 April 2016, an increase of 33.1% as compared to the same period during 2015, driven by sales of the all new Volvo XC90, our best-selling model in the United States. Retail sales in Western Europe (excluding Sweden) increased 13.1% in the month ended 30 April 2016 as compared to the same period during 2015, driven by strong sales in Germany, France, the United Kingdom and the Netherlands. The Volvo XC60 was our best-selling model in Western Europe for the month ended 30 April 2016. In Sweden, retail sales increased by 10.3% during the month ended 30 April 2016 as compared to the same period during 2015. In China, retail sales decreased by 6.7% in the month ended 30 April 2016 as compared to the same period during 2015, with our best-selling cars being the Volvo XC60 and Volvo S60L. Retail sales in Other Markets increased by 11.2% in the month ended 30 April 2016 as compared to the same period during 2015.

We are progressing the completion of the acquisition of an additional 40% interest in Volvofinans Bank AB, scheduled to close in the second half of 2016. See "*Business—Volvo Car Financial Services*".

Geely has agreed to acquire the remaining 12% in Shanghai Geely Zhao Yuan International Investment Co., Ltd. not previously held. We understand such transaction is scheduled to complete in July 2016.

Pledged Assets

As of 31 December 2015, the China Development Bank Facility was secured by a share pledge by the Issuer of the shares in the Guarantor. This share pledge was released on 6 May 2016 and instead, Geely Sweden Holdings AB's shares in the Issuer have been pledged as collateral for obligations under the China Bank Development Facility. The book value on a consolidated basis of the new pledge as of 31 March 2016 amounted to SEK 34,915 million.

Our Shareholder

We are a subsidiary of Geely Sweden Holdings AB, which is owned by Shanghai Geely Zhaoyuan International Investment Co., Ltd., with ultimate controlling ownership held by Geely. With total assets of more than $20 billion (approximately €17.5 billion) as of 31 December 2014, Geely has been ranked as a Fortune Global 500 company for four consecutive years. Geely acquired Volvo Car Corporation from Ford in 2010.

The Transaction

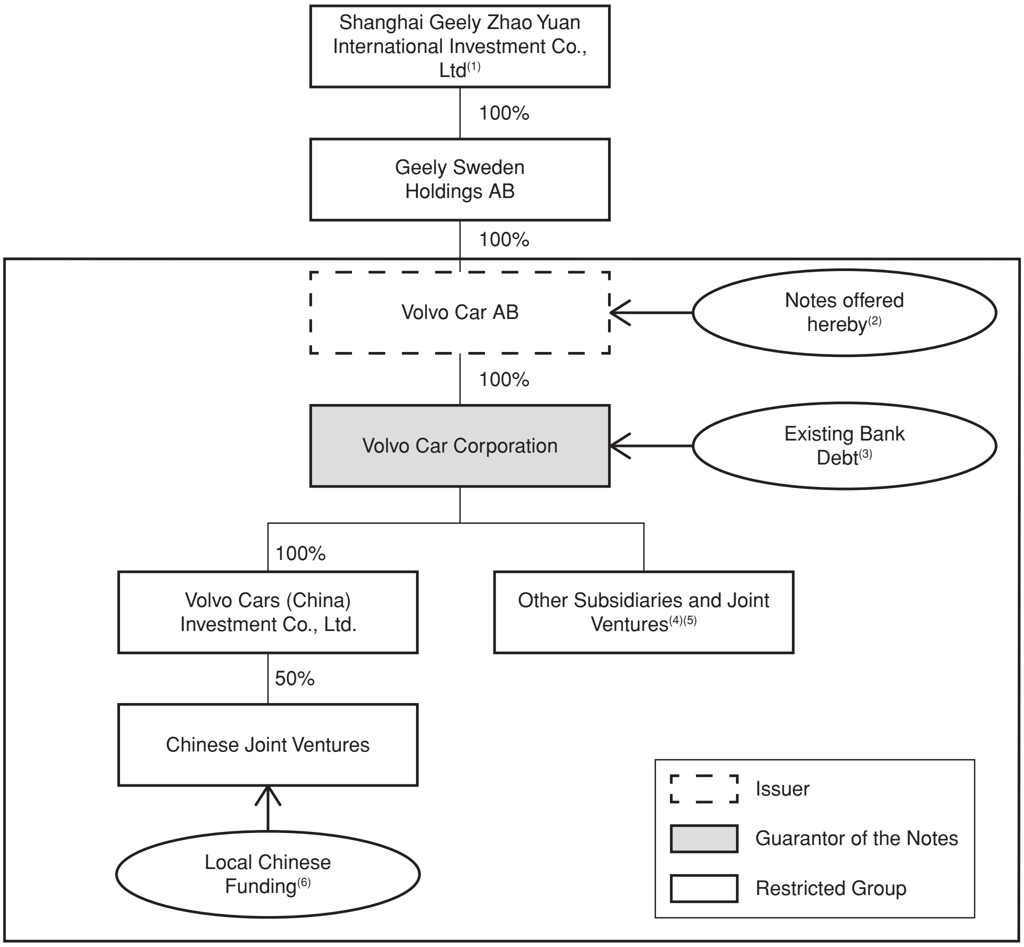
We will use the net proceeds from the Offering for general corporate purposes. Please see "Use of Proceeds".

The Issuer

The Issuer is a public limited liability company incorporated under the laws of Sweden and registered with the Swedish Companies Registration Office under number 556810-8988. Its registered office is at Avd. 50090 HB3S, 405 31 Göteborg, Sweden.

CORPORATE STRUCTURE AND FINANCING ARRANGEMENTS

The following diagram depicts, in simplified form, our corporate and financing structure after giving effect to the Offering and the application of the proceeds therefrom as described under "Use of Proceeds". The diagram does not include all of our entities, or all debt obligations thereof. For further information, please refer to "Description of the Notes," and "Description of Certain Financing Arrangements".



(1) Shanghai Geely Zhao Yuan International Investment Co., Ltd. is owned by Geely, which is also indirectly the 50% joint venture partner in the Chinese Joint Ventures.

(2) The Notes offered hereby will be the Issuer's senior obligations and will rank *pari passu* in right of payment with all other existing and future senior debt of the Issuer that is not expressly subordinated in right of payment to the Notes. The Notes will be senior in right of payment to all existing and future indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes. The Notes will be guaranteed on a senior unsecured basis by the Guarantor. This Guarantee will rank *pari passu* in right of payment with all of the existing and future indebtedness of the Guarantor that is not expressly subordinated in right of payment to the Guarantee. The Guarantee will rank senior in right of payment to all existing and future indebtedness of the Guarantor that is expressly subordinated in right of payment to the Guarantee. The Notes and the Guarantee will also be effectively subordinated to all of the Issuer's and the Guarantor's existing and future secured debt to the extent of the value of the assets securing such debt. The Notes and the Guarantee will be structurally subordinated to all existing and future obligations and other liabilities of the Issuer's other subsidiaries that do not guarantee the Notes. As of and for the quarter ended 31 March 2016, the Guarantor and its subsidiaries represented 100% of the Issuer's consolidated sales revenue, 100% of the Issuer's consolidated EBITDA and 98.5% of the Issuer's consolidated total assets.

(3) Existing Bank Debt includes the China Development Bank Facility, the Term Credit Facility, the Revolving Credit Facility and certain other financing arrangements. As of 31 March 2016, (i) all three tranches of the China Development Bank Facility were fully drawn; (ii) the Term Credit Facility was fully drawn; and (iii) the Revolving Credit Facility was undrawn. As of 31 March 2016, drawings under the China Development Bank Facility included: (i) SEK 13,034 million (€1,412 million) in non-current liabilities; and (ii) SEK 1,140 million (€124 million) in current liabilities. As of 31 March 2016, drawings under the Term Credit Facility included SEK 1,500 million (€163 million) in non-current liabilities. As of 31 March 2016, other financing arrangements included: (i) SEK 59 million (€6 million) in non-current liabilities; and (ii) SEK 29 million (€3 million) in current liabilities. The China Bank Development Facility, as of 31 March 2016, was secured by a share pledge by the Issuer of shares in the Guarantor. This share pledge was released on 6 May 2016 and the China Development Bank Facility has been secured by a share pledge by Geely Sweden Holdings AB over the entire issued share capital of the Issuer. The Term Credit Facility and the Revolving Credit

Facility are unsecured. Please see "*Description of Certain Financing Arrangements*" for a summary of our financing arrangements and "*Operating and Financial Review and Prospects—Liquidity and Capital Resources*" for a discussion of our capital structure.

(4) Excludes subsidiaries and joint ventures that are not consolidated as part of the Group.

(5) As of 31 March 2016, Other Subsidiaries and Joint Ventures had SEK 353 million (€38 million) in current liabilities.

(6) As of 31 March 2016, Local Chinese Funding includes: (i) SEK 383 million (€41 million) in non-current liabilities relating to local Chinese funding for the Chinese Joint Ventures; and (ii) SEK 4,511 million (€489 million) in current liabilities relating to local Chinese funding for the Chinese Joint Ventures. The Local Chinese Funding is unsecured. Please see "*Description of Certain Financing Arrangements*" for a summary of our financing arrangements and "*Operating and Financial Review and Prospects—Liquidity and Capital Resources*" for a discussion of our capital structure.

THE OFFERING

The following summary of the Offering contains basic information about the Notes and the Guarantee. It is not intended to be complete and it is subject to important limitations and exceptions. For a more complete description of the terms of the Notes, including certain definitions of terms used in this summary, see "Description of the Notes".

Issuer	Volvo Car AB.
Notes Offered	€500 million aggregate principal amount of 3¼% Senior Notes due 2021.
Issue Date	The Notes will be issued on 18 May 2016.
Issue Price	100% (plus accrued and unpaid interest from the Issue Date).
Maturity Date	18 May 2021.
Interest Payment Dates	Semi-annually in arrears on 18 May and 18 November of each year, commencing 18 November 2016. Interest will accrue from the Issue Date.
Form and Denomination	The Issuer will issue Notes in global form, in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.
Ranking of the Notes	The Notes will be: • senior unsecured obligations of the Issuer; • *pari passu* in right of payment with all existing and future obligations of the Issuer that are not expressly contractually subordinated in right of payment to the Notes; • senior in right of payment to all future obligations of the Issuer that are expressly subordinated in right of payment to the Notes; • effectively subordinated to all existing and future secured obligations of the Issuer; • structurally subordinated to any existing and future obligations of the Issuer's subsidiaries that do not guarantee the Notes; and • guaranteed on a senior unsecured basis by the Guarantor, subject to certain limitations under applicable law as set forth below under the caption "*—Guarantee*."
Guarantee	The Issuer's obligations under the Notes and the Indenture will be guaranteed by the Guarantor, Volvo Car Corporation, on the Issue Date. The Guarantee will be subject to contractual and legal limitations. See "*Certain Insolvency Law Considerations*."
Ranking of the Guarantee	The Guarantee by Volvo Car Corporation: • will be a senior unsecured obligation of the Guarantor; • will be *pari passu* in right of payment with all existing and future obligations of the Guarantor that are not expressly contractually subordinated in right of payment to such Guarantee, including obligations under the Term Credit Facility and the Revolving Credit Facility; • will rank senior in right of payment to all existing and future obligations of the Guarantor that are expressly subordinated in right of payment to such Guarantee; and • will be effectively subordinated to all future secured obligations of the Guarantor to the extent of the value of the property and assets securing such obligations.

	The Guarantee will be subject to release under certain circumstances. See "*Description of the Notes—Guarantees*."
Optional Redemption	Some or all of the Notes may be redeemed by paying 100% of the principal amount of such Notes plus a "make-whole" premium. See "*Description of the Notes—Optional Redemption*." In addition, the Issuer may redeem up to 40% of the original principal amount of each of the Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 103.25% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date, provided that at least 50% of the original principal amount of the Notes remain outstanding after the redemption. See "*Description of the Notes—Optional Redemption*."
Change of Control	Upon the occurrence of certain change of control events, each holder of the Notes may require the Issuer to repurchase all or a portion of its Notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any. See "*Description of the Notes—Change of Control.*"
Optional Redemption for Taxation Reasons	All of the Notes may also be redeemed at 100% of their principal amount plus accrued and unpaid interest and all Additional Amounts, if any, upon the occurrence of certain changes in applicable tax law. See "*Description of the Notes—Redemption for Changes in Withholding Taxes*".
Additional Amounts	Any payments made with respect to the Notes will be made without withholding or deduction for taxes in any relevant taxing jurisdiction unless required by law. If withholding or deduction for such taxes is required to be made with respect to a payment under the Notes, subject to certain exceptions, we will pay the additional amounts necessary so that the net amount received by the holders of Notes after the withholding is not less than the amount that they would have received in the absence of the withholding. See "*Description of the Notes—Additional Amounts*".
Certain Covenants	The Indenture will limit, among other things, the ability of the Issuer and its restricted subsidiaries to: • pay dividends, redeem capital stock and make certain investments; • make certain other restricted payments; • create or permit to exist certain liens; and • merge or consolidate with other entities. Each of these covenants is subject to exceptions and qualifications. See "*Description of the Notes—Certain Covenants*".
Transfer Restrictions	The Notes have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction. The Notes are subject to restrictions on transfer and may only be offered or sold in offshore transactions outside the United States in compliance with Regulation S and may not be offered, sold or delivered within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. See "*Notice to Investors*" and "*Plan of Distribution*".

Use of Proceeds	We intend to use the net proceeds of the Offering for general corporate purposes. See "*Use of Proceeds*".
No Established Market for the Notes	The Notes will be new securities for which there is currently no market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained. See "*Risk Factors—Risks Relating to Our Debt, the Notes and the Guarantee—There is no existing trading market for the Notes and we cannot assure you that an active trading market will develop, which could adversely impact your ability to sell your Notes*".
Listing and Trading	Application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF Market thereof.
Trustee	HSBC Corporate Trustee Company (UK) Limited
Paying Agent, Registrar and Transfer Agent	HSBC Bank plc
Governing Law	The Indenture, the Notes and the Guarantee and the rights and duties of the parties thereunder will be governed by and construed in accordance with the laws of New York.
Risk Factors	Investing in the Notes involves risks. You should consider carefully all the information in this offering memorandum and, in particular, you should evaluate the specific risk factors set forth in the "*Risk Factors*" section in this offering memorandum before making a decision whether to invest in the Notes.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables present our summary financial information and should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Consolidated Financial Statements included elsewhere in this offering memorandum. The Audited Consolidated Financial Statements were audited by Deloitte, as set forth in their audit report, and were prepared in accordance with IFRS. The Interim Financial Statements were reviewed by Deloitte, as set forth in their review report, and were prepared in accordance with IFRS.

This section includes certain financial measures that are not required by or presented in accordance with IFRS because we believe they provide investors with useful additional information to measure our performance, liquidity or capital expenditures. These non-IFRS financial measures have important limitations as analytical tools. See "*Presentation of Financial and Other Information—Non-IFRS Measures*".

Summary Consolidated Income Statement Information

	Year ended 31 December			Quarter ended 31 March		Twelve Months ended 31 March
(SEK in millions)	2013	2014[(1)]	2015[(2)]	2015[(2)]	2016	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Net revenue	122,245	137,590	164,043	33,651	41,757	172,149
Cost of sales	(101,934)	(114,019)	(128,238)	(27,025)	(32,318)	(133,531)
Gross income	**20,311**	**23,571**	**35,805**	**6,626**	**9,439**	**38,618**
Research and development expenses	(5,864)	(7,193)	(8,803)	(1,975)	(2,413)	(9,241)
Selling expenses	(7,919)	(8,708)	(10,951)	(2,467)	(2,683)	(11,167)
Administrative expenses	(5,129)	(5,943)	(7,234)	(1,592)	(1,551)	(7,193)
Other operating income	1,509	1,745	2,005	231	609	2,383
Other operating expenses	(1,168)	(1,535)	(4,432)	(856)	(348)	(3,924)
Share of income in joint ventures and associates	179	191	230	22	92	300
Operating income	**1,919**	**2,128**	**6,620**	**(11)**	**3,145**	**9,776**
Financial income	87	342	238	162	57	133
Financial expenses	(874)	(1,315)	(1,469)	(331)	(434)	(1,572)
Income before tax	**1,132**	**1,155**	**5,389**	**(180)**	**2,768**	**8,337**
Income tax	(172)	(647)	(913)	(61)	(699)	(1,551)
Net income	**960**	**508**	**4,476**	**(241)**	**2,069**	**6,786**

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

Summary Consolidated Balance Sheet Information

(SEK in millions)	As of 31 December			As of 31 March
	2013	2014[(1)]	2015[(2)]	2016
	(audited)	(audited)	(audited)	(unaudited)
Total non-current assets	**49,225**	**74,101**	**68,317**	**71,124**
Cash and cash equivalents	15,372	17,002	25,623	26,716
Total current assets	**38,372**	**49,134**	**64,000**	**66,643**
Total assets	**87,597**	**123,235**	**132,317**	**137,767**
Total equity	24,638	34,268	34,635	37,166
Total non-current liabilities	24,108	35,469	30,473	31,425
Total current liabilities	38,851	53,498	67,209	69,176
Total equity and liabilities	87,597	123,235	132,317	137,767

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

Summary Consolidated Statement of Cash Flows Information

(SEK in millions)	Year ended 31 December			Quarter ended 31 March		Twelve Months ended 31 March
	2013	2014[(1)]	2015[(2)]	2015[(2)]	2016	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Operating Activities						
Cash flow from operating activities	8,861	8,839	22,576	2,627	3,232	23,181
Cash flow from investing activities	(8,840)	(13,605)	(15,342)	(3,615)	(3,555)	(15,282)
Cash flow from financing activities	5,765	3,641	1,445	(23)	1,515	2,983
Cash flow for the period	**5,786**	**(1,125)**	**8,679**	**(1,011)**	**1,192**	**10,882**
Cash and cash equivalents at beginning of period	9,607	17,533	17,002	17,002	25,623	16,923
Exchange difference on cash and cash equivalents	(21)	594	(58)	932	(99)	(1,089)
Cash and cash equivalents at end of period	15,372	17,002	25,623	16,923	26,716	26,716
Marketable securities[(3)]	88	1,047	3,512	975	1,798	1,798

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(3) Marketable securities comprise interest-bearing investments with a term of more than three months from acquisition date.

Other Financial Data

(SEK in millions with the exception of percentages and ratios)	Year ended 31 December 2013	Year ended 31 December 2014[(1)]	Year ended 31 December 2015[(2)]	Quarter ended 31 March 2015[(2)]	Quarter ended 31 March 2016	Twelve Months ended 31 March 2016
EBITDA[(3)]	9,057	9,491	16,019	2,237	5,588	19,370
EBITDA margin[(4)]	7.4%	6.9%	9.8%	6.6%	13.4%	11.3%
Capital expenditures	8,902	13,880	13,392	3,811	3,710	13,291
Total debt[(5)]	12,853	18,905	21,414	19,128	21,008	21,008
Net debt[(5)]	(2,607)	856	(7,721)	1,230	(7,506)	(7,506)
Finance costs[(6)]	(431)	(873)	(1,101)	(248)	(261)	(1,006)
EBITDA/Finance costs[(7)]	(21.0)	10.9	(14.5)	9.0	(21.4)	—
Net debt/EBITDA[(8)]	(0.28)x	0.09x	(0.48)x	—	—	—
Pro forma net debt[(9)]						(7,414)
Pro forma finance costs[(10)]						(1,156.0)
EBITDA/Pro forma finance costs[(10)]						(16.76)x
Pro forma net debt/EBITDA[(9)]						(0.4)x

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(3) EBITDA consists of income before income tax, financial income, financial expenses, and depreciation and amortization for the period presented. EBITDA is not a measurement of performance under IFRS. You should not consider EBITDA as an alternative to (i) operating profit or profit from continuing activities (as determined in accordance with IFRS) or as a measure of our operating performance, (ii) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs or (iii) any other measures of performance under IFRS.

The following table presents a reconciliation of our EBITDA to our net income for the periods presented.

(SEK in millions)	Year ended 31 December 2013	Year ended 31 December 2014[(a)]	Year ended 31 December 2015[(b)]	Quarter ended 31 March 2015[(b)]	Quarter ended 31 March 2016	Twelve Months ended 31 March 2016
Net income	**960**	**508**	**4,476**	**(241)**	**2,069**	**6,786**
Income tax	172	647	913	61	699	1,551
Financial expenses	874	1,315	1,469	331	434	1,572
Financial income	(87)	(342)	(238)	(162)	(57)	(133)
Depreciation and amortization	7,138	7,363	9,399	2,248	2,443	9,594
EBITDA	**9,057**	**9,491**	**16,019**	**2,237**	**5,588**	**19,370**

(a) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(b) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(4) EBITDA margin is calculated as EBITDA divided by Net revenue.

(5) Net debt consists of total debt (liabilities to credit institutions), less cash and cash equivalents and marketable securities.

The following table presents a reconciliation of our net debt to our total debt for the periods presented.

(SEK in millions)	As of 31 December 2013	As of 31 December 2014[(a)]	As of 31 December 2015[(b)]	As of March 31 2015[(b)]	As of March 31 2016
Total debt	**12,853**	**18,905**	**21,414**	**19,128**	**21,008**
Cash and cash equivalents	15,372	17,002	25,623	16,923	26,716
Marketable securities	88	1,047	3,512	975	1,798
Net debt	**(2,607)**	**856**	**(7,721)**	**1,230**	**(7,506)**

(a) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(b) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(6) Finance costs (interest expenses) consists of financial expenses, less interest expense on pension liabilities, implicit rate on repurchase commitments, borrowing cost for discounting provisions and realised and unrealised exchange effects on financial items.

(7) EBITDA/Finance costs is calculated as EBITDA divided by finance costs. EBITDA/Finance costs is not a measurement of financial performance under IFRS and should not be considered a measure of liquidity or an alternative to operating profit or profit for the period or any other performance measure derived in accordance with IFRS.

(8) Net debt/EBITDA is calculated as net debt divided by EBITDA. Net debt/EBITDA is not a measurement of financial performance under IFRS and should not be considered a measure of liquidity or an alternative to operating profit or profit for the period or any other performance measure derived in accordance with IFRS.

(9) Pro forma net debt consists of our net debt as of 31 March 2016, as adjusted to reflect the issuance of the Notes, including application of the net proceeds of the Notes as described in "*Use of Proceeds*", as if these events had occurred as of 31 March 2016.

(10) Pro forma finance costs consists of our finance costs for the twelve months ended 31 March 2016 as adjusted to reflect the issuance of the Notes, including application of the net proceeds of the Notes as described in "*Use of Proceeds*", as if these events had occurred on 1 April 2015.

RISK FACTORS

An investment in the Notes involves a high degree of risk. You should carefully consider the following risks, together with other information provided to you in this offering memorandum, in deciding whether to invest in the Notes. The occurrence of any of the events discussed below could materially adversely affect our business, financial condition or results of operations. If these events occur, the trading prices of the Notes could decline, we may not be able to pay all or part of the interest on or principal of the Notes, and you may lose all or part of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

This offering memorandum contains "forward-looking" statements that are based on assumptions and estimates, and subject to risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include those discussed below and elsewhere in this offering memorandum. Please see "Forward-Looking Statements".

Risks Associated with the Automotive Industry

Lack of improvement or worsening global economic conditions could have a significant adverse impact on our sales and results of operations.

The automotive industry depends on general economic conditions around the world. Economic slowdowns in the past have significantly affected the automotive and related industries. Demand for automobiles is influenced by a variety of factors, including, among other things, the growth rate of the global economy, availability of credit, disposable income of consumers, interest rates, environmental policies, tax policies, safety regulations, freight rates and fuel prices.

Our business is focused on the Western European, Chinese and American markets. Economic conditions in each of these markets vary greatly, and are subject to changes from diverse and different causes. As such, our profitability can be adversely affected by market dynamics in any of these regions. While the global economic climate has generally improved, the prevailing economic environment in some countries or regions continues to be a cause of concern. In our main markets, economic conditions have been impacted by various geopolitical and other events. In Western Europe, limited economic growth, coupled with uncertainty around the United Kingdom's referendum on withdrawal from the European Union and the impact of the conflicts in the Middle East may have a negative impact on demand. In China, the effects of the recent economic slowdown and stock market volatility may impact demand for our cars in China and wider Asia. In the United States, the weak economic recovery may not be sustainable and, along with uncertainty related to the results of the 2016 presidential and congressional elections, may impact demand for our cars. As a result of the above and other future economic and political events, demand for cars in general, or our cars in particular, may be materially adversely affected.

Deterioration in key economic factors, such as GDP growth rates, interest rates and inflation, as well as the reduced availability of financing for cars at competitive rates, may result in a decrease in demand for automobiles. A decrease in demand would, in turn, cause automobile prices and manufacturing capacity utilisation rates to fall. Such circumstances have in the past materially affected, and may in the future materially affect, our business, results of operations and financial condition.

A decline in retail consumers' purchasing power or consumer confidence or in corporate consumers' financial condition and willingness to invest could significantly adversely affect our business.

Demand for cars for personal use generally depends on consumers' net purchasing power, their confidence in future economic developments and changes in fashion and trends, while demand for cars for commercial use by corporate consumers primarily depends on the consumers' financial condition, their willingness to invest (motivated by expected future business prospects) and available financing. A decrease in potential consumers' disposable income or their financial flexibility will generally have a negative impact on demand for our products.

A weak macroeconomic environment, combined with restrictive lending and a low level of consumer sentiment generally, may reduce consumers' net purchasing power and lead existing and potential consumers to refrain from purchasing a new car, defer a purchase further or purchase a smaller model with fewer specifications at a lower price. A deteriorating macroeconomic environment may lead to reluctance by corporate consumers to invest in cars for commercial use and/or to lease cars and thereby leads to a postponement of fleet renewal contracts.

To stimulate demand, the automotive industry has offered customers and dealers price reductions on cars and services, which has led to increased price pressures and sharpened competition within the industry. As a provider of numerous high-volume models, our profitability and cash flows are significantly affected by the risk of rising competitive and price pressures. Special sales incentives and increased price pressures in the new car business also influence price levels in the used car market, with a negative effect on car resale values. This may have a negative impact on the profitability of the used car business in our dealer organisation.

Intensifying competition could materially and adversely affect our sales and results of operations.

The global automotive industry, including the premium passenger car segment, is highly competitive and competition is likely to further intensify. A range of factors affect the competitive environment, including, among others, design, quality and features of cars, innovation, safety, development time, ability to control costs, pricing, reliability, fuel economy, environmental impact and perception thereof, customer service and financing terms. There is a strong trend among market participants in the premium passenger car segment towards intensifying efforts to retain their competitive position in established markets while also developing a presence in markets, such as China and other key markets. We anticipate that additional competitors will seek to enter these markets and that existing market participants will aggressively try to protect or increase their market share. Increased competition may result in pricing pressures, reduced margins and our inability to gain or hold market share, which could have a material adverse effect on our results of operations and financial condition.

We are exposed to risks relating to the impact of the Volkswagen emissions scandal on the automotive industry.

On 18 September 2015 and 2 November 2015, the U.S. Environmental Protection Agency (the "***EPA***") announced investigations into alleged violations of the U.S. Clean Air Act of 1963, as amended, by Volkswagen AG, Audi AG, Volkswagen Group of America, Inc., Porsche AG and Porsche Cars North America (collectively, "***Volkswagen***") through the use of software in Volkswagen's diesel engine cars to produce compliant emissions results only when the software detected that the vehicle was being subjected to an EPA emissions compliance test. It is alleged that the software functions as an illegal "defeat device" and allows vehicles to meet the emissions standards for nitrogen oxide (NOx) in a laboratory or testing situation but during normal operations, results in increased NOx emissions up to 40 times above the standards. As a result of the alleged violations, the EPA has announced stricter diesel emissions testing, which will include testing diesel cars in on-road situations and additional tests to find defeat devices.

Vehicle emissions standards and test procedures have also been under scrutiny in Europe. A number of manufacturers, including us, have received requests for information from regulators in various countries about their emissions and emissions testing and some inquiries may not yet be concluded. Various independent investigations of diesel cars in Europe, including Volvo cars, indicate that a significant number which pass the European Union's official regulatory tests nevertheless emit NOx at higher levels in on-road driving situations, at least at certain ambient temperatures. For example, the UK government's Department of Transport released a report on its Vehicle Emissions Testing Programme in April 2016 that found higher levels of NOx emissions in test track and real world driving conditions than in the laboratory for all tested manufacturer's vehicles, with results varying significantly between different makes and models. Furthermore, other manufacturers such as Mitsubishi Motors have admitted to the use of improper emissions testing methods to present better fuel consumption rates to regulators.

We have never designed or manufactured cars with any device intended to manipulate emission performance during emission tests. Engines in Volvo cars have the same settings no matter whether they are being tested or in everyday use. As part of the wider automotive industry, however, we may nonetheless be adversely impacted by the investigations referred to above.

In response to the above, the European Commission has published the regulations (European Commission Regulations 2016/B46 and 2016/427) establishing stricter emissions testing, which mandate the use of "Real Driving Emissions" ("***RDE***") test procedures, which will require that new vehicle models achieve successful RDE test results starting in 2017 and that all new vehicles achieve successful RDE test results starting in 2019. This new emissions testing includes a phase-in period, with all new cars being required to emit a level of NOx that is no more than 50% above current limits by 2021. The European Commission is expected to adopt two more packages to complete the framework of RDE test procedures.

As a general matter, regulators, consumer groups and environmental and social interest groups are now heavily focused on any data that suggests that different testing methods indicate inconsistent emissions results, even where the different methods are each compliant with regulations and considered valid by the industry. Any such inconsistencies yielded in emissions results, even in the absence of the use of illegal defeat devices, could materially affect the entire automotive industry or individual manufacturers, including us. Like other manufacturers in the automotive industry, we expect our internal and external costs to audit and monitor emissions testing to increase as a result of heightened regulatory requirements and enforcement.

In addition, consumers may develop negative perceptions of diesel-engine cars for a variety of reasons, including their potential environmental impact, uncertainty related to their resale value and unresolved questions related to performance. There is also now an emerging trend for private individuals or groups of individuals to advance claims and lawsuits against auto manufacturers even where the manufacturers are not the subject of any regulatory enforcement or scrutiny about their product emissions. We cannot exclude the possibility that we could be subject to such claims or lawsuits.

While we do not sell diesel-engine cars in the United States, retail sales of diesel-engine cars in Western Europe accounted for approximately 88.0% of our total retail sales in the year ended 31 December 2015. If demand for diesel-engine cars were to decline as a result of negative public perception, increased diesel-engine car prices due to the inclusion of additional emissions equipment, a reduction in tax or other incentives for diesel-engine cars or for any other reason, our business, results of operations and financial condition could be materially adversely affected.

As emissions regulations and testing procedures are constantly evolving, we cannot fully estimate their potential future impact on us. To comply with such regulations and testing procedures, we will likely have to incur additional capital expenditure and research and development expenditure to upgrade products and plants, which would have an impact on our cost of production and our results of operations and may be difficult to pass through to our customers.

Volkswagen has subsequently announced results of an internal investigation which has revealed irregularities in the level of carbon dioxide emitted by both its diesel-engine and petrol-engine cars. Volkswagen further has announced that it continues to conduct investigations with more than 450 internal and external experts and has revealed further details of the investigation at its April 2016 shareholders meeting. At this point in time, we are unable to predict what impact, if any, these events may have on us as part of the wider automotive industry.

Our competitors may be able to benefit from the cost savings offered by industry consolidation or alliances.

Designing, manufacturing and selling cars is capital intensive and requires substantial investments in manufacturing, machinery, research and development, product design, engineering, technology and marketing in order to meet both consumer preferences and regulatory requirements. If our competitors consolidate or enter into other strategic agreements such as alliances, they may be able to take better advantage of economies of scale and to benefit from the cost savings offered, which could adversely affect our competitiveness with respect to those competitors. Competitors could also use consolidation or alliances as a means of enhancing their competitiveness (including through the acquisition of technology), which could also materially adversely affect our business.

We are exposed to the risks of new drive technologies and other technologies being developed and the resulting effects on the automobile market.

Over the past few years, the global market for automobiles, particularly in established markets, has been characterised by increasing demand for more environmentally friendly cars and technologies. This is related, in particular, to the global debate on how to address climate change resulting from activities that load carbon into the atmosphere through the release of carbon dioxide (CO_2) and other high global warming potential gases. We endeavour to take account of climate change and the ever more-stringent laws and regulations that have been and are likely to be adopted. We are researching, developing and producing new drive technologies, such as hybrid engines and electric cars, with a reduced carbon load potential. We are also investing in programmes to improve fuel economy, such as our successful Drive-E development programme, and in various electronic solutions.

There is a risk that these research and development activities will not achieve their planned objectives, including due to unresolved technological barriers, system failures or human errors in calculating or monitoring the success of the technologies, or that competitors or joint ventures set up by competitors will develop better solutions and will be able to manufacture the resulting products more rapidly, in larger quantities, with a higher quality and/or at a lower cost. This could lead to increased demand for the products of such competitors and result in a loss of market share for us. There is also a risk that the money invested in researching and developing new technologies will, to a considerable extent, have been spent in vain if the technologies developed or the products derived therefrom are unsuccessful in the market or because competitors have developed better or less expensive products. It is possible that we could then be compelled to make new investments in researching and developing other technologies to maintain our existing market share or to regain the market share lost to competitors.

In addition, promotion of new technologies aimed at reducing carbon emissions encourages customers to look beyond standard factors (such as price, design, performance, brand image or comfort/features) to differentiation of the technology used in the vehicle or the manufacturer or provider of this technology. This could lead to shifts in demand and the value-added parameters in the automotive industry at the expense of our products.

New or changing laws, regulations and government policies regarding improved fuel economy, reduced greenhouse gas and other emissions, and car safety may have a significant effect on our cost of operations and how we do business.

Our products are subject to comprehensive and constantly changing laws, regulations and policies throughout the world. Please see "*Regulation*" for an overview of these laws, regulations and policies. We expect the number and extent of legal and regulatory requirements and the related costs of changes to our product portfolio to increase significantly in the future. In Europe and the United States, for example, governmental regulation is primarily driven by concerns about the environment (including greenhouse gas emissions), fuel economy, energy security and car safety. Evolving regulatory requirements could significantly affect our product development plans and may result in substantial costs and limit the number and type of cars we sell and where we sell them, including with respect to the sale of diesel engine cars, which may affect our revenue. As discussed under "*Regulations*", the European Union's introduction of regulations to mandate the use of RDE test procedures creates a compliance challenge for our European operations. The European Union began RDE testing in January 2016, with further phases expected to take effect in 2017 and 2019. Any violations of governmental regulations may result in criminal and civil penalties, including significant monetary fines, third party claims against us for loss or injury, loss of our relevant licences or requirements for us to implement costly corrective actions, as well as damage to our reputation, which could have a material adverse effect on our business, results of operations and financial condition. Violations of these laws may occur, among other ways, from errors in monitoring emissions from our products or production sites into the environment, such as the use of incorrect methodologies or defective or inappropriate measuring equipment, errors in manually capturing results or other mistaken or unauthorised acts of our employees, suppliers or agents.

To comply with current and future environmental regulations, we may have to incur additional capital expenditure and research and development expenditure to upgrade products and plants, which would have an impact on our cost of production and our results of operations and may be difficult to pass through to our customers. If we are unable to develop commercially viable technologies within the time frames set by the new standards, we could face significant civil penalties or be forced to restrict product offerings drastically to remain in compliance. We anticipate that the number and extent of these regulations, and their effect on our cost structure and product portfolio, will increase significantly in the future.

Changes in tax, tariff or fiscal policies could adversely affect the demand for our cars.

Imposition of any additional taxes and levies designed to limit the use of automobiles could adversely affect the industry and potentially demand for our cars and our 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 our results of operations. Such government actions may be unpredictable and beyond our control, and any adverse changes in government policy could have a material adverse effect on our business, results of operations and financial condition.

Risks Associated with Our Business

Our future success depends on our continued ability to introduce our next generation of cars.

We began the next generation of our model line-up with the launch of the Volvo XC90 in 2014, which was met with market and critical acclaim. In 2016, we launched the Volvo S90 and the Volvo V90, and plan to renew our complete product portfolio in the coming years. In order to meet our sales goals, we have invested heavily in car and powertrain design, engineering and manufacturing. Our ability to realise acceptable returns on these investments will depend in large part on consumers' acceptance of our new car offerings, as well as our ability to complete our car launch schedule on the contemplated timeline.

We undertake significant market research and testing prior to developing and launching new cars or upgraded variants of our existing models. Nevertheless, market acceptance of our cars depends on a number of factors, many of which are outside of our control and require us to anticipate consumer preferences and competitive products several years in advance. These factors include the market perception of styling, safety, reliability, capability and cost ownership of our cars as compared to those of our competitors, as well as other factors that affect demand, including price competition and financing or lease programmes. As noted above, environmentally friendly considerations, particularly with respect to technology aimed at reducing carbon emissions, may become a factor in consumer decision-making. If we fail to continue introducing new cars or upgraded variants of our existing models that can compete successfully in the market, our results of operations and financial condition could deteriorate.

If our new cars or upgraded variants of our existing models are not received favourably by consumers, our car sales, market share and profitability will suffer. If we are required to cut capital expenditures due to insufficient car sales and profitability, or if for any other reason we decide to reduce costs and conserve cash, our ability to continue our program of developing the next generation of cars and keeping pace with product and technological innovations introduced by our competitors would diminish, which could further reduce demand for our cars.

Our business is subject to changes in consumer preferences and automotive trends.

Our continued success depends in part on our ability to originate and define car and automotive trends, as well as to anticipate and respond promptly to changing consumer demands and automotive trends in the design, styling, technology, production and pricing of our cars. Our cars must appeal to a customer base whose preferences cannot be predicted with certainty and are subject to rapid change. We are under continual pressure to develop new products and improve existing products in increasingly shorter time periods and may be required to presently make significant expenditures in anticipation of future customer demands and preferences. Evaluating and responding to consumer preferences has become even more complex in recent years, as we try to strengthen our position in our existing markets and continue our expansion into new geographical markets. If we misjudge, delay recognition of, or fail to adapt, our products and services to trends and customer preferences in individual markets or other changes in demand, our sales could drop in the short-term, and we and our dealers may be faced with excess inventories for some cars and missed opportunities with others. We cannot eliminate this risk, even with extensive market research. Further, the significant expenditures necessary to develop, manufacture and sell a car may not generate the anticipated return (if at all). In addition, there can be no assurance that we will be able to produce, distribute and market new cars efficiently or that any vehicle category that we may expand or introduce will achieve sales levels sufficient to generate profits. Any of these outcomes could have a material adverse effect on our business, results of operations and financial condition.

Additionally, private and commercial users of transportation increasingly use modes of transportation other than the automobile, especially in connection with growing urbanization and car sharing. Their reasons for doing so may include the rising costs for automotive transport of people and goods, increasing traffic density in major cities and environmental awareness. Although the increased use of car sharing concepts and new city-based car rental schemes create opportunities for new business models in which we could potentially participate in the future, they also reduce dependency on private automobiles. A change in consumer preferences away from transport by automobile would have a material adverse effect on our business, results of operations and financial condition.

We may be unable to implement our strategic plans and objectives or we may be able to do so only at a higher cost than planned and we may not reach our financial goals.

With Phase 2, we are pursuing a strategy to roll out our next generation of cars while growing sales. See "*Business—Strategy*". We have a medium-term goal of annual sales of more than 800,000 cars globally. Numerous factors, some of which are beyond our control, such as a slow recovery or a deterioration in the business climate in our key markets, weaker development in certain markets or the occurrence of one or more risks described in this offering memorandum, can impede implementation of Phase 2 and the attainment of these goals. If we are unable to achieve the strategic goals we have announced, in whole or in part, or if the costs associated with the basic strategic policy exceed our expectations, this could have a material adverse effect on our business, results of operations and financial condition.

We are more vulnerable to reduced demand for premium cars than automobile manufacturers with a more diversified product range.

We operate in the premium car segment, which is a very competitive segment of the passenger car market. Accordingly, our performance is strongly linked to market conditions and consumer demand in this segment. Other premium car manufacturers operate in a broader spectrum of market segments, which makes them comparatively less vulnerable to reduced demand for any specific segment. Any downturn or reduced demand for premium passenger cars, or any reduced demand for our most popular models, in the geographic markets in which we operate could have a more pronounced effect on our performance and earnings than would have been the case if we had operated in a larger number of different market segments.

Our inability to identify, understand and adapt to rapid technological change in our industry could impair our ability to remain competitive and adversely affect our results of operations.

The automotive industry is characterised by rapid technological change and evolving government regulation and industry standards. Technological changes, including vehicle connectivity, interactive safety systems, electric cars, autonomous cars and 3-D cars, have the potential to significantly change the automotive industry. These technologies will require new expertise, attract competitors from outside the automotive industry and shift supply chains. If we are unable to identify, understand and adapt to rapid technological change, it could adversely affect our results of operations and our ability to remain competitive.

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 autonomous driving, and these efforts remain ongoing. Many issues related to autonomous driving remain unregulated such as who bears legal liability in the event an autonomous car is involved in a crash or hacked by a criminal third-party. Volvo Cars will accept full liability for our cars in autonomous mode. As this is a newly evolving industry, we are not yet able to evaluate the implications of any new regulations on our business.

Additionally, our success depends upon our ability to attract, retain and motivate highly-skilled employees, including those with experience in software engineering, to help us adapt to these technological changes. Due to several factors, including the rapid growth of autonomous drive programmes and the increasing number of companies entering the automotive industry, there is aggressive competition for experienced engineers. We compete intensely with other companies to recruit and hire from this limited pool. If we cannot attract, train and retain qualified personnel, we may be unable to expand our business in line with our strategy, compete for new customers or retain existing customers, which could adversely affect our business, results of operations and financial condition.

Reductions in consumer financing could materially and adversely affect our sales and results of operations.

We manage consumer finance arrangements and insurance offerings through our Volvo Car Financial Services program, which operates through strategic partnerships and joint ventures with, among others, Volvofinans Bank, Santander, Bank of America, Société Générale, Nordea, CITIC, PAB and BNP Paribas, in our markets. During the global financial crisis, several providers of customer finance reduced their supply of consumer financing for the purchase of new cars. Any reduction in the supply of available consumer financing for the purchase of new cars would make it more difficult for some of our customers to purchase our cars, which could put us under commercial pressure to offer new (or expand existing) retail or dealer incentives to maintain demand for our cars, thereby materially and adversely affecting our business, results of operations and financial condition.

Our large market share in certain key markets exposes us to these market's overall economic development and competitive pressures.

We operate in Western Europe, China, Sweden, the United States and a number of other key markets. For the quarter ended 31 March 2016, our retail sales in each of these markets as a percentage of total retail sales were 40.9%, 16.3%, 13.3%, 13.6% and 15.9%, respectively. For the year ended 31 December 2015, our retail sales in each of these markets as a percentage of total retail sales were 39.4%, 16.2%, 14.2%, 13.9% and 16.3%, respectively. A decrease in demand for our products and services in any of these markets, particularly Western Europe, could have a material adverse effect on our business, results of operations and financial condition.

In Western Europe, continuing uncertainty regarding economic conditions, including a potential return of the strained debt situation in many European countries, large-scale government austerity measures and tax increases, could lead to significant long-term economic weakness and low economic growth. The political instability resulting from sanctions in connection with the Ukrainian crisis and instability in the Middle East and North Africa could also damper consumer and business sentiment. In 2014, 2015 and the first quarter of 2016, we experienced fewer sales in Russia due to the weakening of the Russian economy. A renewed decline in consumer demand in Western Europe would have a material adverse effect on our business, financial position and results of operations.

While demand in the Chinese market has increased in recent years due to sustained economic growth and growth in personal income and wealth, we cannot accurately assess the extent to which economic growth will be sustained, particularly in light of recent slowdowns in growth of the Chinese economy and volatility in the Chinese market. With three plants in China and our strategy to grow sales in the region, our opportunities in, as well as our exposure to, China are likely to increase. Economic and political developments in China, including economic crises or political instability, have had or could have in the future, material adverse effects on our results of operations and financial condition. If consumer demand in China were to decline, it could have a material adverse effect on our business, financial position and results of operations.

While the U.S. economy has improved, the weak economic recovery may not be sustainable. If general economic conditions or employment levels do not continue to improve or if the availability or adequacy of financing were to become more limited, it may impact demand for our cars in the United States. In 2012 and 2013, we experienced a decline in retail sales in the United States as a result of a more limited product offering in this market. In 2014, we implemented a new plan for the U.S. market and have introduced new models, such as the Volvo S60CC, V60CC and XC90, resulting in increased demand in the United States in 2015 and the first quarter of 2016. If our plan is unsuccessful or consumer demand in the United States were to decline, it could have a material adverse effect on our business, financial position and results of operations. Additionally, we are at a cost disadvantage in the U.S. market because will not have operations to produce cars locally in the United States until 2018. Our business operations may also be exposed to uncertainty as a result of the 2016 United States presidential and congressional elections on 8 November 2016. The newly elected President of the United States and Congress may enact new or less favourable laws, regulations or policies, which may adversely affect our business, results of operations and financial condition.

We may face risks associated with our international operations, including unfavourable regulatory, political, tax and labour conditions, which could harm our business.

Our cars are exported to a number of geographical markets, and we plan to expand our international operations further in the future. Consequently, we are subject to various risks associated with conducting our business both within and outside our domestic market and our operations may be subject to political instability, wars, changes in diplomatic relations, terrorism, regional and/or multinational conflicts, natural disasters, fuel shortages/prices, epidemics and labour strikes. In addition, conducting business internationally, especially in emerging markets, exposes us to additional risks, including adverse changes in economic and government policies, unpredictable shifts in regulation, inconsistent application of existing laws and regulations, unclear regulatory and taxation systems and divergent commercial and employment practices and procedures. Any significant or prolonged disruptions or delays in our operations related to these risks could adversely impact our results of operations.

Our business operations may be exposed to uncertainty as a result of the referendum on the United Kingdom's withdrawal from the European Union.

Our cars are exported to a number of markets within the European Union, including the United Kingdom. In the quarter ended 31 March 2016 and the year ended 31 December 2015, we sold 11,485 cars and 43,211 cars, respectively, in the United Kingdom (approximately 9.5% and 8.6%, respectively, of our total retail sales). On 23 June 2016, British voters will vote in a referendum on the withdrawal of the United Kingdom from the European Union, and our business faces several uncertainties in the lead-up to and as a result of the outcome of this referendum. Heightened uncertainty in the lead-up to the referendum may have a negative impact on consumer confidence, thereby reducing demand for consumer cars. For example, should the outcome of this referendum be in favour of withdrawal, Britain would no longer be part of the European Union Single Market. This may result in additional export expenses and increased trade barriers, which may impact our results of operations. Any increased costs may be difficult to pass through to our customers. Additionally, should Britain withdraw from the European Union, they may enact new or less favourable laws, regulations or policies.

Furthermore, the departure, or risk of departure, from the European Union by the United Kingdom has resulted in a decrease of the value of the British pound sterling. Our operations are subject to fluctuations in exchange rates, including such fluctuations in the value of the British pound sterling. Any further decrease in the value of the pound sterling could have a negative effect on our existing relationships with our suppliers or customers in the United Kingdom, resulting in a negative impact on our business, financial condition and results of operations. See "*—Interest rate, currency and exchange rate fluctuations could adversely affect our results of operations*".

If the British voters vote to remain in the European Union, the United Kingdom and the European Union may agree an enhanced devolution settlement pursuant to which further elements of regulatory policy could be devolved to the British government which could result in similar uncertainties or adverse policy decisions as withdrawal. Any of the foregoing factors may adversely affect our business, results of operations and financial condition.

We are exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanction programs.

Doing business on a worldwide basis requires us to comply with the laws and regulations of various jurisdictions. Our international operations are subject to applicable anti-corruption laws and regulations and economic sanction programs (collectively, "***Sanctions***"). Economic sanctions programs may restrict our business dealings with certain sanctioned countries. As a result of doing business in foreign countries, we are exposed to a risk of violating anti-corruption laws and Sanctions regulations applicable in those countries where we, our partners or agents operate. Our continued expansion and worldwide operations, including the employment by us of local agents in the countries in which we operate increase the risk of violations of anti-corruption laws or similar laws. Violations of anti-corruption laws and Sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts (and termination of existing contracts) and revocations or restrictions of licenses, as well as criminal fines and imprisonment. In addition, any major violations could have a significant material adverse impact on our reputation and consequently on our ability to win future business and on our business, financial condition or results of operations.

Although we believe that we have adequate systems of control, we seek to continuously improve our systems of internal controls and to remedy any weaknesses we identify through appropriate corrective action depending on the circumstances. There can be no assurance, however, that our policies and procedures will be followed at all times or effectively detect and prevent violations of the applicable laws by one or more of our employees, consultants, agents or partners and, as a result, we could be subject to penalties and material adverse consequences on our business, financial condition or results of operations if we failed to prevent any such violations.

Failure to maintain our reputation and brand image could negatively impact our results of operations.

We believe our strong brand is among our most valuable assets, and we believe that our brand image and reputation have contributed significantly to the success of our business. Our continued success depends on our ability to maintain, promote and grow our brand image and reputation. Our results of operations could be adversely impacted if our brand is tarnished or receives negative publicity. In addition, adverse publicity about regulatory or legal action could damage our reputation and brand image, undermine customer confidence in us and reduce long-term demand for our cars, even if the regulatory or legal action is unfounded or not material to our operations, which would have a material adverse effect on our business and results of operations.

Under-performance of our distribution channels may adversely affect our sales and results of operations.

Our cars are sold and serviced through a large network of authorised dealers and service centres across Sweden, and a large network of distributors and local dealers in international markets. We own almost no Volvo Cars dealers and instead sell our products to dealers through various supply agreements. We monitor the performance of our dealers and distributors and provide them with support to assist them to perform to our expectations. There can be no assurance, however, that our expectations will be met by all dealers and distributors. Any under-performance by our dealers, distributors or service centres could adversely affect our business, results of operations and financial condition.

If dealers encounter financial difficulties and our products and services cannot be sold or can be sold only in limited numbers, this would have a direct effect on the sales of such dealers. Additionally, if we cannot replace the affected dealers with other franchises, the financial difficulties experienced by such dealers could have an indirect adverse effect on our car deliveries.

Disruptions to our supply chains or shortages of essential raw materials may adversely affect our production and results of operations.

We rely on a global network of suppliers for sourcing raw materials, parts and components used in the manufacture of our cars. At the local level, we are at times exposed to reliance on smaller enterprises where the risk of insolvency is greater. Furthermore, for some parts and components, we are dependent on a single supplier. Our ability to procure supplies in a cost-effective and timely manner or at all is subject to various factors, some of which are not within our control. Additionally, we are exposed to disruptions in the supply chain resulting from natural disasters or man-made accidents. Substantial increases in the costs or a significant delay or sustained interruption in the supply of key inputs sourced from areas affected by disasters or accidents could adversely affect our ability to maintain our current and expected levels of production, and therefore negatively affect our revenue and increase our operating expenses. While we manage our supply chain as part of our supplier management process, any significant problems with our supply chain or shortages of essential raw materials in the future could affect our results of operations in an adverse manner.

Adverse economic conditions and falling car sales have had a significant financial impact on our suppliers in the past. A deterioration in automobile demand and lack of access to sufficient financial arrangements for our supply chain could impair the timely availability of components to us. In addition, if one or more of the other global automotive manufacturers were to become insolvent, this would have an adverse impact on the supply chains and may further adversely affect our results of operations.

Increases in input prices may have a material adverse impact on our result of operations.

For the quarter ended 31 March 2016 and the year ended 31 December 2015, our materials cost (including freight and distribution) constituted approximately 63.4% and 64.9%, respectively, of our net revenue. Prices of commodities used in the manufacture of automobiles, including steel, aluminium, copper, zinc, rubber, platinum, palladium and rhodium, have experienced periods of increased volatility in recent years. Furthermore, prices of commodity items such as steel, non-ferrous metals, precious metals, rubber and petroleum products may rise significantly. While we continue to pursue cost reduction initiatives, an increase in the price of input materials could impact our profitability to the extent that such increase cannot be absorbed by the market through price increases and/or could have a negative impact on demand. In addition, because of intense price competition and our high level of fixed costs, we may not be able to adequately address changes in commodity prices even if they are foreseeable.

We are also exposed to the risk of contraction in the supply, and a corresponding increase in the price of, rare and frequently highly sought-after raw materials, especially those used in car electronics such as rare earths, which are predominantly found in China. Rare earth metal prices and supply remain uncertain. China has, in the past, limited the export of rare earths, including those used in the production of hybrid cars, from time to time. If we are unable to find substitutes for such raw materials or pass price increases on to customers by raising prices, or to safeguard the supply of scarce raw materials, our car production, business and results from operations could be affected.

Our business relies on the protection and preservation of our intellectual property and the defense against claims of infringement.

We own or otherwise have rights in respect of a number of patents and trademarks relating to the products we manufacture, which have been obtained over a period of years. Pursuant to an agreement with Volvo Trademark Holding AB, a joint venture with AB Volvo, we have a license to use the Volvo brand name indefinitely for passenger cars and certain other vehicles. Furthermore, as part of our separation from Ford in 2010, a number of bilateral licensing agreements and royalty-free patent assignments and intellectual property licensing agreements remain in place with Ford. See "*Business—Intellectual Property—Agreement* *with Ford" and "Business—Intellectual Property—Agreement with AB Volvo*". In connection with the design and engineering of new car models and the enhancement of existing models, we seek to regularly develop new technical designs for use in our cars. We also use technical designs which are the intellectual property of third parties with such third parties' consent. Pursuant to an agreement with Ningbo Geely, we have an irrevocable, perpetual license to use the CMA technology. See "*Business—Intellectual Property—Agreement with Ningbo Geely*". These patents and trademarks have been of value in the growth of our business and may continue to be of value in the future. As we continue to work with Ningbo Geely and CEVT and to develop technology with other partners in the future, the importance, size, value and complexity of the intellectual property we develop in collaboration with these entities may increase, particularly in relation to software. Although we do not regard any of our businesses as being dependent upon any single patent or related group of patents, an inability to protect this intellectual property generally, or the illegal breach of some or a large group of our intellectual property rights, would have a materially adverse effect on our operations, business and/or financial condition. We may also be affected by restrictions on the use of intellectual property rights held by third parties, and we may be held legally liable for the infringement of the intellectual property rights of others in our products. Moreover, intellectual property laws of some foreign countries may not protect our intellectual property rights to the same extent as Swedish laws.

Furthermore, from time to time we have received communications from other parties asserting the existence of patent rights, copyrights, trademark rights or other intellectual property rights which they believe cover certain components used in our cars, as well as technology and/or services that we use in, or are relevant to, our business. The rate of patent infringement assertions by third party non-practicing entities (sometimes referred to as "patent trolls") is increasing. We may adversely affected by such litigation, other proceedings or claims brought against us alleging infringement of third party proprietary rights. The instigation of legal proceedings or claims, our inability to favourably resolve or settle such proceedings or claims, or the determination of any adverse findings against us in connection with such proceedings or claims could adversely affect our business, financial condition and results of operations, as well as our business reputation.

In connection with our leasing business, we are exposed to the risk that the market value of the leased cars will fall below the estimated and guaranteed residual values.

We offer residual value guarantees on the purchase of certain leases in some markets. The value of these guarantees is dependent on used car valuations in those markets at the end of the lease, which is subject to change (so-called residual value risk). Residual value risk may be influenced by external factors such as the selection of used cars being offered, consumer confidence and consumer preferences, exchange rates, incentive programs offered by governments and automobile manufacturers and general economic circumstances, which are beyond our control. While we closely monitor the secondary market, uncertainties may also exist with respect to the internal methods for calculating residual values, for example owing to estimates or assumptions that prove to have been incorrect. Consequently, we may be adversely affected by movements in used car valuations in these markets.

Any disruption in the operations of our manufacturing, design and research and development facilities could adversely affect our business, financial condition or results of operations.

We have eight plants and four research and design centres across the world. We could experience disruption to our manufacturing, design and research and development capabilities for a variety of reasons, including, among others, extreme weather, fire, theft, system failures, natural catastrophes, mechanical or equipment failures and similar risks. For example, our Chengdu plant is in the Sichuan province of China, which is located in a known earthquake zone. If an earthquake were to occur in the Sichuan province, it could damage our plant and cause us to shut down production. Any significant disruptions could adversely affect our ability to design, manufacture and sell our cars and, if any of those events were to occur, we cannot be certain that we would be able to shift our design, engineering and manufacturing operations to alternative sites in a timely manner or at all. Any such disruption could therefore materially affect our business, results of operations and financial condition.

Interest rate, currency and exchange rate fluctuations could adversely affect our results of operations.

We have both interest-bearing assets (including cash balances) and interest-bearing liabilities, certain of which bear interest at variable rates. We are therefore exposed to changes in interest rates. While we revisit the appropriateness of these arrangements in light of changes to the size or nature of our operations on an ongoing basis, we may nonetheless be adversely affected by the impact of changes in interest rates.

Our operations are also subject to fluctuations in exchange rates with reference to countries in which we operate. Besides Sweden, we sell cars in Western Europe, China, the United States and many other markets around the world and therefore generate revenue in, and have significant exposure to movements of the Chinese renminbi, U.S. dollar, euro and other currencies relative to the Swedish krona, our reporting currency. Additionally, we generate production costs and cost of raw materials in a variety of currencies, in particular euros and Chinese renminbi. As a result, we have significant exposure to movements of the Chinese renminbi, U.S. dollar and euro relative to the Swedish krona.

Moreover, we have outstanding foreign currency denominated debt and are sensitive to fluctuations in foreign currency exchange rates (e.g., the China Development Bank Facility is partially denominated in euros and the Notes offered hereby are denominated in euros). We have experienced, and expect to continue to experience, foreign exchange losses and gains on obligations denominated in foreign currencies in respect of our borrowings and foreign currency assets and liabilities due to currency fluctuations.

We seek to manage our foreign exchange exposure through the use of certain hedging agreements, including options, forwards and other financial instruments. We are, however, exposed to the risk that appropriate hedging lines for the type of risk exposures we are subject to may not be available at a reasonable cost or at all. Moreover, there are risks associated with the use of such hedging instruments. Whilst mitigating to some degree our exposure to fluctuations in currency exchange rates, we potentially forgo benefits that might result from market fluctuations in currency exposures. Hedging transactions can also result in substantial losses. Such losses could occur under various circumstances, including, without limitation, any circumstances in which a counterparty does not perform its obligations under the applicable hedging arrangement, the arrangement is imperfect or our internal hedging policies and procedures are not followed or do not work as planned.

We are subject to risks associated with product recalls and warranties.

We are subject to risks and costs associated with product recalls and warranties in connection with performance, compliance or safety-related issues affecting our cars. We may decide to initiate a recall or service campaign if we conclude that our cars do not or might not comply with applicable standards, or in some circumstances, governmental authorities themselves may initiate a recall as a result of their own investigations into our operations. For example, in August 2015, we initiated a recall of approximately 10,000 model year 2016 Volvo XC90s to correct a possible flaw in the third-row panelling in the car that may obstruct deployment of the airbag. The recall did not relate to a fault in the airbags themselves. In December 2015, we initiated a recall of approximately 85,000 cars, including certain 2015 and 2016 models of the Volvo S60, V60, V60 CC, V70, XC70 and the S80, due to a fault in the engine control unit whereby the fuel gauge showed fuel availability but fuel was not going to the engine. In February 2016, we initiated a recall of approximately 59,000 cars, including certain 2016 models of the 60 and 70 models, due to a software fault causing engines to stop and restart while the car is in operation. We are working to remedy both the software fault related to the fuel gauge and engine operation by upgrading the software in the impacted cars. We may expend considerable resources in connection with product recalls, and these resources may typically include the cost of the part being replaced and the labour required to remove and replace the defective part. In addition, product recalls could prevent or delay launch of new model cars or cause our consumers to question the safety or reliability of our cars and harm our reputation. Any harm to the reputation of any one of our models could result in a substantial loss of customers.

We may become subject to product liability claims, which could harm our financial condition and liquidity if we are not able to successfully defend or insure against such claims.

We spend substantial resources to ensure that we comply with governmental safety regulations, mobile source emissions regulations and other standards. Compliance with governmental standards, however, does not necessarily prevent individual or class actions, which can entail significant cost and risk. Accordingly, we may become subject to product liability claims, which could harm our business, results of operations and financial condition. The automobile industry experiences significant product liability claims, and we have inherent risk of exposure to claims in the event our cars do not perform as expected or malfunction resulting in personal injury or death. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product liability claim could generate substantial negative publicity about our cars and business, thereby adversely affecting our reputation and inhibiting or preventing commercialization of future cars, which could have a material adverse effect on our brand, business and results of operations. Furthermore, simply responding to actual or threatened litigation or governmental investigations of our compliance with regulatory standards, whether related to our products or business or commercial relationships, may require significant expenditures of time and other resources. Whilst we seek to insure against product liability risks, insurance may be insufficient to protect against any monetary claims we may face and will not mitigate any reputational harm. Any lawsuit seeking significant monetary damages may have a material adverse effect on our reputation, business and financial condition. We may not be able to secure additional product liability insurance coverage on commercially acceptable terms or at reasonable costs when needed, particularly if we face liability for our products and are forced to make a significant claim under such a policy.

We are exposed to risks in connection with product warranties as well as the provision of services.

A number of our contractual and legal requirements oblige us to provide extensive warranties to our customers, dealers and national distributors. There is a risk that, relative to the guarantees and warranties granted, the calculated product prices and the provisions for our guarantee and warranty risks have been set or will in the future be set too low. There is also a risk that we will be required to extend the guarantee or warranty originally granted in certain markets for legal reasons, or provide services as a courtesy or for reasons of reputation where we are not legally obliged to do so, and for which we will generally not be able to recover from suppliers or insurance.

We may be adversely affected by risks associated with joint ventures.

We are a party to several joint ventures. We have pursued and may continue to pursue significant investments in certain strategic development projects with third parties. Joint ventures often require unanimous approval of the parties to the joint venture or their representatives for certain fundamental decisions. If a unanimous decision is not reached when required, it could lead to a deadlock in the operations of the joint venture. Additionally, differences in views among joint venture participants may result in delayed decisions or failures to agree on major issues. Any failure of such joint venture participants to meet their obligations to us or to third parties, or any disputes with respect to the parties' respective rights and obligations, could have a material adverse effect on the joint venture and, therefore, could have a material adverse effect on our business, results of operations and financial condition.

We may be adversely affected by labour unrest.

A substantial portion of our employees are members of trade unions and are subject to collective bargaining agreements. See "*Business—Employees*". While as a general matter we consider labour relations with our employees to be good, we may in the future face labour unrest, at our own facilities or at those of our suppliers, which may delay or disrupt our operations in the affected regions, including the sourcing of raw materials and parts, the manufacture, sales and distribution of cars and the provision of services. If work stoppages or lock-outs at our facilities or at the facilities of our major suppliers occur or continue for a long period of time, our business, financial condition and results of operations may be materially adversely affected.

Additionally, we renegotiate the collective bargaining agreement for our Swedish employees on a yearly basis. Breakdowns in these negotiations or any inability to reach an agreement may affect our operations.

We could be adversely affected by the loss of one or more key personnel or by an inability to attract and retain highly qualified employees.

We believe that our growth and future success depend in large part on the skills of our executive and other senior officers, as well as our senior designers and engineers. The loss of the services of certain of these employees could impair our ability to continue to implement our business strategy. Many of our executive and other senior officers have long-standing ties within our primary lines of business and experience with our operations, and have contributed significantly to our growth. If we lose the services of one or more of them, he or she may be difficult to replace and our business could be materially and adversely affected.

Future pension obligations may prove more costly than currently anticipated and the market value of assets in our pension plans could decline.

We provide post-retirement and pension benefits to our employees, some of which are defined benefit plans. Our pension liabilities are generally funded and our pension plan assets are particularly significant.

Under the arrangements with the trustees of the defined benefit pension schemes, an actuarial valuation of the assets and liabilities of the schemes is undertaken quarterly, with a more extensive report received before the year-end closing. The most recent valuation, as at 31 December 2015, indicated a shortfall in the assets of the schemes as at that date, versus the actuarially determined liabilities as at that date, of SEK 4,701 million.

Lower return on pension fund assets, changes in market conditions, changes in interest rates, changes in inflation rates and adverse changes in other critical actuarial assumptions, may impact our pension liabilities or assets and consequently increase funding requirements, which will adversely affect our financial condition and results of operations.

Our insurance coverage may not be adequate to protect us against all potential losses to which we may be subject, which could have a material adverse effect on our business.

We believe that the insurance coverage that we maintain is reasonably adequate to cover normal risks associated with the operation of our business, such as coverage for people, property and assets, including construction and general, auto and product liability, in accordance with treasury policy. We use a combination of third-party insurance and self-insurance to provide for potential liabilities. We have a wholly owned captive insurance company, Volvo Car Insurance AB, that provides coverage for part of our risks in relation to property damage and business interruption, general and products liability and transport. The reserves of our captive insurance subsidiary are subject to periodic adjustments based upon actuarial evaluations, which adjustments impact our overall results of operations. These periodic adjustments can be favourable or unfavourable. There can be no assurance that any claim under our insurance policies will be honoured fully or timely, our insurance coverage will be sufficient in any respect or our insurance premiums will not increase substantially. Accordingly, to the extent that we suffer loss or damage that is not covered by insurance or which exceeds our insurance coverage, or have to pay higher insurance premiums, our financial condition may be affected.

We are exposed to various operational risks, including risks in connection with the use of information technology.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes, among other things, losses that are caused by a lack of controls within internal procedures, violation of internal policies by employees, disruption or malfunction of information technology ("***IT***") systems, computer networks and telecommunications systems, mechanical or equipment failures, human error, natural disasters, security breaches or malicious acts by third parties (including, for example, hackers). We are generally exposed to risks in the field of information technology, since unauthorised access to or misuse of data processed on our IT-systems, human errors associated therewith or technological failures of any kind could disrupt our operations, including the manufacturing, design and engineering processes. Like any other business with complex manufacturing, research, procurement, sales and marketing and financing operations, we are exposed to a variety of operational risks and, if the protection measures put in place prove insufficient, our results of operations and financial condition can be materially adversely affected.

Privacy concerns relating to the Internet are increasing, which could result in new legislation, negative public perception and/or user behaviour that negatively affect our business.

Some of our cars are designed, and all of our future cars will be designed within the next five years, with built-in data connectivity, such as Apple CarPlay, Android Auto and Volvo On Call. Our collection, use, retention, security and transfer of personal information of our customers is subject to consumer and data protection laws in the jurisdictions in which we operate. The interpretation and application of consumer and data protection laws in the United States, Europe and elsewhere often can be uncertain, in conflict or in a state of flux.

The European Union and many countries within the European Union have adopted privacy directives or laws that strictly regulate the collection and use of personally identifiable information of Internet users. Additionally, the United States has adopted legislation which governs the collection and use of certain personal information. Other foreign jurisdictions as well have adopted legislation governing the collection and use of personal information. In addition, there are many proposals by lawmakers and the industry in this area that address the collection, maintenance and use of consumer information, Web browsing and geo-location data, and that establish data security and breach notification procedures.

Given that this is an evolving and unsettled area of regulation, any new significant restrictions or technological requirements could subject us to potential liability or restrict our present business practices, which, in turn, could have an adverse effect on our business, results of operations and financial condition. Compliance with any applicable laws could also delay or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention, or subject us to inquiries or investigations, claims or other remedies, including fines or demands that we modify or cease existing business practices.

Unauthorised control or manipulation of our cars' systems may cause them to operate improperly or not at all, or compromise their safety and data security, which could result in loss of confidence in us and harm our business.

There have been reports of cars of other automobile manufacturers being "hacked" to grant access to and operation of the cars to unauthorised persons and would-be thieves. Our cars are technologically advanced machines requiring the inter-operation of numerous complex and evolving hardware and software systems. Some of our cars are designed, and some of our future cars will be designed, with built-in data connectivity, such as Apple CarPlay, Android Auto and Volvo On Call. Although we have designed, implemented and tested security measures to prevent unauthorised access to our cars and their systems, our information technology networks and communications with our 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 our networks and systems. Any such attacks or breaches could result in unexpected control of or changes to our cars' functionality, user interface and performance characteristics. Hackers may also use similar means to gain access to data stored in or generated by the car, such as its current geographical position, previous and stored destination address history and web browser "favourites". Any such unauthorised control of cars or access to or loss of information could result in legal claims or proceedings and negative publicity, which would negatively affect our brand and reputation and harm our business, results of operations and financial condition.

Our plants are highly regulated, and we may incur significant costs to comply with, or address liabilities under, environmental, health and safety laws and regulations applicable to them.

Our plants are subject to a wide range of environmental, health and safety requirements. These requirements address, among other things, air emissions, wastewater discharges, accidental releases into the environment, human exposure to hazardous materials, the storage, treatment, transportation and disposal of wastes and hazardous materials, the investigation and clean-up of contamination, chemical regulation, process safety and the maintenance of safe conditions in the workplace. Many of our operations require permits and controls to monitor or prevent pollution. Continuing, modifying or expanding our operations may require us to renew, revise or obtain new permits. Further, environmental, health and safety laws and regulations tend to become more stringent over time. We have incurred, and will continue to incur, substantial on-going capital expenditures to ensure compliance with current and future environmental, health and safety laws and regulations or their more stringent enforcement. Violations of these laws and regulations could result in the imposition of substantial fines and penalties, the suspension, revocation or non-renewal of our permits, or the closure of our plants.

Other environmental, health and safety laws and regulations, such as the European Union Regulation on the Registration, Evaluation, Authorisation and Restriction of Chemical substances (the "***REACH Regulation***") and similar legislation in existence or being developed in the United States, Japan and elsewhere to identify and reduce adverse health and safety impacts of chemicals and other substances, could impose restrictions or onerous conditions on the availability or the use of raw materials we need for our manufacturing process. These regulations can further impose restrictions on our ability to manufacture and sell certain raw materials that we produce ourselves. In addition, regulations that impose responsibility on vehicle manufacturers to fund the recovery, recycling and disposal of vehicle parts, including lead acid batteries, at the end of their useful life are becoming increasingly more stringent and applicable worldwide. We expect our production costs to increase as a result of these regulations.

Many of our sites have an extended history of industrial activity. We are from time to time required to investigate and remediate contamination at those sites, as well as properties we formerly operated, regardless of whether we caused the contamination or the activity causing the contamination was legal at the time it occurred. For example, there is environmental contamination at the Skövde plant arising from landfill operations on the site under municipal ownership in the 1940s, and we could face remedial costs of SEK 200 million or more. In connection with contaminated properties, as well as our operations generally, we also could be subject to claims by government authorities, individuals and other third parties seeking damages for alleged personal injury, property damage or natural resources damage resulting from hazardous substance contamination or exposure caused by our operations, facilities or products. The discovery of previously unknown or the occurrence of new contamination, or the imposition of new obligations to investigate or remediate known past contamination at our facilities, could result in substantial unanticipated costs. We could be required to establish or substantially increase financial reserves for such obligations or liabilities and, if we fail to accurately predict the amount or timing of such costs, the related adverse impact on our business, financial condition or results of operations could be material.

We are subject to risks associated with legal proceedings and governmental investigations, including potential adverse publicity as a result thereof.

We are and may be involved from time to time in civil, labour, administrative or tax proceedings arising in the ordinary course of business. It is not possible to predict the potential for, or the ultimate outcomes of, such proceedings, some of which may be unfavourable to us. In such cases, we may incur costs and any mitigating measures (including provisions taken on our balance sheet) adopted to protect against the impact of such costs may not be adequate or sufficient. In addition, adverse publicity surrounding legal proceedings, government investigations or allegations may also harm our reputation and brands.

We could be investigated in relation to anti-competition law matters, the outcome of which could result in fines and related damages.

From time to time, we may be subject to antitrust scrutiny and/or investigations in the jurisdictions in which we operate, which could potentially result in legal proceedings being brought against us. Any future adverse ruling in any potential proceedings could subject us to administrative penalties and could lead to awards for civil damages, which could be substantial depending on the facts and circumstances. In addition to administrative and civil damages, any adverse outcome of future litigation or proceedings could result in reputational damage for our business, restrict our ability to conduct or expand our operations in certain countries, result in loss of key employees or customer relationships. Any such adverse development could have material adverse effects on our business, results of operations or financial condition.

For example, in 2014, the Chinese antitrust regulator, the Bureau of Price Supervision and Anti-Monopoly of the National Development and Reform Commission (the "***NDRC***"), launched an investigation into the pricing practices of a number of automotive companies, in some cases resulting in fines, or pricing reviews. While we were not subject to and have not been affected by these reviews, we were indirectly affected by the price decrease resulting therefrom and may directly or indirectly be subject to similar regulatory reviews in the future, which may lead to other price reductions on our cars sold in China and have a material adverse effect on the revenue and profits generated by our operations in China and hence overall revenue and profits, and our attempts to offset the potential decline in revenue and profits by increasing operational efficiencies and leveraging economies of scale (for example, through local production in China) may fail or not be as successful as expected. Furthermore, any regulatory action taken, or penalties imposed by, the NDRC or other authorities in China, may have significant adverse financial and reputational consequences on our business and have a material adverse effect on our results of operations and financial condition.

In any of the geographical markets in which we operate, we could be subject to additional tax liabilities.

Evaluating and estimating our provision and accruals for our taxes requires significant judgement. As we conduct our business, the final tax determination may be uncertain. We operate in multiple geographical markets and our operations in each market are susceptible to additional tax assessments and audits. Our collaborations with business partners are similarly susceptible to such tax assessments. Authorities may engage in additional reviews, inquiries and audits that disrupt our operations or challenge our conclusions regarding tax matters. Any resulting tax assessment may be accompanied by a penalty or additional fee for failing to make the initial payment.

Our tax rates may be affected by earnings estimation errors, losses in jurisdictions that do not grant a related tax benefit, changes in currency rates, acquisitions, investments, or changes in laws, regulations, or practices. Additionally, government fiscal pressures may increase the likelihood of adverse or aggressive interpretations of tax laws or regulations or the imposition of arbitrary or onerous taxes, interest charges and penalties. Tax assessments may be levied even where we consider our practices to be in compliance with tax laws and regulations. Although we may challenge such taxes or believe them to be without merit, we may nonetheless be required to pay them. These amounts may be materially different from our expected tax assessments and could additionally result in expropriation of assets, attachment of additional securities, liens, imposition of royalties or new taxes and requirements for local ownership or beneficiation.

Our shareholder can exert considerable control over the Company.

We are a subsidiary of Geely Sweden Holdings AB, which is owned by Shanghai Geely Zhaoyuan International Investment Co., Ltd, with ultimate ownership held by Geely. As a result of the ownership structure, Geely is able to significantly influence any matter requiring our shareholder's approval, including the election of our directors and approval of significant corporate transactions. Geely may also engage in activities that may conflict with our interests or the interests of the holders of the Notes and, in such events, the holders of the Notes could be disadvantaged by these actions.

Risks Relating to Our Debt, the Notes and the Guarantees

The Notes will be structurally subordinated to the liabilities of non-guarantor subsidiaries.

Not all of our subsidiaries will guarantee the Notes. Generally, holders of indebtedness of, and trade creditors of, non-guarantor subsidiaries, are entitled to payments of their claims from the assets of such subsidiaries before these assets are made available for distribution to the Guarantor or the Issuer, as direct or indirect shareholders. Accordingly, in the event that any of the non-guarantor subsidiaries becomes insolvent, liquidates or otherwise reorganises:

- the creditors of the Guarantor and the Issuer (including the holders of the Notes) will have no right to proceed against such subsidiary's assets; and
- creditors of such non-guarantor subsidiary, including trade creditors, will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before the Guarantor and the Issuer, as direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary.

As at 31 March 2016, after giving effect to the offering of the Notes offered hereby and the use of proceeds from the offering of the Notes as described under "*Use of Proceeds*", our non-guarantor subsidiaries had SEK 5,247 million of debt which would have ranked structurally senior to the Notes and the Guarantee. Under the terms of the Notes, there is no restriction on the ability of our non-guarantor subsidiaries to incur additional indebtedness and no requirement that any of our non-guarantor subsidiaries become Guarantors. Consequently, the Notes may become structurally subordinated to substantial additional indebtedness in the future.

Claims of the secured creditors of the Issuer will have priority with respect to their collateral over the claims of unsecured creditors, such as the holders of the Notes, to the extent of the value of the assets securing such indebtedness.

The Notes will not be secured by any of the Issuer's assets. As a result, claims of the secured creditors of the Issuer will have priority with respect to the assets securing their indebtedness over the claims of holders of the Notes. As such, the Notes will be effectively subordinated to any existing and future secured indebtedness and other secured obligations of the Issuer (including obligations under the China Development Bank Facility) to the extent of the value of the assets securing such indebtedness or other obligations (except to the extent such assets in the future also secure the Notes on an equal and ratable basis or priority basis). See "*Description of Certain Financing Arrangements*". In the event of any foreclosure, dissolution, winding up, liquidation, reorganisation, administration or other bankruptcy or insolvency proceeding of the Issuer at a time when it has secured obligations, holders of secured indebtedness will have priority claims to the assets of the Issuer that constitute their collateral (other than to the extent such assets in the future also secure the Notes on an equal and ratable basis or priority basis). The holders of the Notes will participate ratably with all holders of the unsecured indebtedness of the Issuer, and potentially with all its other general creditors, based upon the respective amounts owed to each holder or creditor, in the remaining assets of the Issuer. The claims of holders of the Notes and other unsecured creditors will also depend on whether there is any value left in the bankruptcy estate besides any secured assets. If any of the secured indebtedness of the Issuer becomes due or the creditors thereunder proceed against the operating assets that secure such indebtedness, our assets remaining after repayment of that secured indebtedness may not be sufficient to repay all amounts owing in respect of the Notes. As a result, holders of Notes may receive less, ratably, than holders of secured indebtedness of the Issuer.

As of 31 March 2016, after giving effect to this offering, we would have had an aggregate principal amount of SEK 25,623 million of debt outstanding, of which SEK 14,530 million was secured indebtedness. See "*Description of Certain Financing Arrangements*".

Our indebtedness could adversely affect our financial health and ability to withstand adverse developments and could prevent us from fulfilling our indebtedness obligations.

Following the completion of the offering of the Notes, we will have substantial debt service obligations. As of 31 March 2016, after giving effect to this offering, we would have had an aggregate principal amount of SEK 25,623 million of debt outstanding. See "*Description of Certain Financing Arrangements*".

The degree to which we are leveraged could have important consequences to our business and holders of the Notes, including:

- making it difficult for us to satisfy our obligations with respect to the Notes or our other indebtedness;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a portion of our cash flow from operations to make interest and principal payments on our debt, thereby reducing the availability of such cash flow for other purposes;
- limiting our ability to obtain additional financing to fund working capital, capital investments, acquisitions, debt service requirements, business ventures, or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industry in which we do business; and
- adversely affecting our competitive position if our debt burden is higher than that of our competitors.

Any of these or other consequences or events could have a material adverse effect on our business, financial condition and results of operations and our ability to satisfy our obligations under the Notes.

In addition, a portion of our debt bears interest at variable rates that are linked to changing market interest rates. As a result, an increase in market interest rates would increase our interest expense and our debt service obligations, which would exacerbate the risks associated with our leveraged capital structure. Please see also "*—Risks Associated with Our Business—Interest rate, currency and exchange rate fluctuations could adversely affect our results of operations*".

Despite our indebtedness, we may still be able to incur significantly more debt, including secured debt, which could intensify the risks described above.

Despite our indebtedness, we, the Guarantor and our other subsidiaries may incur additional indebtedness (secured and unsecured) in the future. We are not restricted under the covenants of the Notes from incurring additional debt, including secured debt, or from repurchasing the Notes except as described under "*Description of the Notes—Certain Covenants—Limitation on Liens*". If additional debt is added to our debt levels, the related risks that we now face could intensify.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. We might be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make payments on and to refinance our indebtedness, including the Notes, and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based on our current level of operations, we believe our cash flow from operations, available cash, proceeds from the offering of the Notes and available borrowings under our other financing facilities will be adequate to meet our future liquidity needs. We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness, including the Notes, or to fund our other liquidity needs.

We may not be able to refinance our existing or future debt obligations or renew our credit facilities on acceptable terms or at all.

Following the issue of the Notes, our financial indebtedness will include different types of corporate debt and credit facilities, including corporate debt incurred by the Issuer or the Guarantor, credit facilities available to the Issuer or its subsidiaries, debt incurred by our subsidiaries, and credit facilities, working capital facilities and other committed facilities or guarantees thereof available to our subsidiaries (please see "*Description of Certain Financing Arrangements*"). In relation to our corporate debt that is repayable with a "bullet" payment on maturity (such as the Notes offered hereby), our ability to make such payments at maturity is uncertain and will depend upon our ability to generate sufficient cash from operations, obtain additional equity or debt financing or sell assets. This ability to obtain equity or debt financing on favourable terms or at all will depend on many factors outside our control, including the then prevailing conditions in the international credit and capital markets. Our ability to sell assets and use the proceeds for the refinancing of debt obligations coming due will also depend on many factors outside our control, including the existence of willing purchasers and asset values. At the time the refinancing of each of our existing debt obligations is due, we may not be able to raise equity or refinance the repayment of our debt obligation on terms as favourable as the original loan or sell the property at a price sufficient to repay the relevant debt or at all. If we are unable to refinance our existing or future debt obligations or renew our existing or future credit facilities on acceptable terms or at all, this could have material adverse effects on our liquidity, financial condition and results of operations.

Restrictive covenants in our financing agreements, including the Indenture, may limit our operations and financial flexibility and adversely impact our future results and financial condition.

Some of our financing agreements and debt arrangements set limits on and/or require us to obtain consents before, among other things, pledging assets as security (please see "*Description of Certain Financing Arrangements*"). In addition, certain financial covenants may limit our ability to borrow additional funds or to incur additional liens. However, there can be no assurance that we will be able to obtain required lender consents for such activities in the future. If our financial or growth plans require such consents and such consents are not obtained, we may be forced to forgo or alter our plans, which could adversely affect our results of operations and financial condition.

In the event that we breach these covenants, the outstanding amounts due under such financing agreements could become due and payable immediately. A default under one of these financing agreements may also result in cross-defaults under other financing agreements and result in the outstanding amounts under such other financing agreements becoming due and payable immediately. Defaults under one or more of our financing agreements could have a material adverse effect on our results of operations and financial condition.

We may not be able to repurchase the Notes upon a change of control.

Upon the occurrence of a "Change of Control" (as defined in the Indenture), holders of the Notes will have the right to require us to repurchase their Notes at a purchase price in cash equal to 101% of the principal amount of their Notes plus accrued and unpaid interest, if any. In the event that a Change of Control occurs, we may not have sufficient financial resources to satisfy all of our obligations under the Notes and any other indebtedness with similar provisions. Our failure to repurchase any Notes when due would result in a default under the Indenture.

Corporate benefit and financial assistance laws and other limitations on the obligations under the Guarantee may adversely affect the validity and enforceability of the Guarantee.

The Guarantee provides the holders of the Notes with a right of recourse against the assets of the Guarantor. The Guarantee and the amounts recoverable thereunder will be limited to the maximum amount that can be guaranteed by the Guarantor without rendering the Guarantee voidable or otherwise ineffective under applicable law. Enforcement of the Guarantee against the Guarantor will be subject to certain defences available to the Guarantor. These laws and defences may include those that relate to fraudulent conveyance, financial assistance, distribution of assets (*Sw. värdeöverföringar*) corporate benefit and regulations or defences affecting the rights of creditors generally. If one or more of these laws and defences are applicable, the Guarantee may be unenforceable.

The insolvency laws of Sweden may not be as favourable to you as the laws of jurisdictions with which you are familiar.

The Issuer is a Swedish public limited liability company. The Guarantor is a private Swedish limited liability company. The insolvency laws of Sweden may not be as favourable to your interests as the laws of jurisdictions with which you are familiar. The application of these insolvency laws may limit your ability to recover payments due on the Notes. Insolvency laws may permit a court to set aside the Guarantee, and if that occurs, you may not receive any payments under the Guarantee. See "*Certain Insolvency Law Considerations*" for additional information on the insolvency laws of Sweden.

It may be difficult for you to effect service of process against the directors of the Issuer outside the United States and enforce legal proceedings against us.

The Issuer is a Swedish public limited liability company. The Guarantor is a private Swedish limited liability company. Substantially all of the directors and all of the executive officers of the Issuer and the Guarantor reside outside the United States and a substantial part of their assets are located outside the United States. In addition, most of the assets of the Issuer and the Guarantor are located outside the United States. Although both the Issuer and the Guarantor will agree, in accordance with the terms of the Indenture, to accept service of process in the United States by agents designated for such purpose, it may not be possible for the holders of Notes: (i) to effect service of process in the United States upon the directors or officers of the Issuer and the Guarantor or (ii) to enforce against either the Issuer, the Guarantor or their respective officers or directors, judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal or state securities laws of the United States. We have been advised by our legal advisers that there is also doubt as to the direct enforceability outside of the United States against any of these persons in an original action or in an action for the enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon U.S. federal or state securities laws.

A judgment entered against a company incorporated in Sweden in the courts of a state which is not, under the terms of the 2012 Brussels Regulation, the 2000 Brussels Regulation and the Lugano Convention, a Member State (as defined in the 2012 Brussels Regulation and the 2000 Brussels Regulation) or a Contracting State (as defined in the Lugano Convention), e.g. the United States, would not be recognised or enforceable in Sweden as a matter of law without a retrial on its merits (but will be of persuasive authority as a matter of evidence before the courts of law, administrative tribunals or executive or other public authorities of Sweden). See "*Service of Process and Enforcement of Civil Liabilities*" for additional information.

Where Swedish courts may award judgments in currencies other than Swedish kronor, judgments will be enforced in Swedish kronor, generally at the rate of exchange prevailing at the date of enforcement rather than at the date of judgment. However, the judgment creditor may, subject to availability of the foreign currency, convert such local currency into the foreign currency after payment and remove such foreign currency from Sweden.

There is no existing trading market for the Notes and we cannot assure you that an active trading market will develop, which could adversely impact your ability to sell your Notes.

The Notes are new securities for which there is currently no existing market. Although we have made an application to list the Notes on the Official List of the Luxembourg Stock Exchange, we cannot assure you that the Notes will become or will remain listed. We cannot assure you as to the liquidity of any market that may develop for the Notes, the ability of holders of the Notes to sell them or the price at which the holders of the Notes may be able to sell them. The liquidity of any market for the Notes will depend on the number of holders of the Notes, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our own financial condition, performance and prospects, as well as recommendations by securities analysts. Historically, the market for debt securities, such as the Notes, has been subject to disruptions that have caused substantial price volatility. We cannot assure you that if a market for the Notes were to develop, such a market would not be subject to similar disruptions. We have been informed by the initial purchasers that they intend to make a market for the Notes after the offering of the Notes is completed. However, they are not obliged to do so and may cease their market-making activity at any time without notice. In addition, such market-making activity will be subject to limitations imposed by the U.S. Securities Act and other applicable laws and regulations. As a result, we cannot assure you that an active trading market for the Notes will develop or, if one does develop, that it will be maintained.

Transfer of the Notes will be restricted.

We have not registered and do not intend to register the offer and sale or resale of the Notes under the U.S. securities laws, including the U.S. Securities Act, or the securities laws of any other jurisdiction. The Notes will not have the benefit of any registration rights agreement. You may not offer or sell the Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of U.S. securities laws and other applicable securities laws. You should read "*Notice to Investors*" for further information about these and other transfer restrictions. It is your obligation to ensure that any offer or sale of your Notes by you complies with applicable securities laws.

The Notes will initially be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights or remedies.

Owners of the book-entry interests will not be considered owners or holders of Notes unless and until definitive notes are issued in exchange for book-entry interests. Instead, the common depositary (or its nominee) for Euroclear and Clearstream will be the sole registered holder of Notes in global form.

Payments of principal, interest and other amounts owing on or in respect of the Notes in global form will be made to HSBC Bank plc, the Principal Paying Agent, which will make payments to Euroclear and/or Clearstream. Thereafter, such payments will be credited to Euroclear or Clearstream participants' accounts, as applicable, that hold book-entry interests in the Notes in global form and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, none of the Issuer, the Guarantor, the Trustee or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments of interest, principal or other amounts to Euroclear or Clearstream, or to owners of book-entry interests. Accordingly, if you own a book-entry interest in the Notes, you must rely on the procedures of Euroclear and Clearstream, as applicable, and if you are not a participant in Euroclear and/or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture.

Owners of book-entry interests will not have the direct right to act upon our solicitations for consents or requests for waivers or other actions from holders of the Notes and the Guarantee. Instead, if you own a book-entry interest, you will be reliant on the common depositary (as registered holder of the Notes) to act on your instructions and/or will be permitted to act directly only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions or to take any other action on a timely basis.

USE OF PROCEEDS

We expect to receive approximately €490 million in net proceeds from this Offering, after deducting underwriting discounts and commissions and other offering expenses payable by us. We intend to use the net proceeds from the Offering for general corporate purposes.

CAPITALISATION

The table below sets forth our cash and cash equivalents and our capitalisation as of 31 March 2016, on a historical basis and on an adjusted basis to reflect the Offering and application of the net proceeds thereof, as described under "*Use of Proceeds*".

The historical information has been derived from the unaudited interim balance sheet as of 31 March 2016 included elsewhere in this offering memorandum. The information set out below should be read in conjunction with "*Use of Proceeds*," "*Summary*," "*Description of the Notes*," "*Description of Certain Financing Arrangements*" and the Consolidated Financial Statements included elsewhere in this offering memorandum. Except as set forth below, there have been no other material changes to our capitalisation since 31 March 2016.

	As of 31 March 2016			
	Actual	Adjustments	As adjusted	As adjusted[1]
	(SEK in millions)			(€ in millions)
		(unaudited)		
Cash and cash equivalents	26,716	4,523	31,239	3,385
Marketable securities[2]	1,798	—	1,798	195
Liabilities to credit institutions[3]	21,008	—	21,008	2,276
Notes offered hereby (SEK equivalent, except as stated)	—	4,615	4,615	500
Total debt	21,008	4,615	25,623	2,776
Total equity	37,166	—	37,166	4,027
Total capitalisation	58,174	4,615	62,789	6,803

(1) Amounts have been converted from SEK to euros using a rate of SEK 9.23 = €1.00, which was the average Bloomberg Composite Rate as of 31 March 2016.

(2) Marketable securities comprise interest-bearing investments with a term of more than three months from acquisition date.

(3) Liabilities to credit institutions include non-current liabilities of SEK 14,976 million (€1,622 million) and current liabilities of SEK 6,032 million (€654 million). Non-current liabilities as of 31 March 2016 included: (i) SEK 13,034 million (€1,412 million) under the China Development Bank Facility; (ii) SEK 1,500 million (€163 million) under the Term Credit Facility; (iii) SEK 383 million (€41 million) in local Chinese funding for the Chinese Joint Ventures; and (iv) SEK 59 million (€6 million) in other financing arrangements. Current liabilities as of 31 March 2016 included: (i) SEK 1,140 million (€124 million) under the China Development Bank Facility; (ii) SEK 4,511 (€489 million) in local Chinese funding for the Chinese Joint Ventures; and (iii) SEK 382 million (€41 million) in other financing arrangements. The Revolving Credit Facility was undrawn as of 31 March 2016. Please see "*Description of Certain Financing Arrangements*" for a summary of our financing facilities and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*" for a discussion of our capital structure.

SELECTED FINANCIAL INFORMATION

The following tables present our selected financial information and should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Consolidated Financial Statements included elsewhere in this offering memorandum. The Audited Consolidated Financial Statements were audited by Deloitte, as set forth in their audit report herein, and prepared in accordance with IFRS. The Interim Financial Statements were reviewed by Deloitte, as set forth in their review report, and were prepared in accordance with IFRS. The data below is not necessarily indicative of the results of future operations.

Selected Consolidated Income Statement Information

(SEK in millions)	Year ended 31 December			Quarter ended 31 March	
	2013	2014[(1)]	2015[(2)]	2015[(2)]	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Net revenue	122,245	137,590	164,043	33,651	41,757
Cost of sales	(101,934)	(114,019)	(128,238)	(27,025)	(32,318)
Gross income	**20,311**	**23,571**	**35,805**	**6,626**	**9,439**
Research and development expenses	(5,864)	(7,193)	(8,803)	(1,975)	(2,413)
Selling expenses	(7,919)	(8,708)	(10,951)	(2,467)	(2,683)
Administrative expenses	(5,129)	(5,943)	(7,234)	(1,592)	(1,551)
Other operating income	1,509	1,745	2,005	231	609
Other operating expenses	(1,168)	(1,535)	(4,432)	(856)	(348)
Share of income in joint ventures and associates	179	191	230	22	92
Operating income	**1,919**	**2,128**	**6,620**	**(11)**	**3,145**
Financial income	87	342	238	162	57
Financial expenses	(874)	(1,315)	(1,469)	(331)	(434)
Income before tax	**1,132**	**1,155**	**5,389**	**(180)**	**2,768**
Income tax	(172)	(647)	(913)	(61)	(699)
Net income	**960**	**508**	**4,476**	**(241)**	**2,069**

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

Selected Consolidated Balance Sheet Information

(SEK in millions)	As of 31 December			As of 31 March
	2013	2014[(1)]	2015[(2)]	2016
	(audited)	(audited)	(audited)	(unaudited)
Total non-current assets	**49,225**	**74,101**	**68,317**	**71,124**
Cash and cash equivalents	15,372	17,002	25,623	26,716
Total current assets	**38,372**	**49,134**	**64,000**	**66,643**
Total assets	**87,597**	**123,235**	**132,317**	**137,767**
Total equity	24,638	34,268	34,635	37,166
Total non-current liabilities	24,108	35,469	30,473	31,425
Total current liabilities	38,851	53,498	67,209	69,176
Total equity and liabilities	87,597	123,235	132,317	137,767

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

Selected Consolidated Statement of Cash Flows Information

(SEK in millions)	Year ended 31 December			Quarter ended 31 March	
	2013	2014[(1)]	2015[(2)]	2015[(2)]	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Operating Activities					
Cash flow from operating activities	8,861	8,839	22,576	2,627	3,232
Cash flow from investing activities	(8,840)	(13,605)	(15,342)	(3,615)	(3,555)
Cash flow from financing activities	5,765	3,641	1,445	(23)	1,515
Cash flow for the period	**5,786**	**(1,125)**	**8,679**	**(1,011)**	**1,192**
Cash and cash equivalents at beginning of period	9,607	17,533	17,002	17,002	25,623
Exchange difference on cash and cash equivalents	(21)	594	(58)	932	(99)
Cash and cash equivalents at end of period	15,372	17,002	25,623	16,923	26,716
Marketable securities[(3)]	88	1,047	3,512	975	1,798

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(3) Marketable securities comprise interest-bearing investments with a term of more than three months from acquisition date.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial information and should be read in conjunction with our Consolidated Financial Statements and the notes thereto included elsewhere in this offering memorandum. You should also review the information in the section "Presentation of Financial and Other Information". Our Audited Consolidated Financial Statements have been prepared in accordance with IFRS and have been audited by Deloitte, our independent auditors, as set forth in their audit report herein. Our Interim Financial Statements have been prepared in accordance with IFRS and have been reviewed by Deloitte, our independent auditors, as set forth in their review report herein.

The following discussion and analysis of our financial condition and results of operations includes forward-looking statements that reflect our plans, estimates and beliefs, which are based on assumptions we believe to be reasonable. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this offering memorandum, particularly in "Risk Factors" and "Forward-Looking Statements".

Overview

Founded in 1927, we are a global automotive brand focused on the design, engineering, manufacture, distribution and sale of premium cars, as well as related parts and services. Our long heritage is underpinned by a reputation for safety and technology, and we are credited with industry leading innovations such as the introduction of the three-point safety belt, the rear-facing child safety seat and the child booster cushion.

Headquartered in Gothenburg, Sweden, we design, develop, manufacture, market and sell a range of premium cars, including sedans, wagons, sportswagons, cross country vehicles and SUVs. Our range of premium cars is recognised for its design, safety and technological innovation. In 2015, we sold more than half a million cars for the first time in the Company's history, with sales of thirteen models across three series: the XC Series, the V Series and the S Series. In the twelve months ended 31 March 2016, the XC Series represented 48.8% of our retail sales, the V Series represented 37.5% of our retail sales and the S Series represented 13.7% of our retail sales. We will begin selling two new models, the Volvo V90 (which will replace the Volvo V70 model) and the Volvo S90 (which will replace the Volvo S80), in 2016. Our product range is headlined by the all new Volvo XC90, which is built on our new proprietary SPA and equipped with Drive-E powertrain from our VEA, both of which are the foundation for our next generation of cars. Our all new Volvo XC90 has won more than 50 accolades, including numerous prestigious awards such as the Red Dot "Best of the Best" Product Design Award, the 2016 North American Truck of the Year and the Auto Express New Car Awards—Car of the Year 2015 and Large SUV of the Year 2015.

Our 2016 product portfolio includes:

- the Volvo XC series, which range comprises three models: XC90, XC70 and XC60. The Volvo XC90 is a large luxury crossover SUV, the Volvo XC70 is a station wagon with off-road capabilities and the Volvo XC60 is a compact crossover SUV.
- the Volvo V Series, which range comprises six models: V90, V70, V60 (including the Cross Country model) and V40 (including the Cross Country model). The Volvo V90 is a five-door premium station wagon, the Volvo V70 is a large five-door station wagon, the Volvo V60 is a sporty five-door premium sportswagon, and the Volvo V40 is a five-door hatchback.
- the Volvo S Series, which range comprises five models: S90, S80, S60 (including the Cross Country and S60L models). The Volvo S90 is a luxury sedan, the Volvo S80 is a mid-size executive sedan, and the Volvo S60 is a four-door compact executive sedan, with the Volvo S60L being the long wheel base version of the Volvo S60.

We have a global manufacturing footprint with an integrated third-party supply chain that allows for production flexibility, responsiveness to market demand and cost optimization. We operate four car plants, one assembly plant, two engine plants, and one body component plant across Europe and Asia, with an additional car plant currently under construction, planned to commence production in 2018 in North

America. We also operate four research and design centres in Europe, Asia and North America. During the first quarter of 2016, we employed, on average, 28,000 full time employees globally.

Following the acquisition by Geely of Volvo Car Corporation from Ford in 2010, we implemented a strategic transformation of the Company, from a division within a large automobile group into a standalone premium car manufacturer. Between 2010 and 2015, we made significant investments in technology, our geographical footprint and our internal organisation to establish the foundation on which we target to profitably grow in the future. With this period of significant investment complete, we are now building on this foundation and will substantially refresh our product portfolio in the next three years while expanding our three-pillar geographic strategy focused on Europe, China and the United States. With more than 88,000 orders for the Volvo XC90 in 2015, and production of the Volvo S90 and V90 to begin in 2016, we believe in the benefits of these investments.

In 2015, approximately 2,290 Volvo Cars dealers sold 503,127 cars in more than 100 countries around the world generating SEK 164,043 million and SEK 16,019 million of revenue and EBITDA, respectively.

The following table presents our total retail sales, including retail sales in our key markets as a percentage of total retail sales, net revenue, average net revenue per car and EBITDA for the years ended 31 December 2013, 2014 and 2015 and the quarters ended 31 March 2015 and 2016.

(SEK millions, except retail sales and average net revenue per car)	Year ended 31 December			Quarter ended 31 March	
	2013	**2014[1]**	**2015[2]**	**2015[2]**	**2016**
Retail Sales	**427,840**	**465,866**	**503,127**	**107,721**	**120,591**
Western Europe[3]	38.9%	39.1%	39.4%	40.4%	40.9%
China	14.3%	17.5%	16.2%	16.1%	16.3%
Sweden	12.2%	13.2%	14.2%	13.1%	13.3%
United States	14.3%	12.1%	13.9%	12.7%	13.6%
Other Markets[4]	20.3%	18.1%	16.3%	17.7%	15.9%
Net Revenue	**122,245**	**137,590**	**164,043**	**33,651**	**41,757**
Average Net Revenue per Car	**285,726**	**295,342**	**326,047**	**312,390**	**346,269**
EBITDA	**9,057**	**9,491**	**16,019**	**2,237**	**5,588**

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(3) Excluding Sweden.

(4) Other Markets includes markets such as Japan, Russia and South Korea, among others.

Key Factors Affecting Our Results of Operations

The following discussion highlights the factors that we believe have had, and could continue to have, a material effect on our results of operations and financial condition. Certain of the below factors have historically been cyclical or volatile, much of which is due to circumstances that are beyond our control. As a result, past performance will not necessarily be indicative of future performance. In addition, important factors that could cause our actual operations or financial condition to differ materially from those expressed or implied below also include, but are not limited to, factors indicated in this offering memorandum under "*Risk Factors*" and "*Forward-Looking Statements*".

Volumes

Our results of operations are impacted by the number of cars we sell, which is materially impacted by the general economic conditions of the markets where we sell our cars, including local competitive conditions. Western Europe (excluding Sweden) has experienced significant turbulence in light of the European sovereign debt crisis, banking recapitalisation and flagging economic recovery. However, volume demand has grown in line with recent general economic recovery, increased bank lending, rising household spending, falling oil prices and an improving labour market. In China, recent data indicates an improvement in the local automotive market despite a contraction during summer 2015. While there are concerns about the general macroeconomic conditions in China, according to LMC Automotive, volume demand of cars is forecasted to grow in line with middle class income growth and the general migration from countryside to cities. In Sweden, stability in the local market has supported volume demand for cars during the periods under review. Economic growth in the United States, according to LMC Automotive, is projected to support an increase in jobs, improved household finances and lower family indebtedness. According to LMC Automotive, volume demand of cars in the United States has remained largely steady during the periods under review and is forecasted to grow in line with the broader economy.

Volumes are also impacted by the competitiveness of the model offering, which in turn can be impacted by how recently the models in our portfolio have been launched. For example, we have typically experienced increased volumes of certain cars in periods following the launch of new models.

Pricing

Prices for our cars are set based on the market in which the car is being sold. Prices for identical models may differ from market to market due to a number of factors, including the general market conditions, local competition, local taxation and regulations and commercial strategy. We generally undertake annual or biannual price increases, subject to local market conditions and competition. Generally, model age is the most significant factor impacting price, but price is also impacted by inflation, product improvements, design and competitors' pricing actions. Additionally, we may engage in sales promotion measures in some markets as such measures are becoming increasingly important in certain environments. To the extent we engage in sales promotions, they would put pressure on the price of new cars and adversely impact our margins.

Our results of operations depend in part on our ability to maintain or increase margins on the sale of cars. We operate in an industry that has intense price competition as a result of the wide variety of available competitive cars and manufacturing overcapacity. Price competition is further intensified by manufacturers offering aggressive sales promotions and dealer and retail incentives, including cash rebates, option package discounts and subsidized financing or leasing programs. These promotion measures and incentives cause prices of both new and used cars to fall, putting pressure on the margins of manufacturers for new cars and the residual values of leased and other cars.

Sales Mix

Our results of operations are impacted by our model mix and geographic mix. For the quarters ended 31 March 2015 and 2016 and the years ended 31 December 2013, 2014 and 2015, the average revenue per car was SEK 312,390, SEK 346,269, SEK 285,726, SEK 295,342 and SEK 326,047, respectively. Typically, larger cars, which tend to have higher unit selling prices, have been more profitable on a per unit basis. Therefore, our XC series has generally been more profitable than our other series of cars. Higher specification cars and cars with powertrains with higher power output also tend to be more profitable on a per unit basis.

Our model mix differs across various geographical markets. The profitability of our various models within these markets is impacted by a number of factors, including sales prices, choice of powertrain, content of the car and costs of materials and components. As a result, different margins are realised by the sale of the same model in different geographic markets. Additionally, exchange rate developments considerably impact the profitability of our cars sold in different geographic markets, especially those markets where we do not locally produce cars.

Foreign currency rates

With sales in more than 100 countries, we generate a significant portion of our revenue and associated expenses, including production costs and the cost of raw materials, in currencies other than the Swedish krona, particularly in euros, Chinese renminbi, U.S. dollars and British pound sterling, thereby exposing us to fluctuations in foreign currency exchange rates. Significant exchange rate movements, as compared to the Swedish krona, especially of the euro and the U.S. dollar, were observable during the periods under review and had an impact on our results of operations. The following table shows percentages of revenues and costs per foreign currency for the year ended 31 December 2015.

	Revenue	Costs
Chinese renminbi	24%	17%
Euros	24%	61%
U.S. dollars	20%	6%
British pound sterling	9%	4%
Japanese yen	3%	6%

We aim to reduce our foreign currency risk through "natural hedging", whereby we reduce our currency exposure through operational procedures such as establishing plants in regions where a high percentage of sales are generated, for example in Western Europe, China and Sweden, and sourcing materials locally to plants in the same currency areas in which sales are generated. The purpose of such operational procedures is to match costs and expenses in the same currency to a certain extent, thereby reducing foreign currency transaction as well as translation risk. With the addition of the production plant in the United States (South Carolina) in 2018, we aim to further strengthen this natural hedge. We further mitigate the impact of fluctuations in foreign currency exchange rates by entering into financial hedging arrangements of future expected cash flows in foreign currencies. Our Board of Directors has authorised hedging up to 80% of expected cash flows in the coming 24 months and up to 60% of expected cash flows in the next 24 to 48 months. As of 31 December 2015, approximately 36% of our forecasted cash flows for the next 24 months were hedged. For the longer hedge period of 24 to 48 months, 3% of forecasted cash flows were hedged as of 31 December 2015.

In respect of the translation risk in the group accounting of net assets in foreign currencies, we mitigate the impact of fluctuations in foreign currency exchange rates by incurring debt in foreign currencies to mirror net assets in foreign currencies. The translation difference arising from converting this non-Swedish krona debt into our functional currency of Swedish krona is recorded in other comprehensive income. The total translation effect, as recorded in other comprehensive income, was negative SEK 175 million as of 31 December 2015. As of 31 December 2015, we had SEK 11.5 billion in investments in foreign operations.

As a result of having outstanding indebtedness denominated in currencies other than the Swedish krona, the amount of our reported indebtedness is also subject to currency-related fluctuations when translated into Swedish krona in our Audited Consolidated Financial Statements.

For a more detailed description of our currency risk management, please see Note 21 to the Issuer Consolidated Financial Statements.

Cost of Sales

Our ability to price our cars to recover any unfavourable movements in costs does, and will continue to, impact our profitability. Our cost of sales is composed of a number of elements. The most significant element of our cost of sales is material costs including freight and distribution, which comprised approximately 81.9% and 83%, respectively, of our cost of sales for the quarter ended 31 March 2016 and the year ended 31 December 2015.

We purchase a variety of components, raw materials and supplies. To the extent raw material price fluctuations may affect our cost of sales, we typically seek to manage these costs and minimize the impact on cost of sales through the use of index regulated purchase contracts, commercial negotiations and technical efficiencies. As a result, for the periods under review, changes in raw material costs generally have not had a material effect on the period to period comparisons of our cost of sales. We also have costs of utilities, logistics and other services from numerous suppliers in connection with the manufacturing of our cars.

Fluctuations in cost of sales are primarily related to the number of cars we produce and sell along with shifts in sales mix. Larger models require more raw materials and have a higher cost per unit. Additionally, newer models generally have more technologically advanced components and enhancements and therefore higher costs per unit.

Product Development and Launches

We have expended significant capital and resources to our long-term strategic plan to renew our complete model line-up over the coming years. The all new model line-up will be built on the SPA and the CMA, which is currently under development, and utilise Drive-E powertrain technology. We began production of the Volvo XC90, the first car in our next generation of cars, in 2015, and we will begin production of the Volvo S90 and Volvo V90 in 2016. We currently aim to produce all of our models on the SPA and the CMA in the foreseeable future.

Research and Development Expenses

Our research and development activities are divided into a research phase and a product development phase. Cost 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 being 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 is assessed to generate future economic benefits, the project is considered to be in the development phase. In practice, this means that capitalisation of costs begins at the time a project receives approval. Costs for the development of new products, production systems and software during the development phase are recognised as an asset if certain conditions under IAS 38- Intangible Assets are met. Capitalised development costs include all expenditures that can be directly attributed to the development phase and that serve to prepare the asset for use, including development related overhead and borrowing costs. All other development costs are expensed as incurred.

Regulations

We sell our cars in more than 100 countries and are therefore subject to a variety of laws and regulations, including those that regulate our cars and plants in terms of safety and environmental. In recent years, there has been increasing emphasis on emissions, fuel consumption and safety for the automobile industry by the governments in the various countries in which we operate. Compliance with these norms has had, and will continue to have, a significant impact on the material costs in the automotive industry.

Retail Volumes

From 2013 to 2015, our retail sales have grown at a compound annual growth rate of 8.4%. For the quarter ended 31 March 2016, total retail sales increased by 12,870 cars, or 11.9%, to 120,951 cars compared to 107,721 cars sold for the quarter ended 31 March 2015. For the year ended 31 December 2015, total retail sales increased by 37,261 cars, or 8.0%, to 503,127 cars compared to 465,866 cars sold for the year ended 31 December 2014. For the year ended 31 December 2014, total retail sales increased by 38,026 cars, or 8.9%, to 465,866 cars compared to 427,840 cars sold for the year ended 31 December 2013.

Retail Volume Performance by Region

The table below presents our retail sales by region for the years ended 31 December 2013, 2014 and 2015 and the quarters ended 31 March 2015 and 2016.

	Year ended 31 December			Quarter ended 31 March	
	2013	**2014**	**2015**	**2015**	**2016**
Western Europe[(1)]	166,307	182,157	198,049	43,522	49,305
China	61,146	81,574	81,588	17,311	19,636
Sweden	52,260	61,357	71,200	14,093	16,047
United States	61,233	56,371	70,047	13,723	16,361
Other Markets	86,894	84,407	82,243	19,072	19,242
Total	**427,840**	**465,866**	**503,127**	**107,721**	**120,591**

(1) Excluding Sweden

Western Europe (excluding Sweden)

Western Europe is our number one market. For the quarter ended 31 March 2016, retail sales in Western Europe increased by 5,783 cars, or 13.3%, to 49,305 cars compared to 43,522 cars sold during the quarter ended 31 March 2015. Growth in demand in Western Europe has continued to be supported by improvements in the economic environment. Several key markets, including Germany, the UK, Spain and

France, exhibited growth in retail sales. The Volvo V40/V40 Cross Country was our best-selling model in Western Europe in the first quarter of 2016, followed by the Volvo XC60.

For the year ended 31 December 2015, retail sales in Western Europe increased by 15,892 cars, or 8.7%, to 198,049 cars compared to 182,157 cars sold during the year ended 31 December 2014. Growth in demand in Western Europe has been supported by improvements in the economic environment. Several key markets including Spain, Germany, France, Italy and UK, exhibited growth in retail sales. Notably, the overall passenger market in the United Kingdom reached a record 2.99 million cars sold in 2015, according to LMC Automotive. Our market share in the markets in which we operate in Western Europe was 6.9% in 2015, according to LMC Automotive. The Volvo V40/V40 Cross Country was our best-selling model in Western Europe in 2015, followed by the Volvo XC60, which was the highest selling midsize SUV in Europe in 2015, according to LMC Automotive.

For the year ended 31 December 2014, retail sales in Western Europe increased by 15,850 cars, or 9.5%, to 182,157 cars compared to 166,307 cars sold during the year ended 31 December 2013. Several key markets, including the United Kingdom and Germany, exhibited growth in retail sales. According to the European Automobile Manufacturers Association, we were the fastest growing top five premium brand in the wider European region in 2014. Growth in demand in Western Europe has been supported by improvements in the economic environment. Retail sales of Volvo cars in Western Europe grew faster than retail sales in the premium market, which grew by 4.6% in 2014 as compared to 2013, according to LMC Automotive. We gained market share from our competitors and increased our market share in the markets in which we operate in Western Europe to 7.0%, according to LMC Automotive. The Volvo V40/V40CC and the XC60 were our best-selling models in Western Europe in 2014.

China

For the quarter ended 31 March 2016, retail sales in China increased by 2,325 cars, or 13.4%, to 19,636 cars compared to 17,311 cars sold during the quarter ended 31 March 2015. Growth in retail sales in China was primarily due to increased sales of our best-selling model, the Volvo XC60, the Volvo S60L and the Volvo XC90, which reached the Chinese market in autumn 2015. The Volvo XC60 was our best-selling car in China in the first quarter of 2016, followed by the Volvo S60L.

For the year ended 31 December 2015, retail sales in China remained relatively flat with 81,588 cars sold compared to 81,574 cars sold during the year ended 31 December 2014. Retail sales in China were flat due to the negative impact of a slowdown in growth in the Chinese market, the discontinuation of the Volvo S80L and our decision not to increase incentives in the Chinese market, despite our competitors increasing incentives, partially offset by increased retail sales during the fourth quarter of 2015 due to the introduction of the all new Volvo XC90. In 2015, our market share in the markets in which we operate in China was 4.2%, according to LMC Automotive. The Volvo XC60 was our best-selling model in China in 2015, followed by the Volvo S60L.

For the year ended 31 December 2014, retail sales in China increased by 20,428 cars, or 33.4%, to 81,574 cars compared to 61,146 cars sold during the year ended 31 December 2013. Growth in retail sales was driven by a growing dealership network in China and the expansion of our product offering in this market. In 2014, retail sales of Volvo cars in China grew faster than retail sales in the premium market in China, which grew by 21% as compared to 2013, according to LMC Automotive. We increased our market share in the markets in which we operate in China to 4.4% in 2014, according to LMC Automotive. The Volvo XC60 was our best-selling model in China in 2014, followed by the Volvo S60L.

Sweden

We are the leading car brand in Sweden. For the quarter ended 31 March 2016, retail sales in Sweden increased by 1,954 cars, or 13.9%, to 16,047 cars compared to 14,093 cars sold during the quarter ended 31 March 2015. Growth in retail sales in Sweden was primarily due to increased sales of our best-selling model, the Volvo XC70, and the new Volvo XC90. The Volvo XC70 was our best-selling car in Sweden in the first quarter of 2016.

For the year ended 31 December 2015, retail sales in Sweden increased by 9,843 cars, or 16.0%, to 71,200 cars compared to 61,357 cars sold during the year ended 31 December 2014. Growth in retail sales was driven by strong demand for the Volvo XC and V carlines. In 2015, retail sales of Volvo cars grew faster than retail sales in the premium market in Sweden, which grew at a rate of 12.6% as compared to 2014, according to LMC Automotive. We had a market share in the markets in which we operate in Sweden of

53.4% in 2015, according to LMC Automotive. The Volvo V70 was Sweden's best-selling model in 2015, followed by the Volvo XC60.

For the year ended 31 December 2014, retail sales in Sweden increased by 9,097 cars, or 17.4%, to 61,357 cars compared to 52,260 cars sold during the year ended 31 December 2013. Growth in retail sales was driven by strong demand for the XC and V carlines, which was supported by the successful advertising campaign "Made by Sweden". In 2014, retail sales of Volvo cars grew faster than retail sales in the premium market in Sweden, which grew by 14.7% as compared to 2013, according to LMC Automotive. We had a market share in the markets in which we operate in Sweden of 53.3% in 2014, according to LMC Automotive. The Volvo V60 was our best-selling model in Sweden in 2014.

United States

For the quarter ended 31 March 2016, retail sales in the United States increased by 2,638 cars, or 19.2%, to 16,361 cars compared to 13,723 cars sold during the quarter ended 31 March 2015. The increase in retail sales was primarily attributable to the continued success of our new strategy for the U.S. market launched in 2014 and increased retail sales of the Volvo XC90. The Volvo XC90 was our best-selling car in the United States in the first quarter of 2016.

For the year ended 31 December 2015, retail sales in the United States increased by 13,676 cars, or 24.3%, to 70,047 cars compared to 56,371 cars sold during the year ended 31 December 2014. The increase in retail sales was primarily attributable to the new strategy for the U.S. market, launched in 2014, aimed at enhancing our market share. The strategy includes the introduction of a new leadership team, an expansion of our portfolio of model offerings and a new marketing strategy to increase brand awareness and tailor our product offering to individual customer needs in the United States. The Volvo V60CC reached our dealer network in the United States in May 2015 and the XC90 and S60CC in summer 2015. In 2015, retail sales of Volvo cars grew faster than retail sales in the premium market in the United States, which grew at a rate of 6.8%, according to LMC Automotive. Our market share in the markets in which we operate in the United States was 3.3% in 2015, according to LMC Automotive. The Volvo XC60 was our best-selling model in the United States in 2015.

For the year ended 31 December 2014, retail sales in the United States decreased by 4,862 cars, or 7.9%, to 56,371 cars compared to 61,233 cars sold during the year ended 31 December 2013. We believe this decline in retail sales was primarily attributable to a limited product offering, with customers delaying purchases in anticipation of the launch of the Volvo XC90, V60CC and S60CC. In 2014, we had a market share in the markets which we operate in the United States of 2.8%, according to LMC Automotive. The Volvo S60 and the XC60 models were our best-selling models in the United States in 2014.

Other Markets

Other markets include, among others, Australia, Brazil, Canada, Czech Republic, Hungary, India, Japan, Poland, Russia, South Africa, South Korea, Taiwan and Turkey.

For the quarter ended 31 March 2016, retail sales in Other Markets marginally increased by 170 cars, or 0.9%, to 19,242 cars compared to 19,072 cars sold during the quarter ended 31 March 2015. Retail sales continued to decrease in Russia due to turbulent local macroeconomic and market conditions. Decreased retail sales in Russia were offset by increased retail sales in Australia, Canada, Japan and Poland.

For the year ended 31 December 2015, retail sales in Other Markets decreased by 2,164 cars, or 2.6%, to 82,243 cars compared to 84,407 cars sold during the year ended 31 December 2014. Retail sales decreased in Russia by 49.2% due to turbulent local macroeconomic and market conditions. The decline was partially offset by increased retail sales of 45.2% in South Korea, 29.6% in Brazil, 17.3% in Poland and 14.5% in Turkey.

For the year ended 31 December 2014, retail sales in Other Markets decreased by 2,487 cars, or 2.9%, to 84,407 cars compared to 86,894 cars sold during the year ended 31 December 2013. Our retail sales performance was mixed in Other Markets, with retail sales in Japan decreasing 21.5% due to the increase in consumption tax while retail sales in Russia remained stable.

Retail Volume Performance by Model

The table below presents our retail sales by model for the years ended 31 December 2013, 2014 and 2015 and the quarters ended 31 March 2015 and 2016.

	Year ended 31 December			Quarter ended 31 March	
	2013	2014	2015	2015	2016
XC Series					
XC90	23,784	17,869	43,102(1)	635(1)	21,701(1)
XC70	24,418	29,092	30,175	7,561	7,668
XC60	114,010	136,993	159,617	36,709	34,315
V Series					
V70	26,133	27,795	27,841	6,132	6,395
V60	54,666	61,977	51,333	13,648	9,040
V60CC	—	—	10,008	354	4,175
V40	78,307	84,771	83,357	18,989	18,243
V40CC	21,604	26,093	23,274	5,999	5,087
S Series					
S80	7,951	7,668	6,761	1,586	1,173
S80L(2)	3,531	4,821	3,569	748	47
S60	61,579	44,255	35,962	10,196	5,511
S60L	67	23,368	27,352	5,156	6,773
S60CC	—	—	764	0	463
Other(3)	11,790	1,164	12	8	0
Total	**427,840**	**465,866**	**503,127**	**107,721**	**120,591**

(1) For the year ended 31 December 2015 includes retail sales of 2,481 of the Volvo XC90 (classic) and 40,621 of the Volvo XC90 (new). For the quarters ended 31 March 2015 and 2016 includes retail sales of 634 and 886, respectively, of the Volvo XC90 (classic) and 1 and 20,815, respectively, of the Volvo XC90 (new).

(2) Discontinued in 2015.

(3) Includes the Volvo C30, C70, V50 and S40, which are all discontinued.

Description of Key Line Items

Set forth below is a brief description of the composition of the key line items of our consolidated income statement:

- *Net revenue.* Net revenue mainly consists of sales of goods and services. Net 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).
- *Cost of sales.* Cost of sales includes material costs (including freight and distribution costs), warranty costs, labour and other overhead costs and fixed manufacturing costs.
- *Research and development expenses.* Research and development expenses include product development expenses in support of our product strategy (including continued investments in the upcoming models on the SPA) and amortization of such expenses as well as research and development expenses invoiced to related parties in relation to the CMA.
- *Selling expenses.* Selling expenses include advertising and sales promotion costs, all costs relating to our subsidiaries to which we sell cars, consultancy fees, IT related costs, leasing expenses, salary costs and other costs related to selling costs.
- *Administrative expenses.* Administrative expenses include salary costs, consultancy fees, IT related costs, security costs, and other costs related to support units within the company and legal costs, including trademark costs.
- *Other operating income.* Other operating income includes income associated with licenses, royalties, exchange rate gains relating to the operation and other operating income such as income from the cost sharing with Ningbo Geely and CEVT in relation to the CMA.

- *Other operating expenses.* Other operating expenses include expenses associated with royalties, restructuring costs, property taxes, amortization of other intangibles, exchange rate losses relating to the operation and other operating expenses.
- *Share of income in joint ventures and associates.* Share of income in joint ventures and associates includes income associated with our share in certain joint ventures and associates, including shares in V2 Plug-In Hybrid Vehicle Partnership HB and Volvofinans Bank AB, among others.
- *Financial income.* Financial income includes income associated with net foreign exchange rate gains with respect to our financing activities and interest income on our bank deposits.
- *Financial expenses.* Financial expenses include expenses associated with interest effects from the measurement of the repurchase of certain obligations, interest expenses related to the provision for post-employment benefits, expenses for credit facilities, net foreign exchange rate losses with respect to our financing activities, and other interest and financial expenses.
- *Income tax.* Income tax includes current income taxes for the given period, current income taxes for previous periods, deferred taxes and other taxes.

Results of Operations

Our consolidated financial information has been prepared in accordance with IFRS. The financial data for the quarters ended 31 March 2016 and 2015 and the years ended 31 December 2013, 2014 and 2015 represent our consolidated results.

Quarter ended 31 March 2016, compared with quarter ended 31 March 2015

The table below shows our consolidated results for the quarters ended 31 March 2015 and 2016.

	Quarter ended 31 March		
(in SEK millions)	**2015[(1)]**	**2016**	**% Change**
Net revenue	33,651	41,757	24.1
Cost of sales	(27,025)	(32,318)	19.6
Gross income	**6,626**	**9,439**	**42.5**
Research and development expenses	(1,975)	(2,413)	22.2
Selling expenses	(2,467)	(2,683)	8.8
Administrative expenses	(1,592)	(1,551)	(2.6)
Other operating income	231	609	163.6
Other operating expenses	(856)	(348)	(59.3)
Share of income in joint ventures and associates	22	92	318.2
Operating income	**(11)**	**3,145**	**—**
Financial income	162	57	(64.8)
Financial expenses	(331)	(434)	31.1
Income before tax	**(180)**	**2,768**	**—**
Income tax	(61)	(699)	1,045.9
Net income	**(241)**	**2,069**	**—**

(1) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

Net revenue. Net revenue increased by SEK 8,106 million, or 24.1%, to SEK 41,757 million for the quarter ended 31 March 2016, as compared to SEK 33,651 million for the quarter ended 31 March 2015. This increase was primarily attributable to higher sales volumes of 11.9% and a higher average net revenue per car as compared to the previous quarter. The average net revenue per car increased by SEK 33,879, or 10.8%, to SEK 346,269 for the quarter, as compared to SEK 312,390 for the comparable quarter 2015, driven by a positive sales mix, primarily sales of the all new Volvo XC90. Please see "*—Retail Volumes*".

Cost of sales. Cost of sales increased by SEK 5,293 million, or 19.6%, to SEK 32,318 million for the quarter ended 31 March 2016, as compared to SEK 27,025 million for the quarter ended 31 March 2015. The increase in cost of sales was primarily attributable to increased production volumes due to higher sales volumes and the sales mix, resulting in higher material costs. As a percentage of net revenue, cost of sales decreased from 80.3% of net revenue in the quarter ended 31 March 2015 to 77.4% of net revenue in the quarter ended 31 March 2016 mainly as a result of the change in sales mix.

Research and development expenses. Research and development expenses increased by SEK 438 million, or 22.2%, to SEK 2,413 million for the quarter ended 31 March 2016, as compared to SEK 1,975 million for the quarter ended 31 March 2015. As a percentage of net revenue, research and development expenses remained relatively flat at 5.9% of net revenue in the quarter ended 31 March 2015 compared to 5.8% of net revenue in the quarter ended 31 March 2016.

Capitalised development expenses increased by SEK 98 million, or 9.2%, to SEK 1,158 million for the quarter ended 31 March 2016, as compared to SEK 1,060 million for the quarter ended 31 March 2015. The increase in capitalised development expenses was primarily attributable to higher amortisation of capitalised development expenses and increased costs for upcoming car models. Amortisation of capitalised development expenses was SEK 643 million for the quarter ended 31 March 2016, as compared to SEK 466 million for the quarter ended 31 March 2015.

Selling expenses. Selling expenses increased by SEK 216 million, or 8.8%, to SEK 2,683 million for the quarter ended 31 March 2016, as compared to SEK 2,467 million for the quarter ended 31 March 2015. The increase in selling expenses was primarily attributable to increased marketing and event expenses related to the launch of new car models and advertising campaigns. As a percentage of net revenue, selling expenses decreased from 7.3% of net revenue in the quarter ended 31 March 2015 to 6.4% of net revenue in the quarter ended 31 March 2016. The decrease in selling expenses as a percentage of net revenue was primarily attributable to an increase in net revenue.

Administrative expenses. Administrative expenses decreased by SEK 41 million, or 2.6%, to SEK 1,551 million for the quarter ended 31 March 2016, as compared to SEK 1,592 million for the quarter ended 31 March 2015. As a percentage of net revenue, administrative expenses decreased from 4.7% of net revenue in the quarter ended 31 March 2015 compared to 3.7% of net revenue in the quarter ended 31 March 2016.

Other operating income. Other operating income increased by SEK 378 million, or 163.6%, to SEK 609 million for the quarter ended 31 March 2016, as compared to SEK 231 million for the quarter ended 31 March 2015. The increase was primarily attributable to a positive net foreign exchange result, mainly related to realised cash flow hedges and increased income from collaborations with related parties regarding common development activities.

Other operating expenses. Other operating expenses decreased by SEK 508 million, or 59.3%, to SEK 348 million for the quarter ended 31 March 2016, as compared to SEK 856 million for the quarter ended 31 March 2015. The decrease was primarily attributable to a positive net foreign exchange result.

Share of income in joint ventures and associates. Share of income in joint ventures and associates increased by SEK 70 million, or 318.2%, to SEK 92 million for the quarter ended 31 March 2016, as compared to SEK 22 million for the quarter ended 31 March 2015. The increase was primarily attributable to income from V2 Plug-In Hybrid Vehicle Partnership HB and VolvoFinans Bank AB.

Financial income. Financial income decreased by SEK 105 million, or 64.8%, to SEK 57 million for the quarter ended 31 March 2016, as compared to SEK 162 million for the quarter ended 31 March 2015. The decrease was primarily attributable to negative net foreign exchange results on financing activities.

Financial expenses. Financial expenses increased by SEK 103 million, or 31.1%, to SEK 434 million for the quarter ended 31 March 2016, as compared to SEK 331 million for the quarter ended 31 March 2015. The increase was primarily attributable to lower net foreign exchange gains on financing activities, mainly related to a weakened U.S. dollar.

Income tax. Income tax increased by SEK 638 million, or 1,045.9%, to SEK 699 million for the quarter ended 31 March 2016, as compared to SEK 61 million for the quarter ended 31 March 2015. The increase was primarily attributable to higher income before tax.

Year ended 31 December 2015, compared with year ended 31 December 2014

The table below shows our consolidated results for the years ended 31 December 2014 and 2015.

(in SEK millions)	Year ended 31 December 2014[(1)]	Year ended 31 December 2015[(2)]	% Change
Net revenue	137,590	164,043	19.2
Cost of sales	(114,019)	(128,238)	12.5
Gross income	**23,571**	**35,805**	**51.9**
Research and development expenses	(7,193)	(8,803)	22.3
Selling expenses	(8,708)	(10,951)	25.8
Administrative expenses	(5,943)	(7,234)	21.7
Other operating income	1,745	2,005	14.9
Other operating expenses	(1,535)	(4,432)	188.7
Share of income in joint ventures and associates	191	230	20.4
Operating income	**2,128**	**6,620**	**211**
Financial income	342	238	(30.4)
Financial expenses	(1,315)	(1,469)	11.7
Income before tax	**1,155**	**5,389**	**367**
Income tax	(647)	(913)	41.1
Net income	**508**	**4,476**	**781**

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

Net revenue. Net revenue increased by SEK 26,453 million, or 19.2%, to SEK 164,043 million for the year ended 31 December 2015, as compared to SEK 137,590 million for the year ended 31 December 2014. The average net revenue per car increased by SEK 30,705, or 10.4%, to SEK 326,047 for the year ended 31 December 2015, as compared to SEK 295,342 for the year ended 31 December 2014. This increase was primarily attributable to higher sales volumes of 8% and a higher average net revenue of 10.4% as compared to the previous year, which was driven by a positive sales mix, both in terms of product mix with the introduction of the Volvo XC90 and the continuous positive sales development of the Volvo XC60, and geographical mix, driven, in part, by an increase in sales in Western Europe, Sweden and the United States; and favourable exchange rates. Please see "*—Retail Volumes*".

Cost of sales. Cost of sales increased by SEK 14,219 million, or 12.5%, to SEK 128,238 million for the year ended 31 December 2015, as compared to SEK 114,019 million for the year ended 31 December 2014. The increase in cost of sales was primarily attributable to increased production volumes due to higher sales volumes and the sales mix. This has resulted in higher material costs, which were partially offset by freight and distribution cost reductions through localised production in China. As a percentage of net revenue, cost of sales decreased from 82.8% of net revenue in the year ended 31 December 2014 to 78.1% of net revenue in the year ended 31 December 2015 mainly as a result of freight and distribution cost reductions through localised production in China and the sales mix.

Research and development expenses. Research and development expenses increased by SEK 1,610 million, or 22.3%, to SEK 8,803 million for the year ended 31 December 2015, as compared to SEK 7,193 million for the year ended 31 December 2014. As a percentage of net revenue, research and development expenses increased slightly from 5.2% of net revenue in the year ended 31 December 2014 to 5.3% of net revenue in the year ended 31 December 2015. The increase in research and development expenses was primarily attributable to higher product development costs and higher amortization expenses.

Capitalised development expenses decreased by SEK 254 million, or 5.3%, to SEK 4,494 million for the year ended 31 December 2015, as compared to SEK 4,748 million for the year ended 31 December 2014. The decrease in capitalised development expenses was primarily attributable to the advanced phase of investments for, and therefore decreased investment requirements in respect of, the Volvo XC90 and the SPA. Amortization of capitalised development expenses was SEK 2,263 million for the year ended 31 December 2015, as compared to SEK 1,378 million for the year ended 31 December 2014.

Selling expenses. Selling expenses increased by SEK 2,243 million, or 25.8%, to SEK 10,951 million for the year ended 31 December 2015, as compared to SEK 8,708 million for the year ended 31 December 2014. As a percentage of net revenue, selling expenses increased from 6.3% of net revenue in the year ended 31 December 2014 to 6.7% of net revenue in the year ended 31 December 2015. The increase in selling expenses was primarily attributable to increased salary expenses, marketing expenses and event expenses in all regions due to the launch of the Volvo XC90, the implementation of the U.S. plan and growth strategy in Western Europe and expenses related to the Volvo Ocean Race, a yacht race sponsored by Volvo Cars every three years.

Administrative expenses. Administrative expenses increased by SEK 1,291 million, or 21.7%, to SEK 7,234 million for the year ended 31 December 2015, as compared to SEK 5,943 million for the year ended 31 December 2014. As a percentage of net revenue, administrative expenses increased slightly from 4.3% of net revenue in the year ended 31 December 2014 compared to 4.4% of net revenue in the year ended 31 December 2015. The increase in administrative expenses was primarily attributable to increased salary expenses, an increase in the number of consultants and employees due to growth in many regions, particularly in Sweden, and an increase in IT expenses related to an increase in IT-capacity requirements due to connectivity and autonomous driving.

Other operating income. Other operating income increased by SEK 260 million, or 14.9%, to SEK 2,005 million for the year ended 31 December 2015, as compared to SEK 1,745 million for the year ended 31 December 2014. The increase was primarily attributable to an increase in licenses and services sold.

Other operating expenses. Other operating expenses increased by SEK 2,897 million, or 188.7%, to SEK 4,432 million for the year ended 31 December 2015, as compared to SEK 1,535 million for the year ended 31 December 2014. The increase was primarily attributable to losses associated with realised cash flow hedges.

Share of income in joint ventures and associates. Share of income in joint ventures and associates increased by SEK 39 million, or 20.4%, to SEK 230 million for the year ended 31 December 2015, as compared to SEK 191 million for the year ended 31 December 2014. The increase was primarily attributable to income from joint ventures with Vattenfall PHEV Holding AB and V2 Plug-In Hybrid Vehicle Partnership HB.

Financial income. Financial income decreased by SEK 104 million, or 30.4%, to SEK 238 million for the year ended 31 December 2015, as compared to SEK 342 million for the year ended 31 December 2014. The decrease was primarily attributable to lower net foreign exchange gains on financing activities.

Financial expenses. Financial expenses increased by SEK 154 million, or 11.7%, to SEK 1,469 million for the year ended 31 December 2015, as compared to SEK 1,315 million for the year ended 31 December 2014. The increase was primarily attributable to higher interest expenses as liabilities to credit institutions increased in relation to new current liabilities to credit institutions in China that became our obligations as part of the acquisition of additional interests in the Chinese Joint Ventures.

Income tax. Income tax increased by SEK 266 million, or 41.1%, to SEK 913 million for the year ended 31 December 2015, as compared to SEK 647 million for the year ended 31 December 2014. The increase was primarily attributable to higher income before tax, which was partially offset by changes in temporary differences.

Year ended 31 December 2014, compared with year ended 31 December 2013

The table below shows our consolidated results for the years ended 31 December 2014 and 2013.

(in SEK millions)	Year ended 31 December 2013	Year ended 31 December 2014[(1)]	% Change
Net revenue	122,245	137,590	12.6
Cost of sales	(101,934)	(114,019)	11.9
Gross income	**20,311**	**23,571**	**16.1**
Research and development expenses	(5,864)	(7,193)	22.7
Selling expenses	(7,919)	(8,708)	10.0
Administrative expenses	(5,129)	(5,943)	15.9
Other operating income	1,509	1,745	15.6
Other operating expenses	(1,168)	(1,535)	31.4
Share of income in joint ventures and associates	179	191	6.7
Operating income	**1,919**	**2,128**	**10.9**
Financial income	87	342	293.1
Financial expenses	(874)	(1,315)	50.5
Income before tax	**1,132**	**1,155**	**2.0**
Income tax	(172)	(647)	276.2
Net income	**960**	**508**	**(47.1)**

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

Net revenue. Net revenue increased by SEK 15,345 million, or 12.6%, to SEK 137,590 million for the year ended 31 December 2014, as compared to SEK 122,245 million for the year ended 31 December 2013. The average net revenue per car increased by SEK 9,616, or 3.4%, to SEK 295,342 for the year ended 31 December 2014, as compared to SEK 285,726 for the year ended 31 December 2013. The increase was primarily attributable to higher sales volumes in Western Europe and China, a higher average net revenue per car of 3.4% and the positive impact of certain exchange rate developments on sales. Please see "*—Retail Volumes*".

Cost of sales. Cost of sales increased by SEK 12,085 million, or 11.9%, to SEK 114,019 million for the year ended 31 December 2014, as compared to SEK 101,934 million for the year ended 31 December 2013. The increase in cost of sales was primarily attributable to increased production volumes due to higher sales volumes and the negative impact of certain foreign exchange developments on cost of goods sold, which was partially offset by planned material cost reductions. As a percentage of net revenue, cost of sales decreased from 83.4% of net revenue in the year ended 31 December 2013 to 82.9% of net revenue in the year ended 31 December 2014. This relative decrease in cost of sales as a percentage of net revenue is primarily attributable to exchange rate effects and product mix.

Research and development expenses. Research and development expenses increased by SEK 1,329 million, or 22.7%, to SEK 7,193 million for the year ended 31 December 2014, as compared to SEK 5,864 million for the year ended 31 December 2013. As a percentage of net revenue, research and development expenses increased from 4.8% of net revenue in the year ended 31 December 2013 to 5.2% of net revenue in the year ended 31 December 2014. The increase in research and development expenses was primarily attributable to development of the SPA.

Capitalised development expenses increased by SEK 659 million, or 16.1%, to SEK 4,748 million for the year ended 31 December 2014, as compared to SEK 4,089 million for the year ended 31 December 2013. The increase in capitalised development expenses was primarily attributable to continued investments in the SPA. Amortization of capitalised development expenses was SEK 1,378 million for the year ended 31 December 2014, as compared to SEK 1,165 million for the year ended 31 December 2013.

Selling expenses. Selling expenses increased by SEK 789 million, or 10.0%, to SEK 8,708 million for the year ended 31 December 2014, as compared to SEK 7,919 million for the year ended 31 December 2013.

The increase in selling expenses was primarily attributable to an increase in various marketing efforts related to strengthening the Volvo Cars brand worldwide, particularly activities in the Chinese and U.S. markets. As a percentage of net revenue, selling expenses decreased from 6.5% of net revenue in the year ended 31 December 2013 to 6.3% of net revenue in the year ended 31 December 2014, primarily due to the increase in net revenue.

Administrative expenses. Administrative expenses increased by SEK 814 million, or 15.9%, to SEK 5,943 million for the year ended 31 December 2014, as compared to SEK 5,129 million for the year ended 31 December 2013. The increase was primarily attributable to the launch of the Volvo XC90 and the increased number of employees within research and development and in the Chinese plants. As a percentage of net revenue, administrative expenses remained relatively flat at 4.3% of net revenue in the year ended 31 December 2014 compared to 4.2% of net revenue in the year ended 31 December 2013.

Other operating income. Other operating income increased by SEK 236 million, or 15.6%, to SEK 1,745 million for the year ended 31 December 2014, as compared to SEK 1,509 million for the year ended 31 December 2013. The increase was primarily attributable to an increase in licensor royalties and other income from development agreements with related parties (including an agreement with Ningbo Geely).

Other operating expenses. Other operating expenses increased by SEK 367 million, or 31.4%, to SEK 1,535 million for the year ended 31 December 2014, as compared to SEK 1,168 million for the year ended 31 December 2013. The increase was primarily attributable to losses associated with realised cash flow hedges.

Share of income in joint ventures and associates. Share of income in joint ventures and associates increased by SEK 12 million, or 6.7%, to SEK 191 million for the year ended 31 December 2014, as compared to SEK 179 million for the year ended 31 December 2013. The increase was primarily attributable to income from the joint venture with Vattenfall PHEV Holding AB, V2 Plug-In Hybrid Vehicle Partnership HB.

Financial income. Financial income increased by SEK 255 million, or 293.1%, to SEK 342 million for the year ended 31 December 2014, as compared to SEK 87 million for the year ended 31 December 2013. The increase was primarily attributable to exchange rate effects related to bank accounts held in foreign currencies.

Financial expenses. Financial expenses increased by SEK 441 million, or 50.5%, to SEK 1,315 million for the year ended 31 December 2014, as compared to SEK 874 million for the year ended 31 December 2013. The increase was primarily attributable to an increase in interest expenses as liabilities to credit institutions increased, which was partially offset by a decrease in provisions for post-employment benefits.

Income tax. Income tax increased by SEK 475 million, or 276.2%, to SEK 647 million for the year ended 31 December 2014, as compared to SEK 172 million for the year ended 31 December 2013. The increase was primarily attributable to higher sales in China and regulatory changes regarding pensions in Belgium.

Liquidity and Capital Resources

Overview

As of 31 March 2016, we had liquid funds of SEK 28,514 million, which includes cash and cash equivalents of SEK 26,716 million and SEK 1,798 million of marketable securities. We generally finance our capital requirements through cash generated from operations and external debt. In the ordinary course of business, we also enter into, and maintain, letters of credit, cash pooling and cash management facilities, and other similar facilities. To the extent necessary, we are also able to utilise undrawn capacity under our Revolving Credit Facility to fund our liquidity needs. See "*Description of Certain Financing Arrangements".*

Our liquidity needs consist of funding operating expenses, changes in working capital, capital expenditures, debt service requirements and other liquidity requirements that may arise from time to time, including, without limitation: (i) refinancing of outstanding debt, (ii) acquisitions and other investment opportunities, and (iii) payments in the ordinary course of business.

We believe that, following the issuance of the Notes, our operating cash flows, borrowing capacity under existing credit facilities and the proceeds of the Notes offered hereby will be sufficient to meet our reasonably foreseeable liquidity requirements and commitments. Our actual financing requirements will depend on a number of factors, many of which are beyond our control. See "*Risk Factors—Risks Relating to*

Our Debt and the Notes—Our indebtedness could adversely affect our financial health and ability to withstand adverse developments and could prevent us from fulfilling our indebtedness obligations" and "*Description of Certain Financing Arrangements*".

Historical Consolidated Cash Flows

The table below shows our historical consolidated cash flows for the years ended 31 December 2013, 2014 and 2015 and the quarters ended 31 March 2015 and 2016.

	Year ended 31 December			Quarter ended 31 March	
(in SEK millions)	**2013**	**2014[(1)]**	**2015[(2)]**	**2015[(2)]**	**2016**
Operating Activities					
Cash flow from operating activities	8,861	8,839	22,576	2,627	3,232
Cash flow used in investing activities	(8,840)	(13,605)	(15,342)	(3,615)	(3,555)
Cash flow from financing activities	5,765	3,641	1,445	(23)	1,515
Cash flow for the period	**5,786**	**(1,125)**	**8,679**	**(1,011)**	**1,192**
Cash and cash equivalents at beginning of period	9,607	17,533	17,002	17,002	25,623
Exchange difference on cash and cash equivalents	(21)	594	(58)	932	(99)
Cash and cash equivalents at end of period	15,372	17,002	25,623	16,923	26,716
Marketable securities[(3)]	88	1,047	3,512	975	1,798

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(3) Marketable securities comprise interest-bearing investments with a term of more than three months from acquisition date.

Cash flow from operating activities

Net cash flow from operating activities for the quarter ended 31 March 2016 was SEK 3,232 million, as compared to SEK 2,627 million for the quarter ended 31 March 2015, representing an increase of SEK 605 million. This increase was primarily due to (i) an increase in operating income, which totaled SEK 3,145 million compared to negative SEK 11 million for the previous period; and (ii) a decrease in income tax paid, which totaled SEK 371 million compared to SEK 583 million for the previous period, offset by a decrease in cash flow from movements in working capital, which totaled negative SEK 1,837 million compared to SEK 975 million for the previous period. The negative working capital developments were primarily due to an increase in inventories and accounts payables due to increased volumes and sales mix and a decrease in change in other working capital assets/liabilities due to decreased VAT liabilities.

Net cash flow from operating activities for the year ended 31 December 2015 was SEK 22,576 million, as compared to SEK 8,839 million for the year ended 31 December 2014, representing an increase of SEK 13,737 million. This increase was primarily due to (i) an increase in operating income, which totaled SEK 6,620 million compared to SEK 2,128 million for the previous period; and (ii) an increase in cash flow from movements in working capital, which totaled SEK 9,494 million as compared to SEK 1,959 million for the previous period. The positive working capital developments were primarily due to an increase in accounts payable as a result of increased production volumes and a shift towards production on the SPA, which generally carries more favourable payment terms, and an increase in change in other working capital assets/liabilities as a result of increased production volumes, partially offset by an increase in inventories as a result of higher sales during the year ended 31 December 2015 as compared to the previous period and an increase in accounts receivables as a result of the changing mix in external component sales.

Net cash flow from operating activities for the year ended 31 December 2014 was SEK 8,839 million, as compared to SEK 8,861 million for the year ended 31 December 2013, representing a decrease of SEK 22 million. Net cash flow from operating activities remained relatively flat primarily due to (i) an increase in interest and similar items paid, which totaled SEK 875 million compared to SEK 433 million for the previous period and (ii) an increase in income tax paid, which totaled SEK 1,293 million compared to SEK 573 million for the previous period, partially offset by (i) an increase in operating income for the period, which totaled SEK 2,128 million compared to SEK 1,919 million for the previous period and (ii) an increase in cash flow from movements in working capital, which totaled SEK 1,959 million compared to SEK 1,084 million for the previous period. The positive working capital developments were primarily due to an increase in accounts payables, partly due to the consolidation of the Chinese Joint Ventures, and an increase in changes in provisions as a result of increased variable provisions and provisions for warranty extensions, partially offset by an increase in inventories as a result of increased production to meet demand for the period and an increase in accounts receivables as a result of increased sales.

Cash flow from investing activities

Net cash flow used in investing activities remained flat for the quarter ended 31 March 2016 at SEK 3,555 million, as compared to SEK 3,615 million for the quarter ended 31 March 2015.

Net cash flow used in investing activities for the year ended 31 December 2015 was SEK 15,342 million, as compared to SEK 13,605 million for the year ended 31 December 2014. The increase in cash outflows was primarily due to an increase in investments in shares and participations, primarily attributable to the acquisition of additional interests in the Chinese Joint Ventures which totaled SEK 2,760 million.

Net cash flow used in investing activities for the year ended 31 December 2014 was SEK 13,605 million, as compared to a net cash flow used in investing activities of SEK 8,840 million for the year ended 31 December 2013. The increase in cash outflow is due to an increase in investments in property, plant and equipment and investments and an increase in investments in intangible assets related to the SPA.

Cash flow from financing activities

Net cash flow from financing activities for the quarter ended 31 March 2016 was SEK 1,515 million, as compared to negative SEK 23 million used in financing activities for the quarter ended 31 March 2015. The increase in cash flow was due to a decrease in repayments of liabilities to credit institutions and the positive effect from investments in marketable securities.

Net cash flow from financing activities for the year ended 31 December 2015 was SEK 1,445 million, as compared to SEK 3,641 million used in financing activities for the year ended 31 December 2014. The decrease in cash flow was due to an increase in repayments of liabilities to credit institutions and to Geely and an increase in investments in marketable securities, partially offset by an equity contribution of SEK 3,992 million to fund our investment in the Chinese Joint Ventures.

Net cash flow from financing activities for the year ended 31 December 2014 was SEK 3,641 million, as compared to SEK 5,765 million for the year ended 31 December 2013. The decrease in cash flow from financing activities was due to decreased borrowings from credit institutions, partially offset by a decrease in repayments of liabilities to credit institutions.

Certain Indebtedness

We fund our short-term working capital requirements with cash generated from operations and short-and medium-term credit facilities from lending institutions and banks. Following the issuance of the Notes, our main long-term borrowings will be the Notes and the following:

China Development Bank Facility

On 30 November 2012 (as subsequently amended and restated on 22 November 2013, 19 November 2015 and on or about 6 May 2016), Volvo Car Corporation entered into the China Development Bank Facility. The China Development Bank Facility is fully drawn, in three separate tranches: (i) a euro-denominated tranche of €815.3 million in total commitments used to partly refinance existing debt; (ii) a euro-denominated tranche of €107.0 million in total commitments used to refinance certain project costs related to future car emissions research and development; and (iii) a U.S. dollar-denominated tranche of $800.0 million in total commitments used to partly finance the Volvo XC90 car development project. The euro-denominated tranche of the facility expires in December 2020 and the U.S.-dollar denominated tranche of the facility expires in December 2021. The China Development Bank Facility is further described under "*Description of Certain Financing Arrangements—China Development Bank Facility*".

Term Credit Facility

On 25 June 2015 (as subsequently amended and restated on 4 March 2016), Volvo Car Corporation entered into the Term Credit Facility for SEK 1.5 billion in total commitments with Svensk Exportkredit (the "***Term Credit Facility***"). The Term Credit Facility is fully drawn as of 1 July 2015. The facility expires in June 2019, with an option to extend the facility to June 2020. It is further described under "*Description of Certain Financing Arrangements—Term Credit Facility*".

Revolving Credit Facility

On 30 June 2014 (as amended and restated by a supplemental agreement dated 30 June 2015, a supplemental agreement dated 9 December 2015 and a supplemental agreement dated 7 March 2016), Volvo Car Corporation refinanced the Revolving Credit Facility for €660.0 million in total commitments from twelve banks. The Revolving Credit Facility is a back-up facility for general corporate purposes. The facility expires in July 2018, with an option to extend the facility to June 2019. As of the date of this offering memorandum, we had not drawn upon the Revolving Credit Facility. The Revolving Credit Facility is further described under "*Description of Certain Financing Arrangements—Revolving Credit Facility*".

Local Chinese Funding

On 25 June 2015, we gained control over the Chinese Joint Ventures through the acquisition of an additional 20% interest in each of the entities. See "*Business—Chinese Joint Ventures*". As a result of these acquisitions, we obtained funding responsibility for the acquired entities. The total outstanding amount of loan and credit facilities within the Chinese Joint Ventures (short-term and long-term) as of 31 March 2016 was SEK 3,898 million. The funding of the Chinese Joint Ventures is further described under "*Description of Certain Financing Arrangements—Local Chinese Funding*".

Contractual Commitments

The table below shows the payment structure for our financial commitments as of 31 December 2015.

(in SEK millions)	2016	2017	2018	2019	2020	2021
Bank loan payments(1)	6,216	2,109	3,090	5,091	3,122	1,812

(1) Includes payments due under the China Development Bank Facility and the Term Credit Facility. See "*Description of Certain Financing Arrangements*" for more information.

Capital Expenditures

Capital expenditures are defined as cash outflows that result in additions to property, plant and equipment and intangible assets. The following table sets forth a breakdown of capital expenditures by category for each of the years ended 31 December 2013, 2014 and 2015 and the quarters ended 31 March 2015 and 2016.

	Year ended 31 December			Quarter ended 31 March	
(SEK in millions)	2013	2014	2015	2015	2016
Investments in intangible assets	4,188	5,234	4,715	1,081	1,176
Investments in property, plant and equipment	4,714	8,646	8,677	2,730	2,534
Total	**8,902**	**13,880**	**13,392**	**3,811**	**3,710**

Our total capital expenditure for the quarter ended 31 March 2016 was SEK 3,710 million. Investments in intangible assets for the quarter ended 31 March 2016 were SEK 1,176 million, the most significant component of which was investments in our upcoming new car models. Investments in property, plant and equipment for the quarter ended 31 March 2016 were SEK 2,534 million, the most significant component of which was assets under construction related to the ongoing construction of our plant in the United States, preparation for the production of the new Volvo S90 in China and special tool investments related to the upcoming new car models based on the SPA platform such as the Volvo S90 and Volvo V90.

Our total capital expenditure for the year ended 31 December 2015 was SEK 13,392 million. Investments in intangible assets for the year ended 31 December 2015 were SEK 4,715 million, the most significant component of which was development costs related to the Volvo XC90, the Volvo S90 and the Volvo V90 and additional new models developed for the SPA. Investments in property, plant and equipment for the year ended 31 December 2015 were SEK 8,677 million, the most significant component of which was investments in specialised tools for the Volvo XC90 and upcoming models as well as continuous investments in plants.

Our total capital expenditure for the year ended 31 December 2014 was SEK 13,880 million. Investments in intangible assets for the year ended 31 December 2014 were SEK 5,234 million, the most significant component of which was development costs related to new models being built on the SPA. Investments in property, plant and equipment were SEK 8,646 million for the year ended 31 December 2014, the most significant component of which was investments in the SPA.

Our total capital expenditure for the year ended 31 December 2013 was SEK 8,902 million. Our capital expenditure in 2013 did not include capital expenditures in the Chinese Joint Ventures. Investments in intangible assets for the year ended 31 December 2013 were SEK 4,188 million, the most significant component of which was development costs related to new models being built on the SPA and the Drive-E powertrain. Investments in property, plant and equipment were SEK 4,714 million, the most significant component of which was investments in the SPA and Drive-E powertrain.

We expect total capital expenditures for 2016 to be marginally higher than capital expenditures in 2015. In 2016, we plan to focus our capital expenditures on additional investments in new models for the SPA, the construction of the plant in South Carolina, the Drive-E powertrain and the CMA.

Other Contractual Obligations

We incur other contractual obligations in the ordinary course of business, such as operating lease contracts for premises, office equipment and production equipment, as well as finance lease contracts for production equipment and certain buildings used in production. The table below shows our undiscounted contractual lease commitments as of 31 December 2015.

	Lease commitments by due date			
(SEK in millions)	**0–1 years**	**1–5 years**	**5 years or more**	**Total**
Operating leases[(1)]	932	1,820	1,511	4,263
Finance leases	10	63	3	76

(1) Operating lease commitments are net of sublease receivables.

Contingent Liabilities

As of 31 December 2015, we had SEK 412 million in contingent liabilities, including investment commitments in manufacturers, guarantees, legal claims, tax claims and other contingent liabilities. Contingent legal claims and tax claims are recognised according to the accounting policies described in *"—Critical Accounting Estimates and Judgments—Legal proceedings*" and *"—Critical Accounting Estimates and Judgments—Tax processes*".

Off-Balance Sheet Arrangements

We are not party to any material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, net revenue or expenses, results of operations, liquidity, capital expenditure or capital resources.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks arising from fluctuations in currency exchange rates, interest rates and commodity prices in the ordinary course of our business. For a greater overview of our financial risk management and financial instruments, see our Consolidated Financial Statements and the notes thereto, including Note 21 to the Issuer Consolidated Financial Statements, included elsewhere in this offering memorandum.

Currency Risk

Our currency risk arises from our production and procurement in various countries and the associated mix of sales currencies. Relative changes in the currency rates have a direct impact on our operating income, balance sheet and cash flow.

Our currency risk is related to: (i) expected future cash flows from sales and purchases in foreign currencies (transaction risk); (ii) changes in the value of loans and investments (translation risk); and (iii) translation into the functional currency SEK in the group accounting of net assets and liabilities of foreign subsidiaries (translation risk).

Transaction exposure risk is the risk that our profitability will be negatively affected by changes in exchange rates. Our sales to different global markets, in combination with purchases in different currencies, determine the amount of the transaction exposure. Sales to markets other than Sweden generate transaction exposure. For the year ended 31 December 2015, our total currency inflow was distributed between euros (24%), Chinese yuan (24%), U.S. dollars (20%), British pounds (9%), Japanese yen (3%) and other currencies (20%). We also incur production costs in currencies besides the Swedish kronor. For example, major production costs are associated with plants in China and Belgium, which record their costs mainly in Chinese renminbi and euros, respectively. We manage this transaction risk by entering into certain hedging agreements, including options, forwards and other financial instruments.

Translation risk is currency risk related to the translation in the group accounting of our net assets in foreign subsidiaries into the functional currency SEK. This exposure can generate a positive or negative impact on earnings or change the value of equity. As of 31 December 2015, we had SEK 11,524 million in investments in foreign operations (our translation risk exposure). As of 31 December 2015, a 1% change in the Swedish krona against major currencies would have had a net impact of approximately SEK 115 million in these investments. Translation risk of assets and liabilities in foreign currencies related to the operations, as account receivables, trade payables and guarantee provisions, will generate an impact on the income statement in operating income. All translation of assets and liabilities to credit institutions and intercompany loans and deposits are reflected in the financial income and expenses. Translation risk is primarily covered by matching the currency composition of debt with the composition of assets. We manage translation risks in two ways: (i) for exposure related to translation effects on financial assets and liabilities through natural hedging or financial derivatives, and (ii) for exposure related to the translation effects on operational items in the balance sheet through financial derivatives and liquidity management.

Interest Rate Risk

Interest rate risk is the risk associated with changes in global interest rates affecting interest rate-bearing debt we hold or leasing or other financing arrangements to which we are a party. Changes in interest rate levels will impact our net financial income/expense and the value of financial assets and liabilities. For example, our return on cash and cash equivalents, short-term investments and credit facilities are impacted by changes in interest rates. The exposure can be either direct from interest rate bearing debt or indirect through leasing or other financing arrangements. As of 31 December 2015, our interest-bearing assets consisted of cash (in the form of cash at bank), short-term deposits and marketable securities. For the year ended 31 December 2015, a 100 basis points change in market interest rates would have had an impact of SEK 201 million on interest expenses.

Commodity Risk

Commodity risk is the risk that the cost of materials could increase as commodity prices rise in global markets. Changes in commodity prices impact our cash flow and earnings. For the year ended 31 December 2015, we had a cost of raw materials of approximately SEK 11 billion, of which purchases of steel and resin accounted for the largest cost. Commodity price risk is primarily managed through fixed-priced contracts. We manage the change in prices for electricity by using forward contracts. The hedging is managed by Vattenfall Power Management AB on discretionary account, with Volvo Cars deciding certain risk limits. For the year ended 31 December 2015, a 1% change in the prices of commodities would have had an impact on operating income of SEK 111 million.

Critical Accounting Estimates and Judgments

Our critical accounting policies are further described in the Consolidated Financial Statements included in this offering memorandum. In applying these policies, our management uses its judgment to determine the appropriate assumptions to be used in the preparation of our results of operations. Estimates and assumptions may differ from future actual results. These estimates are based on our previous experience, the terms of existing contracts, information available from other outside sources and other factors, as appropriate. We periodically update our estimates used in the preparation of the financial statements based on our latest assessment of the current and projected business and general economic environment.

We believe that the following accounting policies that involve management judgments and estimates, among others, are critical in order to understand and evaluate our reported financial results.

Residual value guarantees and repurchase agreements

In the course of our operations, we are exposed to residual value risks partly through sales combined with repurchase agreements and partly through sales to external rental companies 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 remains within our organisation. In cases where significant risks pertaining to cars remain with the Company, which may be the case when the sale of cars is combined with a repurchase agreement (the right for us to buy back the car), the cars 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 cars reduces the value of the cars from their original acquisition value to their expected residual value, being the estimated net realisable value, at the end of the lease term. When we have entered into a repurchase agreement in relation to a car sale, there may be a question of judgment regarding whether or not significant risks and rewards of ownership have been transferred to the customer. If the previous assessment of retained risk is proven to be incorrect and it is instead determined that significant risks are retained by us, revenue in the coming period will decline and instead be distributed over several reporting periods. Cars 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 car have been transferred to the customer. A provision is recorded for the residual value risk related to the guarantee, 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, among other things, recent car auction values, future price deterioration due to expected change of market conditions, marketing incentive plans, car quality data and repair and reconditioning costs. High inventories in the car industry and low demand may have a negative impact on the prices of new and used cars. A decline in prices of the cars may negatively affect the consolidated income.

Deferred tax assets

The calculation of deferred tax assets requires assumptions to be made with regards 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 results may diverge from judgments due to, among other things, future changes in business climate and altered tax laws. 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 judgments that have been made may affect net income both positively and negatively.

Impairment, amortization and depreciation of non-current assets

We have substantial values reported in our balance sheet as intangible as well as tangible non-current assets. Tangible assets as well as intangible assets with a definite useful life are depreciated on a straight-line basis over their estimated useful lives. 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. 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 conduction of the impairment test. This planning is based on expectations regarding future market share, the market growth as well as the products' profitability.

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. Every change in these assumptions affects the calculated value of the post-employee benefits obligations. The discount rate, which is the most critical assumption, is based on market return on high-quality corporate, government and mortgage bonds that are denominated in the currency in which the benefits will be paid and with maturities corresponding to the related pension liability. 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.

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 we expect 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.

Warranty

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 our warranty costs are recognised to the extent these are considered to be virtually certain.

Legal proceedings

We and our subsidiaries are involved in legal proceedings covering a range of different matters. 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. We 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.

Tax processes

We are, 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.

INDUSTRY

The industry information provided in this section primarily relies on information available from LMC Automotive, and is based on LMC Automotive's classification of vehicles. All data used in the section is based on LMC Automotive as of 31 December 2015, unless stated otherwise. This information has not been independently verified by the Issuer or the Initial Purchasers, and no representation is made as to the accuracy of this information, which may be inconsistent with information available or compiled from other sources. LMC Automotive has not reviewed or approved this section. In this section, statements regarding industry outlook, trends and future product development, as well as other non-historical statements, are forward-looking statements that are subject to numerous risks and uncertainties. See "Forward Looking Statements" and "Risk Factors".

Served Market Definition and Size

LMC Automotive classifies cars and light commercial vehicles (together, "***light vehicles***") into several segments, such as economy, low cost, near-premium, non-premium, premium and super premium. In this section, all light vehicles excluding those in the premium or super premium segments will be referred to as "mass market" light vehicles. All light vehicle segments excluding those in the premium segment will be referred to as the "broader market".

The premium segment represents 9.6% of the market, with approximately 8.5 million units sold in 2015. Volvo Cars is categorised as a premium light vehicle manufacturer by LMC. Other major premium brands in this category include Acura, Audi, BMW, Cadillac, Infiniti, Jaguar, Land Rover, Lexus and Mercedes-Benz, among others. The premium segment typically comprises vehicles with high performance and luxurious interiors. Premium light vehicles are sold at higher price points compared to mass market light vehicles.

LMC Automotive sub-divides the premium segment into A-Basic, B-Sub-Compact, C-Compact, D-Midsize, E-Large, F-Large-Plus, G-Sporty, MPV, SUV, Pickup and U-Unclassified sub-categories. The following table represents the LMC Automotive premium sub-categories under which our various models are classified.

LMC Automotive Premium Sub-Category(1)	Volvo Cars Model
C—Compact	V40, V40CC
D—Midsize	V60, V60CC, S60, S60CC and S60L
E—Large	V70, V90, S80, S90 and XC70
SUV	XC60 and XC90

(1) Discontinued models include the Volvo C30, C70, V50, S80L and S40.

Growth Perspectives and Drivers

Both the broader market and the premium segment are affected by a variety of factors, including some of those described below:

- **Global economic environment:** Demand for passenger vehicles is impacted by levels of consumer spending, which in turn depend on a range of factors including consumer sentiment, unemployment rates, GDP growth, and levels of disposable income.
- **Cost and availability of finance:** As a large proportion of vehicles in certain markets, particularly in Europe and North America, are purchased using finance (e.g. leases or sales finance packages), consumer demand for light vehicles is affected by the availability and cost of credit.
- **Vehicle price, taxes and duties, and fuel price:** The up-front vehicle price, coupled with taxes on the purchase of light vehicles impacts their demand. In addition, vehicle subsidies (e.g. for electrified vehicles) also have an impact on demand. Costs associated with vehicle ownership and operation, including taxes on ownership, road tax duties and fuel costs also impact vehicle demand.
- **Customer preferences and vehicle subsidies:** Brand appeal is an important factor that influences customer preferences for specific vehicle categories and models. This is particularly the case for the premium segment.

We believe some key trends impacting the premium segment, which is characterized in particular by customer appreciation for performance, quality, design and prestige brands, include the following:

- **Rising incomes driving growth in emerging markets:** Rising middle class incomes in emerging markets and increasing consumer desire to own "status" items are driving increased demand for premium light vehicles in certain markets. For example, the premium light vehicle market ("***premium market***") in China has grown from 0.2 million units in 2007 to 1.9 million units in 2015, representing a compound annual growth rate (***"CAGR"***) of 31.2%.
- **Geographic diversification:** As a result of the strong growth of the premium market in China and other emerging markets, the geographic composition of the global premium market has become more diversified and less focused on Western Europe and the United States. For example, Western Europe, China and the United States accounted for approximately 35%, approximately 23% and approximately 25%, respectively, of the market in 2015, compared to approximately 50%, approximately 4% and approximately 33%, respectively, in 2007.
- **Growing demand for SUVs:** Driven by consumer preferences and, to an extent, declining fuel prices, the growth in demand for SUVs, particularly in China, has been a key characteristic of the growth of the premium market in recent years. SUVs have grown as a proportion of the total premium market from approximately 20% in 2007 to approximately 25% in 2015. They are expected to continue to be an important part of market growth in future years, accounting for approximately 25% of the forecast growth between 2015 and 2020.
- **Broadening of the premium market:** In recent years, many premium vehicle manufacturers have expanded their model ranges into compact and smaller vehicle categories, particularly the C-Compact sub-category. For example, there were 37 different premium C-Compact models sold in 2015, compared to only 18 in 2007. This has resulted in the premium market broadening its customer reach and increasing its penetration of the overall light vehicle market. This trend is expected to continue in future years, with sales in the premium C sub-category forecast to continue growing at a faster rate than both the non-premium C sub-category and the overall premium market.

Historical and Forecast Unit Sales—by Segment

The following table shows historical and forecast light vehicle sales volumes for the premium market, as compared to the broader market.

	2007	2008	2009	2013	2014	2015	2016	2017	2018	2019	2020	CAGR '07–15	CAGR '15–20
						(Units in millions)						(as percentage)	
Broader Market (ex Premium)	64.1	60.9	59.5	77.0	79.5	80.1	82.8	84.7	87.7	90.9	93.7	2.8%	3.2%
Premium	6.0	5.5	4.9	7.3	8.0	8.5	9.2	9.7	10.3	10.8	11.2	4.6%	5.6%
Total Global . . .	**70.1**	**66.4**	**64.4**	**84.4**	**87.5**	**88.7**	**92.0**	**94.4**	**98.0**	**101.7**	**104.9**	**3.0%**	**3.4%**

Worldwide demand for premium light vehicles has exhibited a CAGR of 4.6%, compared to 2.8% for the broader market from 2007 to 2015. The outperformance of the premium market is forecast to continue, with global unit sales of premium light vehicles projected to exhibit a CAGR of 5.6% as compared to 3.2% for the broader market between 2015 and 2020.

Historical and Forecast Unit Sales—by Sub-Category

The following table shows historical and forecast light vehicle sales volumes by type for the premium segment, as well as CAGRs for the period from 2007 to 2015 and the period from 2015 to 2020.

	2007	2008	2009	2013	2014	2015	2016	2017	2018	2019	2020	CAGR ‘07–‘15	CAGR ‘15–‘20
					(Units in millions)							(as percentage)	
A—Basic	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	(1.2)%	6.5%
B—Sub-Compact	0.2	0.2	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.7	9.2%	11.2%
C—Compact	1.1	1.1	1.0	1.6	1.9	2.2	2.4	2.5	2.7	3.0	3.2	8.4%	8.0%
D—Midsize	1.7	1.6	1.2	1.5	1.5	1.6	1.7	1.7	1.7	1.8	1.8	(0.7)%	3.0%
E—Large	1.0	0.9	0.8	1.1	1.2	1.1	1.2	1.3	1.4	1.4	1.4	1.6%	4.1%
F—Large-Plus	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	(1.6)%	6.7%
G—Sporty	0.4	0.3	0.3	0.5	0.7	0.7	0.8	0.8	0.8	0.8	0.8	9.8%	1.9%
SUV	1.2	1.0	1.0	1.7	1.9	2.1	2.2	2.4	2.6	2.7	2.8	7.2%	5.6%
Other	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.8%	1.1%
Total Global	**6.0**	**5.5**	**4.9**	**7.3**	**8.0**	**8.5**	**9.2**	**9.7**	**10.3**	**10.8**	**11.2**	**4.6%**	**5.6%**

Premium light vehicle sales globally contracted at a CAGR of 9.6% from 2007 to 2009 due to the global economic downturn. Sales subsequently recovered with a CAGR of 12.9% from 2009 to 2011 and 8.3% from 2011 to 2015. Premium light vehicle sales globally are forecast to increase by a CAGR of 5.6% per year from 2015 to 2020.

Between 2015 and 2020, the premium market is forecast to increase by 2.7 million units to reach a size of 11.2 million units. The highest growth rates are forecasted to occur in the B—Sub-Compact and C—Compact segments, with CAGRs of 11.2% and 8.0%, respectively. However, in absolute terms, the largest drivers of incremental growth are forecasted to be the C—Compact and the SUV segments, which are forecast to account for 1.0 million and 0.7 million units of incremental growth, respectively.

Historical and Forecast Unit Sales—by Market

The following table shows historical and forecast premium light vehicle sales volumes and CAGRs in sales from 2007 to 2015 and from 2015 to 2020 for Volvo’s key markets.

	2007	2008	2009	2013	2014	2015	2016	2017	2018	2019	2020	CAGR ‘07–‘15	CAGR ‘15’–20
					(Units in millions)							(as percentage)	
Western Europe, ex Sweden	2.8	2.6	2.3	2.5	2.6	2.9	3.1	3.2	3.3	3.5	3.6	0.2%	4.5%
China	0.2	0.3	0.4	1.5	1.9	1.9	2.3	2.6	2.9	3.1	3.3	31.2%	11.0%
USA	2.0	1.6	1.3	1.9	2.0	2.1	2.2	2.3	2.3	2.4	2.4	1.1%	2.4%
Sweden	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2%	(0.8)%
RoW(1)	0.8	0.8	0.8	1.3	1.4	1.5	1.5	1.5	1.6	1.7	1.8	7.3%	4.5%
Global	**6.0**	**5.5**	**4.9**	**7.3**	**8.0**	**8.5**	**9.2**	**9.7**	**10.3**	**10.8**	**11.2**	**4.6%**	**5.6%**

(1) RoW is according to LMC categorisation and does not correspond precisely with the countries include in the Volvo Cars “Other Markets” category.

Western Europe (excluding Sweden)

The automotive market in Western Europe continues to be driven by general economic recovery, growth in household spending, falling oil prices, and continued low interest rates. Measures of business sentiment and activity are recovering, with improved access to bank finance contributing to the recovery. The market for premium light vehicles is forecast to increase from 2.9 million units in 2015 to 3.6 million by 2020, representing a CAGR of 4.5%.

China

After difficult market conditions in the first half of 2015, the Chinese automotive market recovered in the second half of the year, in part supported by a stimulus package of tax cuts. Despite lower GDP growth rates, the strong long-term fundamentals of the Chinese market remain in place, with demand for new vehicles supported by rural-to-urban migration and income growth for the middle class. In particular, the continued economic emergence of third and fourth tier size cities, where per capita light vehicle ownership is still low, combined with the trend towards customers in coastal cities upgrading their existing light vehicles to premium brands, is predicted to drive the growth of China's light vehicle market in the medium-term.

Premium light vehicle sales in China are forecast to increase by a CAGR of 11.0%, or by 1.3 million units from 2015 to 2020.

Sweden

Premium light vehicles sales in Sweden are forecasted to decline by on average 0.8% per year over the period from 2015 to 2020.

United States

The U.S. economy has broadly recovered from the sharp downturn in 2009 and the premium market has recovered to exceed pre-crisis levels. The market continues to be supported by low oil prices and ongoing wage growth, but this is forecasted to be partly offset by higher interest rates. Demand is projected to increase modestly at a CAGR of 2.4% between 2015 and 2020, supported by improved household finances, including higher wealth and reduced debt loads.

Aftermarket

Volvo is also exposed to the premium light vehicle aftermarket, which comprises the sale of parts and accessories, as well as the provision of services to consumers after the purchase of a light vehicle. The aftermarket tends to exhibit less sensitivity to general economic conditions than the original equipment market as it is driven by the size and usage of the existing vehicle parc.

Other Key Trends Affecting the Light Vehicle Market

Autonomous Driving

There is growing demand by customers for ADAS ("***Advanced Driver Assistance Systems***") and other technologies related to autonomous driving. These are systems developed to automate, adapt and enhance the driving process to improve safety, performance and the overall driving experience. We will start operating an autonomous drive pilot project in 2017 and have introduced a number of innovative solutions in recent years, including run-off-road protection and auto-braking systems. Both the Volvo S90 and Volvo V90 include Pilot Assist, the semi-autonomous driving feature in which acceleration, braking and steering are controlled automatically by the car. We are also pioneering "Drive Me", which, to our knowledge, is the world's first large-scale autonomous driving pilot project that places customers in self-driving cars on public roads, in partnership with the Swedish government and regulatory agencies and Lindholmen Science Park.

Connectivity technologies

There is increasing demand for connectivity technologies in light vehicles. In order to address this trend, we have introduced industry-leading connectivity technologies including Sensus Connect, Volvo On Call, Apple CarPlay and Android Auto. Volvo On Call allows users to control their car remotely via their smartphone (e.g., to monitor key lock status, fuel level and heater timing, as well for emergency support). Apple CarPlay, in partnership with Apple, was first introduced in the all new XC90, which allows for an integrated user experience, offering seamless in-vehicle access to Apple devices and their applications.

CO_2 emissions reduction and electrification

Increasingly strict CO_2 emission regulations in major automotive markets are forcing OEMs to reduce emission levels of their vehicles, and as a result, are contributing to the increased number of vehicle launches incorporating hybrid and fully electric drivetrains. These more stringent standards include, for example:

- In the EU, OEMs must reduce the average CO_2 emissions of their fleet of new cars to 95g/km by 2020–21 from 123g/km in 2014.
- In the United States, the EPA requires fleet-wide CO_2 emissions to be no more than 97g/km by 2025 from 157g/km in 2014.

- In China, a rule has been proposed under which average CO_2 emissions of new passenger vehicles will be limited to 117g/km by 2020 from 161g/km in 2015.

We are focused on increasing the level of electrification of our vehicles and introducing efficiency measures including three cylinder engines and plug-in hybrid electric vehicle (PHEV), among others.

Competitive Landscape

We face competition from other premium brands and, to an extent, other vehicle manufacturers that aspire to move into the premium segment. Within the premium segment, we primarily compete with BMW, Mercedes-Benz, Audi and Lexus. We currently hold a number five position in the premium market. Below is a table of the key premium brands, their respective units sold and relative market positions in 2015:

	Position	2015 Units	Premium Segment Market Share
BMW	1	1,841,401	21.5%
Mercedes-Benz	2	1,806,947	21.1%
Audi	3	1,768,562	20.6%
Lexus	4	582,772	6.8%
Volvo	**5**	**503,127**	**5.9%**
Land Rover	6	381,616	4.4%
MINI	7	325,095	3.8%
Cadillac	8	265,818	3.1%
Acura	9	206,700	2.4%
Porsche	10	188,838	2.2%

BUSINESS

Overview

Founded in 1927, we are a global automotive brand focused on the design, engineering, manufacture, distribution and sale of premium cars, as well as related parts and services. Our long heritage is underpinned by a reputation for safety and technology, and we are credited with industry leading innovations such as the introduction of the three-point safety belt, the rear-facing child safety seat and the child booster cushion.

Headquartered in Gothenburg, Sweden, we design, develop, manufacture, market and sell a range of premium cars, including sedans, wagons, sportswagons, cross country vehicles and SUVs. Our range of premium cars is recognised for its design, safety and technological innovation. In 2015, we sold more than half a million cars for the first time in the Company's history, with sales of thirteen models across three series: the XC Series, the V Series and the S Series. In the twelve months ended 31 March 2016, the XC Series represented 48.8% of our retail sales, the V Series represented 37.5% of our retail sales and the S Series represented 13.7% of our retail sales. We will begin selling two new models, the Volvo V90 (which will replace the Volvo V70 model) and the Volvo S90 (which will replace the Volvo S80), in 2016. Our product range is headlined by the all new Volvo XC90, which is built on our new proprietary SPA and equipped with Drive-E powertrain from our VEA, both of which are the foundation for our next generation of cars. Our all new Volvo XC90 has won more than 50 accolades, including numerous prestigious awards such as the Red Dot "Best of the Best" Product Design Award, the 2016 North American Truck of the Year and the Auto Express New Car Awards—Car of the Year 2015 and Large SUV of the Year 2015.

Our 2016 product portfolio includes:

- the Volvo XC series, which range comprises three models: XC90, XC70 and XC60. The Volvo XC90 is a large luxury crossover SUV, the Volvo XC70 is a station wagon with off-road capabilities and the Volvo XC60 is a compact crossover SUV.
- the Volvo V Series, which range comprises six models: V90, V70, V60 (including the Cross Country model) and V40 (including the Cross Country model). The Volvo V90 is a five-door premium station wagon, the Volvo V70 is a large five-door station wagon, the Volvo V60 is a sporty five-door premium sportswagon, and the Volvo V40 is a five-door hatchback.
- the Volvo S Series, which range comprises five models: S90, S80, S60 (including the Cross Country and S60L models). The Volvo S90 is a luxury sedan, the Volvo S80 is a mid-size executive sedan, and the Volvo S60 is a four-door compact executive sedan, with the Volvo S60L being the long wheel base version of the Volvo S60.

We have a global manufacturing footprint with an integrated third-party supply chain that allows for production flexibility, responsiveness to market demand and cost optimization. We operate four car plants, one assembly plant, two engine plants, and one body component plant across Europe and Asia, with an additional car plant currently under construction, planned to commence production in 2018 in North America. We also operate four research and design centres in Europe, Asia and North America. During the first quarter of 2016, we employed, on average, 28,000 full time employees globally.

Following the acquisition by Geely of Volvo Car Corporation from Ford in 2010, we implemented a strategic transformation of the Company, from a division within a large automobile group into a standalone premium car manufacturer. Between 2010 and 2015, we made significant investments in technology, our geographical footprint and our internal organisation to establish the foundation on which we target to profitably grow in the future. With this period of significant investment complete, we are now building on this foundation and will substantially refresh our product portfolio in the next three years while expanding our three-pillar geographic strategy focused on Europe, China and the United States. With more than 88,000 orders for the Volvo XC90 in 2015, and production of the Volvo S90 and V90 to begin in 2016, we believe in the benefits of these investments.

In 2015, approximately 2,290 Volvo Cars dealers sold 503,127 cars in more than 100 countries around the world generating SEK 164,043 million and SEK 16,019 million of revenue and EBITDA, respectively.

The following table presents our total retail sales, including retail sales in our key markets as a percentage of total retail sales, net revenue, average net revenue per car and EBITDA for the years ended

31 December 2013, 2014 and 2015, the quarters ended 31 March 2015 and 2016 and the twelve months ended 31 March 2016.

(SEK millions, except retail sales and average net revenue per car)	Year ended 31 December			Quarter ended 31 March		Twelve Months ended 31 March
	2013	2014[(1)]	2015[(2)]	2015[(2)]	2016	2016
Retail Sales	**427,840**	**465,866**	**503,127**	**107,721**	**120,591**	**515,997**
Western Europe[(3)]	38.9%	39.1%	39.4%	40.4%	40.9%	39.5%
China	14.3%	17.5%	16.2%	16.1%	16.3%	16.3%
Sweden	12.2%	13.2%	14.2%	13.1%	13.3%	14.2%
United States	14.3%	12.1%	13.9%	12.7%	13.6%	14.1%
Other Markets[(4)]	20.3%	18.1%	16.3%	17.7%	15.9%	16.0%
Net Revenue	**122,245**	**137,590**	**164,043**	**33,651**	**41,757**	**172,149**
Average Net Revenue per Car	**285,726**	**295,342**	**326,047**	**312,390**	**346,269**	**333,624**
EBITDA	**9,057**	**9,491**	**16,019**	**2,237**	**5,588**	**19,370**

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(3) Excluding Sweden.

(4) Other Markets includes markets such as Japan, Russia and South Korea, among others.

Our Competitive Strengths

We believe we have the following competitive strengths:

Differentiated premium brand "Designed around You"—Human-centric technology with modern values and leadership in safety

Founded in 1927, we have a long-standing history as a leader in safety and technological innovation. Our cars are currently sold in more than 100 countries worldwide. We believe that the long history and global appeal of the Volvo brand lies at the heart of our commercial success.

We have been a leading innovator in safety for decades, and the Volvo brand is synonymous with leadership in passenger safety. We introduced the first three-point safety belt in 1959, the first rear-facing child safety seat in 1964, the first side impact protection and whiplash protection in 1991 and 1998, respectively, and the first demonstration of adaptive cruise control in 2013. We believe our excellence at technological innovations related to safety has also enabled us to become an early leader in autonomous driving technology, as evidenced by our participation in, what, to our knowledge, is the first large-scale autonomous driving pilot project on public roads with customers in self-driving cars, which will commence in 2017. Our brand has also long been associated with efficiency and environmental leadership. We introduced the first plug-in diesel hybrid car in 2012, launched our Drive-E powertrain in 2013, and introduced the twin engine concept combining an electrical engine and 4-cylinder engine in 2015. We also believe we are the first car manufacturer to commit to a 3- and 4-cylinder strategy across our entire product portfolio. We believe these innovations strengthen the quality and commercial appeal of our brand and products.

First unveiled in our 2013 concept cars, our next generation of cars reflects a modern human-centric Scandinavian design focused on increasing the premium and emotional appeal of our products. This premium design language is expressed in our all new Volvo XC90 which has been met with market and critical acclaim, winning the "Best of the Best" Product Design Award by Red Dot in 2015, and in the Volvo S90 and the Volvo V90, both launched in 2016.

Non-complex, fully invested base modular architecture—leads to cost efficiencies and rapid product renewals

In 2015, we produced our first car on our new proprietary SPA, which marks the completion of several years of research and development investment. This product architecture is highly flexible and will form the basis of all our upcoming new mid-sized and large sedans, wagons, cross-overs and SUVs (i.e., the 60 and 90 models), substantially reducing the incremental costs associated with future models.

Our SPA uses shared modules and scalable systems and components, which allow for a wide range of cars and technologies of different complexities to be built on the same architecture. Material and component costs can be shared across different models on the architecture. By maximizing the number of models and units produced on the same architecture, we are able to reduce unit costs. The SPA increases our ability to leverage the increased scale of shared components across models, reduce new car development costs and the time taken to bring new models to market and increase the flexibility of our production lines.

This approach is mirrored in our new powertrain architecture, which consolidates several separate architectures into a single, proprietary architecture, VEA, launched in 2013 and consisting of one petrol and one diesel 4-cylinder engine, together called the Drive-E. These engines are highly flexible in variants, offering power outputs ranging from 122bhp to more than 400bhp (in combination with an electric motor), which makes them well suited to power the majority of our existing and future model line-up. This flexibility also enables cost savings due to the high component commonality between individual engines and production efficiencies due to increased economies of scale and easier installation. The increased commonality between engines in the range also enables greater flexibility to adapt production to changes in demand for different car models and engines.

We have a diverse product portfolio to cater to different types of consumer demand. Our retail sales performance reflects the full diversity of this portfolio, with a balance of sales between different models and car sizes. For example, in the twelve months ended 31 March 2016, 48.8% of our retail sales were SUVs and cross-over models (XC series), 37.5% were wagons (V Series) and 13.7% were sedans (S Series). Our best-selling model, the XC60, which received a redesign in 2013, was the number one selling mid-size SUV in Europe in 2015, according to LMC Automotive.

The recent launch of the all new Volvo XC90, the first model based on the SPA, has also been well received by the market, with more than 88,000 orders received in 2015. The XC90 has won a series of key industry awards for its design, innovativeness and overall product quality and performance, including among others: Auto Express' 2015 "Car of the Year"; Auto Lider's "Automotive Launch of the Year"; Auto Moto & Sport's "Best Big SUV"; Automotive Innovations "Most Innovative Car of 2015"; and Red Dot's "Best of the Best" Design Award. The pricing of XC90 units sold in 2015 represents an increase over the average selling price of its predecessor in 2014, reflecting the model's desirability, enhanced premium position in the market and increased demand for additional options and features. We believe the popularity of this new launch shows the commercial strength of our brand and our new SPA, our Drive-E powertrain and our new design direction that will serve as the basis for our other upcoming new models.

Three "home markets" strategy—Industrial presence, natural hedging and local product insight

We market and sell our cars through a sales and distribution network in more than 100 countries across all key global regions. We have successfully increased the geographic diversity of our sales in recent years, particularly across Asian markets, which we believe gives us well balanced exposure to different global markets. In the twelve months ended 31 March 2016, we sold 39.5% of our cars in Western Europe (excluding Sweden), 16.3% in China, 14.2% in Sweden, 14.1% in the United States and 16.0% in Other Markets.

Our globally diversified sales are supported by our flexible, local sourcing and production model. Our plants in Sweden, Belgium, China and Malaysia ensure both sourcing and manufacturing take place close to the major markets for our products. This model allows us to respond quickly and efficiently to changing demand in local markets, reduces working capital requirements and, to a degree, provides a natural hedge against foreign exchange movements.

Our plants offer the flexibility to expand capacity with minimal or no additional capital expenditure by, for example, increasing the number of shifts operated by plant personnel or investing in more equipment. This flexibility enables us to increase or decrease our production levels in response to changes in market demand at short lead times and in a cost-efficient manner.

Well positioned for technology shift

We believe we are well positioned to benefit from key trends in the premium automotive market given our ongoing investments in areas such as emissions reduction and electrification, autonomous driving and connectivity.

Electrification and emissions reduction

Tighter emissions regulations are being implemented around the world, and we also see growing consumer interest in electrified cars. As one of the largest manufacturers of plug-in hybrid cars in Europe, we are well positioned to meet these standards, in particular the European Union fleet emissions targets. Our average fleet emissions in 2014 were 126 grams of CO_2 per km (112 grams of CO_2 per km if adjusting for allowed phase-in and super credit relief), which we believe compares favourably to our competitors. We believe our strategy of focusing on 3 and 4-cylinder powertrains and electrification and our prior investments in our Drive-E powertrain will serve to further strengthen our position in respect of emissions regulations while also meeting consumer demands. For example, our strategy of combining our 4-cylinder 2.0L engine with an electric motor serves to maximize horsepower performance of the powertrain while minimizing emissions levels.

Autonomous driving

We believe we are on the technological forefront in the development and application of autonomous driving technologies. Both the Volvo S90 and the Volvo V90 include Pilot Assist, the semi-autonomous driving feature in which acceleration, braking and steering are controlled automatically by the car. We are leading "Drive Me", which, to our knowledge, is the world's first large-scale autonomous driving pilot project that places customers in self-driving cars on public roads, in partnership with the Swedish government and regulatory agencies and Lindholmen Science Park. Starting in 2017, this project aims to have 100 self-driving Volvo cars on public roads.

Connectivity

In keeping with our human-centric approach to product design, we have introduced industry-leading connectivity technologies including Sensus Connect, Volvo On Call, Apple CarPlay and Android Auto. Volvo On Call was first launched in 2001 and offers comprehensive connected car services such as a remote safety feature that provides safety tracking services in case of an accident, breakdown or theft, and allows the customer to control the car remotely. Volvo On Call is used by more than 356,000 subscribers in 21 markets worldwide. We are one of the few OEMs to incorporate this connectivity technology into our cars, and the success of Volvo On Call shows the benefits of our partnership approach with other leading companies to ensure our customers have the best technology incorporated seamlessly into their cars.

New ways to customers

We believe the future customer will be looking for an experience rather than a car only. Therefore, we believe in creating customer centric service products providing the customer with a mobility experience. In order to do that we intend to develop new service concepts focusing on carefree car ownership with personalized connected services.

We also believe it is important to develop new ways to meet our customers. For example, we are working with our dealership network to be at the forefront for offerings through an e-commerce channel. In 2014, we commenced our digital commerce operations with the exclusive online launch of 1,927 all new Volvo XC90 First Edition Cars. The success of the XC90 First Edition (with all cars sold within 47 hours) demonstrates the power of digital commerce for our strategic plan.

Strong management team with solid governance—and a long-term committed shareholder

We are led by a highly experienced management team which combines individuals with deep knowledge and experience of Volvo Cars and extensive industry experience. In particular, our CEO, Håkan Samuelsson, was formerly CEO of DAX listed MAN from 2005 to 2009. Our Company is also supported by an independent, international and experienced Board of Directors, with a combined wealth of experience from the automotive industry and other sectors.

We benefit from a highly committed shareholder in Geely. Geely is also the largest shareholder in Geely Automotive, one of China's largest non-state owned automotive manufacturers and publicly listed on the Hong Kong Stock Exchange. Geely supports our operational independence while also facilitating important co-operation with Geely Automotive. For example, we are co-operating with Ningbo Geely and its wholly owned subsidiary, CEVT, in the development of the CMA, which will form the basis of our upcoming C-segment cars (i.e., the 40 models).

Our industrial arrangement with Geely provides us with a unique position in the Chinese market and allows us to capture the benefits from this industrial structure globally. This structure enables us to more easily leverage our production bases in China to export both components and cars to different markets, and flexibly shift our production between domestic manufacturing and imports to respond to different levels of demand. The structure also positions us as the only international passenger car OEM to fully consolidate the financial results of its China joint ventures, increasing the transparency of our financial results.

Strategy

We are a leading global manufacturer of premium cars. Our approach is human-centric: we design, develop and build cars for people. We intend to build upon our brand strength and heritage of innovation, safety and environment to further strengthen our position as a global premium car manufacturer. Following our acquisition by Geely in 2010, we implemented a strategic transformation of the Company, from a division within a large automobile group into a standalone premium car manufacturer with a focus on people, advanced technology, safety, environment and elegant Scandinavian design.

Our strategy encompasses two clearly defined phases. The first phase, initiated in 2010 and completed in 2015, was a period of investment in advanced industrialization to establish the foundation on which we target to profitably grow in the future. During the first phase, we undertook the largest investment programme in our history. Our selected areas of focus during the first phase included technology (e.g., vehicle and powertrain architecture), our industrial footprint and our internal organisation. The all new Volvo XC90 is the first of a series of models reflecting the benefits of these investments. Phase 2 builds upon the foundation laid during the first phase, aiming to substantially refresh our product portfolio with the roll out of a wide range of new products based on our SPA and Drive-E powertrain, leverage upon our next generation engine architecture and continue our three-pillar geographic strategy focused on Europe, China and the United States. With our first phase complete, we have already begun to see the results of our investments. In 2015, we sold more than half a million cars for the first time in the Company's history, while at the same time tripling our operating income from the prior year.

In the second phase, we aim to focus on execution. We have refined our corporate objectives to enable us to deliver attractive premium products designed to meet our customers' requirements, thereby becoming a true premium alternative in all of our car segments and delivering sustainable growth and profitability. We believe the implementation of the newly defined strategic focus areas outlined below will give direction and impact each of the key areas within the Company: brand, design, product, research & development, purchasing & manufacturing, marketing, sales and customer service and people. We further believe the implementation of the strategic focus areas will enable us to achieve our medium-term goal of annual sales of more than 800,000 cars globally.

Strategic Focus Areas

Deliver sustainable profitability

Over the past five years, we have made major investments in technical streamlining of our base car architecture as well as our powertrain offer which will enable us to reduce complexity, improve flexibility and efficiency, and significantly decrease product costs. These investments in vehicle architecture and powertrains, together with our product renewals, should enable us to position all our new cars in the premium segment, in which we expect to achieve increased pricing power, further enhancing our future product offering. Moving forward, we also aim to reduce lead times for customer orders and optimize inventory levels. We believe the measures referred to above should allow us to continue to improve our profitability, margins and cash flow generation through our active revenue management and intense cost focus.

Further enhance the Volvo brand with customer centricity throughout the value chain

We have adopted a human-centric approach which puts the customer at the heart of everything we do. We are committed to deliver on our brand promises: "We understand you", "We protect what is important to you", and "We make you feel special". Our human-centric approach translates into our commitment to provide safe cars without compromising on performance, innovation or our Scandinavian design. Going forward, all of our cars will reflect the premium nature of the Volvo brand and include our human-centric Scandinavian design signatures. Our cars will offer a large range of features such as effortless connectivity to our customers' devices and highly exclusive and innovative services that simplify our customers' lives.

Leverage on our modular product architecture and strive for leadership in autonomous driving and electrification

We believe electrification and autonomous driving are important technology developments within the premium automotive industry and believe we are well positioned to capitalise on these trends and further enhance our technological strengths. We have a modular product architecture in place which creates a solid base for model renewals and, at the same time, acts as a platform for our initiatives in electrification and autonomous driving.

Following the success of the Volvo V60 Diesel Plug-in hybrid launched in 2012, we have continued to work on our competitiveness within electrification, which translated into the creation of a petrol plug-in hybrid version of the all new Volvo XC90. As part of our electrification strategy, we plan in the future to introduce plug-in hybrids across our entire product range, develop a new range of electrified smaller cars and to build a fully electric car. We strongly believe in the creation of sustainable mobility solutions to create new attractive solutions for our customers.

With our strong heritage and focus on real-life safety in our cars, it is a logical step for us to aim to be a leader in the development and application of autonomous driving technologies. In partnership with the Swedish government, regulatory agencies and Lindholmen Science Park, we are leading "Drive Me", to our knowledge, the world's first large-scale autonomous driving project that places normal customers in self-driving cars on public roads. Starting in 2017, the "Drive Me" project aims to have 100 self-driving Volvo cars on public roads. Similar partnerships with other governments are in the process of being developed, for example, in China and the United Kingdom.

We employ a user-centric approach to connectivity and have established a number of collaborations in order to offer relevant solutions to our customers. We view built-in connectivity solutions as important enablers for increased safety and future mobility experiences.

Value creating standardised services throughout lifecyle and develop additional channels to customers

We believe the future customer will be looking for a unique mobility experience rather than a car only. Therefore, over time, we intend to provide an offering of customer centric service products aimed at providing the customer with such a mobility experience. In order to do so, we intend to develop new service concepts focused on carefree car ownership with personalized connectivity services.

We also believe it is important to develop new ways to reach our customers. For example, we are working with our dealership network to be at the forefront for offerings through an e-commerce channel. In 2014, we commenced our digital commerce operations with the exclusive online launch of 1,927 all new Volvo XC90 First Edition Cars. The success of the XC90 First Edition (with all cars sold within 47 hours) demonstrates the power of digital commerce for our strategic plan.

Our financial services and our continuing insurance programs are examples of ways in which we strengthen our product offering and sales presence. We will continue to seek strategic collaborations that deliver benefits to our customers in many different areas.

Leverage our three "home markets"

Our three "home markets" are Europe, China and the United States. We believe that by being close to our customers we develop an in-depth understanding of their specific needs and are better able to design solutions to satisfy these needs. Moreover, a strong global presence will give us better access to talents and technologies that are critical in the fast moving automotive industry with its major upcoming technology shifts.

We also believe that a strong industrial presence in our three "home markets" supports a flexible global footprint. One pillar in our production strategy is to produce where we sell and source where we produce. By doing so, we remain flexible to meet local changes in demand and keep a just-in-time delivery strategy. Our production strategy also provides a partial natural hedge against currency fluctuations ensuring the competitiveness of our products in local markets. The flexible set-up of our plants should also allow us to produce multiple models of cars and car parts at the same plant, and when advantageous, to export cars and car parts to other markets.

In Europe, we are aiming to continue to expand our European volume and profit base on the back of our new and enhanced product portfolio. In China, we intend to continue to produce cars as well as engines both for sale in China and for export to other markets. With our new testing facilities in Shanghai, we intend to further strengthen our local research and development capabilities and growth of local talent. In the United States, in order to locally produce cars for the U.S. market, we began construction on a new car plant in Berkeley County, South Carolina in September 2015, currently planned to be operational in 2018. We view the United States as an important market where we should strengthen our local research and development capabilities beyond our current design center in California.

A global organization with passion for customers, cars and responsible business conduct

Our aim is to reinforce the new global organisation in place to support our three-pillar geographic strategy. Our growth plans in each of Europe, China and the United States are bolstered by our growing presence in each of the markets. Our strategic plan envisions further building a global, nimble organization with a strong customer understanding and with an open and trusting environment where everyone collaborates, embraces change and continuously learns from each other. Being consistent in living our Volvo brand values and sustainability promises makes us an attractive employer for both current employees and young talents outside Volvo Cars.

Heritage

The following list of events in chronological order presents the key milestones in our history.

- 1927: AB Volvo founded. AB Volvo launches its first car model, the ÖV 4.
- 1959: Volvo engineer Nils Bohlin introduces the innovative three-point seatbelt into the Volvo PV544 model. It is estimated that over a million lives have been saved as a result of Volvo waiving its patent rights so other companies could use the technology.
- 1964: Volvo opens its Torslanda plant in Sweden, which remains the largest production plant.
- 1991: AB Volvo introduces its Side Impact Protection System.
- 1999: Ford acquires the Company, a subsidiary of AB Volvo.
- 2002: Volvo Cars launches its first SUV model (the XC90).
- 2010: Geely acquires the Company from Ford. With Geely's support, Volvo Cars adopts a new strategy and begins the development of the SPA.
- 2013: Volvo Cars enters into joint venture agreements for the establishment of the Chinese Joint Ventures, representing a further step towards expansion and establishment in the Chinese market.
- 2014: Volvo Cars launches the Volvo XC90, the first car in the next generation of cars, and the first model built on the SPA.
- 2015: Volvo Cars acquires an additional 20% interest in the Chinese Joint Ventures, increasing its ownership interest to 50%.
- 2015: Volvo Cars completes the acquisition of Polestar Performance AB, a provider of car performance improvement systems, including performance-related software and aftermarket tuning hardware, and Polestar Holding AB, the owner of the Polestar trademarks. Volvo Cars has not acquired the racing division of Polestar.

Our Cars

We design, develop, manufacture and sell a range of premium cars, including sedans, wagons, sportswagons, cross country vehicles and SUVs. Our range of premium cars is recognised for its design, safety and technological innovation. In 2015, we reported sales of thirteen models across three series: the Volvo XC Series (XC90, XC70 and XC60), the Volvo V Series (V70, V60, V60CC, V40 and V40CC) and the Volvo S Series (S80, S80L, S60, S60L and S60CC).

Over the next three years, we aim to substantially renew our product portfolio. In 2014, we launched the Volvo XC90, the first new model in our next generation of cars, and in 2016, we launched the Volvo S90 and Volvo V90. As part of the renewal of our product portfolio, the 70 and 80 models will be phased out. Our new product portfolio will ultimately consist of three model ranges (40, 60 and 90) within the three series (XC, V and S).

The Volvo XC Series: Comprises three models—XC90, XC70 and XC60.

- **XC90:** The XC90 is a large luxury crossover SUV. It was introduced in 2002 and re-introduced in 2014.
- **XC70:** The XC70 is a station wagon with off-road capabilities, introduced in 2007 and redesigned in 2013.
- **XC60:** The XC60 is a compact crossover SUV, introduced in 2008 and redesigned in 2013. The XC60 has been our best-selling model since 2009. Its awards include the Top Safety Pick by IIHS in 2013. The XC60's successor is intended to be launched as part of Phase 2 on the SPA.

The Volvo V Series: Comprises six models of five-door body cars—V90, V70, V60 (including the Cross Country model) and V40 (including the Cross Country model).

- **V90:** The Volvo V90 is a premium five-door station wagon. It was introduced in 2016, and is the latest in Volvo Cars' top-of-the-line 90 series. The V90 will replace the V70.
- **V70:** The V70 is a large five-door station wagon, originally launched in 2007 and redesigned in 2013.
- **V60:** The V60 is a sporty five-door premium sportswagon, originally launched in 2010 and redesigned in 2013. The V60's successor is intended to be launched as part of Phase 2. The V60 Plug-In Hybrid combines an electric car, hybrid car and high-performance car all in one. It was originally launched in 2012. The V60 Twin Engine is one of the top-selling plug-in hybrids in the European premium segment market.
- **V60CC:** The V60CC is an all-wheel drive five-door premium sportswagon, originally launched in 2014.
- **V40:** The V40 is a five-door hatchback with sleek design and class-leading driving dynamics, originally launched in 2012. It was the first car globally with a pedestrian airbag and pedestrian/cyclist detection system enabling automatic braking. The V40's successor is intended to be launched as part of Phase 2 on the CMA.
- **V40CC:** The V40CC is the cross country version of the V40 with off-road capabilities, rugged design cues and increased ride height, originally launched in 2012. The V40CC's successor is intended to be launched as part of Phase 2 on the CMA.

The Volvo S Series: Comprises six models—S90, S80, S80L, S60 (including the cross country model) and the S60L.

- **S90:** The S90 is a luxury sedan. It was introduced in 2016. The S90 will replace the Volvo S80.
- **S80:** The S80 is a mid-size executive sedan, originally launched in 2006 and redesigned in 2013.
- **S80L:** The S80L is a long-wheelbase variant of the S80, with a wheelbase that is 140mm longer than the standard S80. It was built at the Chongqing plant and introduced locally in China in 2011. The S80L was discontinued in 2015.
- **S60:** The S60 is a four-door compact executive sedan, originally launched in 2010 and redesigned in 2013. The S60's successor is intended to be launched as part of Phase 2 on the SPA.
- **S60L:** The S60L is a long-wheelbase variant of the S60, with a wheelbase that is 12 mm longer than the standard S60. It was launched in 2013 and we began exporting the S60L to the United States in June 2015. In 2015, we launched a petrol plug-in hybrid of the S60L, which is one of the first premium plug-in cars to be manufactured and sold in China.
- **S60CC:** The S60CC is the cross country version of the S60. It was launched in January 2015 and reached distributors in Summer 2015.

The table below presents our retail sales by model for the years ended 31 December 2013, 2014 and 2015, the quarters ended 31 March 2015 and 2016 and the twelve months ended 31 March 2016. For details regarding retail sales by region, please see "*Management's Discussion and Analysis of Financial Conditions and Results of Operations—Retail Volumes—Retail Volume Performance by Region*".

	Year ended 31 December			Quarter ended 31 March		Twelve Months ended 31 March
	2013	**2014**	**2015**	**2015**	**2016**	**2016**
XC Series						
XC90	23,784	17,869	43,102[(1)]	635[(1)]	21,701[(1)]	64,168
XC70	24,418	29,092	30,175	7,561	7,668	30,282
XC60	114,010	136,993	159,617	36,709	34,315	157,223
V Series						
V70	26,133	27,795	27,841	6,132	6,395	28,104
V60	54,666	61,977	51,333	13,648	9,040	46,725
V60CC	—	—	10,008	354	4,175	13,829
V40	78,307	84,771	83,357	18,989	18,243	82,611
V40CC	21,604	26,093	23,274	5,999	5,087	22,362
S Series						
S80	7,951	7,668	6,761	1,586	1,173	6,348
S80L[(2)]	3,531	4,821	3,569	748	47	2,868
S60	61,579	44,255	35,962	10,196	5,511	31,277
S60L	67	23,368	27,352	5,156	6,773	28,969
S60CC	—	—	764	0	463	1,227
Other[(3)]	11,790	1,164	12	8	0	4
Total	**427,840**	**465,866**	**503,127**	**107,721**	**120,591**	**515,997**

(1) For the year ended 31 December 2015 includes retail sales of 2,481 of the Volvo XC90 (classic) and 40,621 of the Volvo XC90 (new). For the quarters ended 31 March 2015 and 2016 includes retail sales of 634 and 886, respectively, of the Volvo XC90 (classic) and 1 and 20,815, respectively, of the Volvo XC90 (new).

(2) Discontinued in 2015.

(3) Includes the Volvo C30, C70, V50 and S40, which are all discontinued.

Design

Our cars are designed and developed by award-winning teams at our design centers in China, Sweden and the United States. Our three-stage design process focuses on functionality, quality and precision of detail and visual expression. Inspired by the design of modern high-tech sports equipment, we believe our cars are sophisticated, safe and capable cars for people with an active lifestyle. Our Swedish heritage and strong connection to the Scandinavian lifestyle is reflected in our "Scandinavian Design". As of 31 December 2015, we operated three design facilities with a total of 221 full-time employees working in design.

Technology

We have invested heavily in the development of technologically advanced cars, and are at the forefront of advances to exploit current premium market trends, including vehicle architecture, engine architecture, safety, autonomous driving, electrification, CO_2 emissions and connectivity.

Vehicle Architecture

With the development and introduction of the SPA and the continued development of the CMA, we plan to consolidate five existing architectures into two new flexible modular architectures, taking advantage of both vertical (SPA) and horizontal (CMA) economies of scale, lowering new model development costs and reducing time to market. We currently aim to produce all of our cars on this new architecture in the forseeable future.

Scalable Product Architecture

The all new Volvo XC90 was the first car built on the in-house developed SPA. The SPA is a global, full-size unibody automobile architecture which has been under in-house development since 2010. The

SPA utilises shared modules and scalable systems and components, allowing a wide range of cars, all of differing complexity, to be fitted on the same architecture, generating significant economies of scale and cost optimization.

Compact Modular Architecture

Since 2014, we have been co-developing with Ningbo Geely and its wholly owned subsidiary, CEVT, the next-generation C-segment vehicle architecture for smaller compact cars, CMA, which will form the basis of our upcoming C-segment cars (i.e, the 40 models). The development costs for the CMA will be shared equally. Furthermore, the cash investment for research and development required to develop this architecture is being initially funded by Ningbo Geely. We will pay our share of the research and development costs when the architecture is fully developed and models based on it are launched. The technology, however, will be owned by Ningbo Geely, and we will have an irrevocable, perpetual license to use such technology.

CMA, as a modular architecture, allows for the development of different cars with different performance levels, to be fitted on the same architecture, ensuring tailor-made solutions for Geely and Volvo brands. With the CMA, we and Geely Auto are able to cost share across models of small cars with different levels of performance and across the two companies and leverage Geely's Chinese sourcing and procurement capabilities.

Powertrain Architecture

In 2013, we introduced a new powertrain family and architecture, Volvo Engine Architecture, featuring high specific performance, a modular light weight base powertrain and low fuel consumption. VEA consolidates seven architectures into a single architecture with two engines, called the Drive-E powertrain. The Drive-E powertrain consists of two 4-cylinder engines (diesel and petrol versions) prepared for future electrification that cover the full powertrain from entry performance to high performance. Through the use of the VEA, we are able to take advantage of economies of scale and production efficiency and flexibility due to the similarity in powertrain mountings and component commonality. Additionally, in collaboration with Geely, we are currently developing a low emission 3-cylinder engine for smaller cars.

Safety

Safety technology development is a focus area for us. We were the first to develop many safety features, including the three-point safety belt in 1959 and the rear-facing child safety seat and child booster cushion features. Further achievements in safety include Driver Alert in 2005 and the low speed collision avoidance system, pedestrian air-bag and cyclist detection with full auto-brake from 2008 to 2013.

The all new Volvo XC90 offers a highly comprehensive and technologically sophisticated safety package, including two world first safety technologies, a run-off road protection package and auto brake at intersection capability. The Volvo XC90 has been awarded five stars and achieved top ratings in its 2015 Euro NCAP tests, receiving a score of 100% in the Safety Assist category and being the first car from any manufacturer to achieve the maximum score in two Autonomous Emergency Braking tests, AEB City and AEB Interurban. Both the Volvo S90 and the Volvo V90 include one of the most advanced standard safety packages on the market, with the world first function of large animal detection which provides an intuitive warning and brake support to help the driver avoid or mitigate a collision with large animals.

With run-off road accidents being a common cause of fatal traffic accidents, we have developed a run-off road protection package, which includes Safe Positioning, Lane Keeping Aid, Driver Alert Control and Rest Stop Guidance, to protect occupants from run-off road scenarios. The Safe Positioning capability detects a run-off road scenario and tightens the front safety belts to keep occupants in position. To prevent such run-off road scenarios, safety technologies such as the Lane Keeping Aid apply extra steering torque if the car is about to leave the lane unintentionally while Driver Alert Control detects and warns inattentive drivers and Rest Stop Guidance directs drivers to the nearest rest area. City Safety, our standard offering of auto brake functions, includes collision-avoidance and mitigation technologies as well as the world-first auto brake at intersection capability.

Autonomous Driving

We believe we are on the technological forefront in the development and application of autonomous driving technologies, which have the power to improve safety by reducing the number of traffic accidents, easing traffic congestion and improving fuel economy.

Both the Volvo S90 and Volvo V90 are equipped with the advanced semi-autonomous driving feature, Pilot Assist. With Pilot Assist, the acceleration, braking and steering are controlled by the car automatically. In the Volvo S90 and Volvo V90, the feature operates at speeds of up to 130 km/h and no longer requires that another car be followed. This feature brings us one step closer towards fully autonomous driving.

We are also leading, to our knowledge, the world's first large-scale autonomous driving pilot project that places customers in self-driving cars on public roads in Gothenburg, Sweden called "Drive Me". The Drive Me project, which began in the spring of 2014, is a joint initiative among Volvo Cars, the Swedish Transport Administration, the Swedish Transport Agency, Lindholmen Science Park and the City of Gothenburg. In September 2015, we agreed to work in cooperation with Autoliv, the automobile safety technology company, on the Drive Me project. We plan to work together with them to share research and developments in the latest safety technologies and progress the introduction of active safety systems. Starting in 2017, this project aims to have 100 self-driving Volvo cars on approximately 50 kilometers of public roads available to the general public in Gothenburg. The first test cars began driving in and around Gothenburg in the spring of 2014 and the autopilot technology has performed in line with expectations to date.

Electrification

We are one of the largest manufacturers of plug-in hybrid cars in Europe, and we believe we have advanced car electrification technology. We are continuing to increase the level of electrification in our product portfolio as well as make continued efficiency innovations such as twin engine (one electrical engine and one combustion engine), three cylinder engines, electric and plug-in hybrid engines. We recently announced our electrification strategy whereby we plan in the future to introduce plug-in hybrids across our entire product range, develop a new range of electrified smaller cars and build a fully electric car. Both the SPA and the CMA have been designed to support plug-in and pure electric powertrain configurations. Additionally, the Drive-E powertrain has been prepared for electrification from the outset.

Connectivity

In line with our human-centric approach, we have introduced industry-leading connectivity technologies, including Volvo On Call, Sensus Connect, Android Auto and Apple Car Play, among others. Launched in 2015, Sensus is our advanced in-car control system that includes Sensus Connect, which provides customers with integrated applications, smartphone integration and a navigation system. With the inclusion of Apple CarPlay on the all new Volvo XC90, the Volvo S90 and the Volvo V90, we became one of the few OEMs to have partnered with Apple to provide this new connectivity technology. Apple CarPlay allows for a wholly integrated user experience offering seamless access to Apple device applications. Launched in 2000, Volvo On Call provides comprehensive connected car services, such as a remote safety feature that provides safety tracking services in the case of an accident, breakdown or theft. Going forward, we are investigating a new range of connected car services, based on Sensus Connect and the Volvo Cloud ecosystem, in which cars will not only be able to communicate with other drivers but be used in a wide range of other applications.

CO_2 emissions

With tighter CO_2 emissions regulations being implemented around the world and ambitious future emissions regulation targets, we are leading our competitors with one of the lowest fleet emissions in the premium automotive segment. Our Drive-E powertrains have very competitive power ratings in relation to their CO_2 emissions. We are well-positioned to fulfill future emissions targets set by regulators.

Research & Development

Our highly advanced global product development platform consists of research and development facilities located in Sweden, Denmark, China and the United States. Our research and development platform supports our long-term strategic goal of becoming the most progressive and desired global premium car maker, producing the most desired cars in the world. We continue to steadily invest in research and development in order to strengthen our product portfolio to meet customer and regulatory demands, with a focus on technology and fuel efficiency. In recent years, research and development expenditure has focused on the SPA, the Drive-E powertrain and the first next-generation model, the Volvo XC90. The VEA will also underpin growth for our next-generation of cars. The following table details our research and development expenditures for the years ended 31 December 2013, 2014 and 2015 and the quarters ended 31 March 2015 and 2016.

(SEK in millions)	Year ended 31 December			Quarter ended 31 March	
	2013	2014[(1)]	2015[(2)]	2015[(2)]	2016
Research and development expenses	5,864	7,193	8,803	1,975	2,413

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

We have initiated our 2020 R&D Program to reduce lead times for cars. One of the main focuses for product development is to continuously improve our efficiency. With shorter lead times and higher efficiency for the same research and development spend, we believe we will be better positioned to respond to changing customer needs.

Traffic Accident Research Team

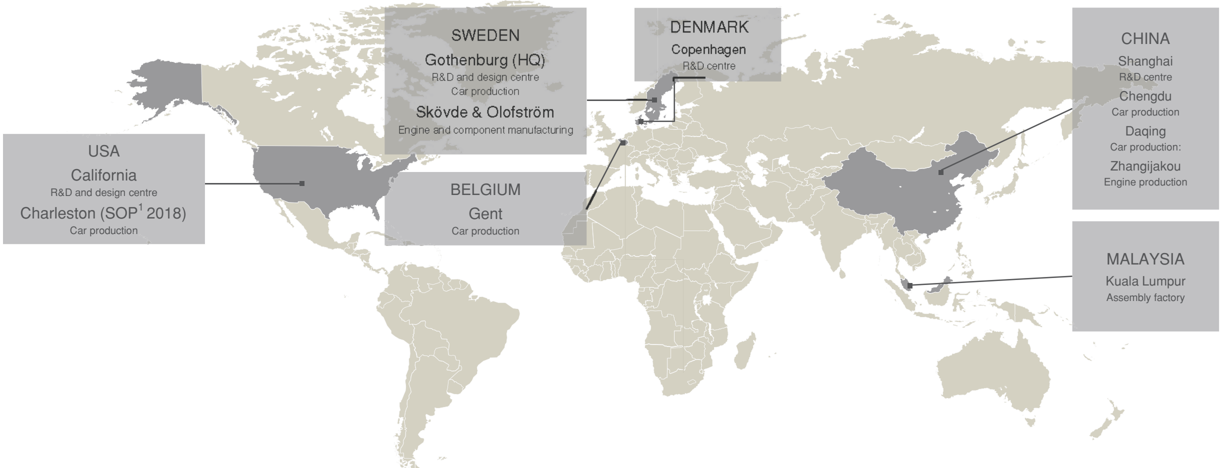
In 1970, we established a comprehensive traffic accident research program (the "***Traffic Accident Research Team***"), which collects data from traffic accidents with Volvo cars around Sweden. Our research and development teams use this data when creating and evaluating design programs. Additional data is further gathered by the Traffic Accident Research Team through accident reconstructions, computer simulations and crash tests in our state-of-the-art crash laboratory in Torslanda, Sweden, which is used in the design process.

Academic Collaboration

We also have several on-going collaborations with universities to foster research and development and create new technologies. Additionally, some of our employees teach at universities in Sweden and collaborate with students and researchers on research initiatives.

Purchasing & Manufacturing

We have a global manufacturing footprint with a globally integrated third-party supply chain that is based on the overall value chain principle, "we produce where we sell and we source where we produce". This strategy reduces costs and facilitates just-in-time delivery, flexibility and responsiveness to market and business demands. Additionally, it provides natural hedging against currency rate movements, ensuring the competitiveness of our products in local markets. The following map shows our administrative, production, design and research and development centers:



NOTES

1. Start of Production.

Purchasing

We aim to implement our overall value chain principle in all aspects of production and seek to source materials in the regions where our plants are located. We also believe that our ability to integrate suppliers into the process of car development and production is an important component of our competitive position. We have long-standing, strong relationships with many of our key tier 1 suppliers, which typically participate in the development phase of our new models and invest alongside our plants to ensure a quick and efficient supply of key components and systems for our cars during production. Our purchasing team works closely with our research and development team, and has long-standing relationships with a broad base of suppliers across the world, enabling us to maximize technical expertise and optimize costs.

We believe that the diverse nature of our supplier base allows us to have reliable supply sources, and sufficient supplier competition to ensure cost optimization. We have approximately 500 business partners producing materials for serial production and over 6,500 suppliers delivering indirect services and products. Our top 10 suppliers for the year ended 31 December 2015 accounted for approximately 42% of our purchasing costs. The diversity of our supplier base has enabled us to select suppliers that have the technological expertise required to produce increasingly sophisticated cars with industry-leading technologies. We aim to have all of our suppliers meet the criteria of our Supplier Assessment Program. Under our Supplier Assessment Program, suppliers are evaluated on their technical and development capabilities, as well as on quality standards and daily operations. In line with our sustainability focus, suppliers must meet social and environmental standards. The Supplier Assessment Program also includes certain on-site audits as well as sustainability self-assessment questionnaires.

The principal materials and components required by us for use in our cars are steel and aluminum in sheet (for in-house stamping) or externally pre-stamped form, aluminum castings and extrusions, iron/steel castings and forgings. Special initiatives are also undertaken to reduce material consumption through value engineering and value analysis techniques. In 2015, our raw materials costs were SEK 11 billion, with steel and resin accounting for the largest percentage of the cost.

Manufacturing

As of 31 March 2016, we operated four car plants, one assembly plant, two engine plants and one body component plant in Sweden, Belgium, China and Malaysia. We are constructing an additional car plant in the United States, currently planned to become operational in 2018. Due to Chinese regulatory restrictions, we own a 50% interest in our plants in China, with Geely owning the remaining 50% interest, while the remaining plants are wholly owned. All of our facilities utilise global technology and global sourcing and adhere to our global Volvo Cars Manufacturing System ("***VCMS***"), enabling each facility to operate under the same global quality standards. All of our plants adhere to the Volvo Cars Global Environmental Standards, which ensure that our manufacturing operations limit their environmental impact. We measure capacity at our plants based on theoretical maximum expandable capacity and operational capacity. Theoretical maximum expandable capacity states the potential of a fully installed and utilised plant. Operational capacity states the current utilisation.

We operate the following plants:

- ***Torslanda, Sweden:*** At the Torslanda plant, we produce Volvo V70, V60, V60CC, S80, S60, XC70 and XC90 models. In June 2014, we opened a new SPA-prepared body shop. The plant has a theoretical maximum expandable capacity of 300,000 cars per year, a 2015 operational capacity of 200,000 and a 2016 operational capacity of 225,000. As a result of increased sales, the plant re-introduced a third-shift in 2015. For the years ended 31 December 2015 and 2014, the plant produced 190,014 cars and 155,038 cars, respectively. We produced fewer cars than our operational capacity during 2015 because we were in the ramp up phase for the Volvo XC90. During the ramp-up phase for a new model, production begins at lower levels and is slowly increased to meet market demand.
- ***Ghent, Belgium:*** At the Ghent plant, we produce the Volvo V40, V40CC, S60, S60CC and XC60 models. The plant has a theoretical maximum expandable capacity of 250,000 cars per year, a 2015 operational capacity of 250,000 cars and a 2016 operational capacity of 240,000 cars. The Ghent plant utilises two shifts for its production. For the years ended 31 December 2015 and 2014, the plant produced 252,479 and 264,200 cars, respectively. The decrease in production was due to the Volvo XC60 also being produced at the Chengdu plant, where ramp up of production began in 2014. In 2014, the Ghent plant also passed the milestone of 5.5 million cars built.

- ***Chengdu, China:*** At the Chengdu plant, we produce the Volvo S60L, XC60 and S60L Petrol Plug-in Hybrid models. The plant has a theoretical maximum expandable capacity of 180,000 cars per year, a 2015 operational capacity of 70,000 cars and a 2016 operational capacity of 75,000 cars. The Chengdu plant utilises a single extended shift for its production. For the years ended 31 December 2015 and 2014, the plant produced 65,999 and 37,740 cars, respectively.
- ***Daqing, China:*** The Daqing plant was established to manufacture cars on the SPA. We plan to ramp up production beginning in the fourth quarter of 2016. The plant has a theoretical maximum expandable capacity of 180,000 cars per year. For the years ended 31 December 2015 and 2014, the plant produced 1,212 and 1,932 Volvo XC Classic cars, respectively, a China only version of the original Volvo XC90.
- ***Kuala Lumpur, Malaysia:*** Our Kuala Lumpur plant is an assembly plant which assembles cars for sale in markets in South East Asia. The Kuala Lumpur plant produces a wide range of models from knock down kits. The plant has a theoretical maximum expandable capacity of 6,000 cars per year, a 2015 operational capacity of 2,000 cars and a 2016 operational capacity of 2,000 cars. For the years ended 31 December 2015 and 2014, the plant assembled 1,422 and 1,943 cars, respectively.
- ***Skövde, Sweden:*** At the Skövde plant, we produce engines for Volvo Cars. For the years ended 31 December 2015 and 31 December 2014, the plant produced 465,000 and 513,000 engines, respectively (including external customers, after market and intermediate base engines for final assembly in other locations).
- ***Zhangijakou, China:*** At the Zhangijakou plant, we produce engines for Volvo Cars. For the years ended 31 December 2015 and 2014, the plant produced 67,500 and 39,000 engines, respectively. We plan to produce approximately 78,000 engines in 2016. We are preparing the Zhangijakou plant to become a full-scale engine plant, adding machining and engine components to the existing assembly operations.
- ***Olofström, Sweden:*** At the Olofström plant, we produce a broad range of car and truck body sets for Volvo Cars and AB Volvo. For the years ended 31 December 2015 and 2014, the plant produced 617,000 and 550,000 car and truck body sets, respectively.
- ***South Carolina, United States:*** Our South Carolina plant is located in Berkeley County, near Charleston, and is currently under construction. We aim to begin operations at the plant in late 2018. The plant will utilise the SPA for the production of cars.

Logistics

In 2015, we completed the insourcing of our logistics chain organisation, including inbound and outbound transport and packaging. Previously, we relied on Volvo Logistics, part of AB Volvo, to manage our logistics operations. The Issuer Consolidated Financial Statements reflect the insourcing of the logistics organisation. With this leaner logistics operation, we aim to lower costs and increase efficiency.

Marketing, Sales and Customer Service

We have a comprehensive marketing program called "Volvo Way to Market", which focuses on four areas: brand campaigns, marketing tools, digital leadership and customers' retail and ownership experiences. Online sales and marketing are at the center of our "Volvo Way to Market" strategy. Working in collaboration with our dealer network around the world, we aim to expand our digital commerce activities and use the online channel and tools to enhance the online buying experience as well as the physical network and ownership experience.

We have an extensive and growing independent dealership and aftermarket sales network. The network is the principal route to market and core to ensuring that the Volvo brand is widely represented and well-positioned in the premium car sector globally. We also use pop-up stores and downtown showrooms to facilitate a holistic customer experience.

We have a global network of approximately 2,300 sales outlets in more than 100 countries. As of February 2016, in China, our largest market, we have 208 sales outlets. In Sweden, where we are the market-leading premium car brand, we have a network of 143 sales outlets. We have a substantial and long-established network in North America and Europe, with approximately 296 and 1,079 sales outlets, respectively. As part of Phase 2, we intend to upgrade our dealership networks worldwide and focus on improving the customer experience by offering an improved sales and after-sales experience.

Volvo Selekt is our global used car program, offered by over 1,000 certified dealers across 30 countries. The Volvo Selekt cars are prepared to the highest standards globally and customers benefit from 12 months warranty, roadside assistance and a 30-day exchange program. Since the program's launch in 2011, annual sales have grown from 26,600 to more than 75,000 in 2015.

Volvo Car Financial Services

VCFS, a division of Volvo Cars, is a provider of Volvo-branded financial, insurance and related products and services for Volvo Cars customers and dealers. VCFS operates through strategic partnerships and joint ventures with financing partners. VCFS does not take leasing assets onto its balance sheet. In key strategic markets with sufficient scale, VCFS relies on joint ventures which employ 100% fully dedicated teams and where VCFS controls the dealer and customer interface. In small to medium size markets, or in instances where a lower percentage of sales are financed, VCFS relies on strategic partnerships to provide financial services. One of the benefits of these partnerships is that they often require limited Volvo Cars fully dedicated teams, whereby we can leverage the partners' infrastructure, geographical presence and competitive funding. VCFS' key partners include Volvofinans Bank, Santander, Bank of America, Société Générale, Nordea, CITIC, PAB and BNP Paribas.

In December 2015, we reached an agreement with the Swedish Sixth AP Fund to acquire, for cash, shares in Volvofinans Bank AB, increasing our ownership from 10% to 50%. In Sweden, Volvofinans Bank AB is a leading bank within vehicle financing services for Volvo Cars. Volvofinans Bank AB has a loan portfolio of approximately SEK 27.4 billion. Volvofinans Bank AB will not be consolidated in our consolidated accounts. As such, there will be no balance sheeet impact, and results of the business will be accounted for under the equity method. Subject to regulatory approval, the transaction is anticipated to close in the second half of 2016.

Employees

Having an effective workforce and human resources strategy is fundamental to our vision of becoming the world's most progressive and desired premium car brand. Through leadership development programs, numerous internal initiatives to increase product knowledge and common awareness of Volvo Cars activities and a global change program aimed at creating an attractive and efficient workplace structured around employees and their activities, we strive to create a suitable and structured working environment with our employees.

We have an objective to become the employer of choice that attracts the best people available. We are recognised as a top employer in Belgium, China and Sweden, including being listed on the Universum list of the world's most attractive employers since 2012.

During the quarters ended 31 March 2015 and 2016 and the years ended 31 December 2013, 2014 and 2015, we employed on average, 27,190, 28,000, 23,242, 26,101 and 28,119 full time employees, respectively. For the year ended 31 December 2015, 62% of our employees were located in Sweden, 17% in Belgium, 14% in China and 7% in the rest of the world. We increased our workforce in 2014 as a result of the expansion of production capacity at the Torslanda and Chengdu facilities related to the roll-out of the Volvo XC90 and S60L. We further increased our workforce in 2015 due to higher production volumes and the continuing development of future models.

Our Diversity Plan is an integral part of Volvo Cars and includes a series of activities to improve training and utilise diversity within the company. The focus areas within the diversity plan include gender diversity and a zero tolerance policy for harassment and discrimination.

We believe that we have positive relations with labour unions both on an industry-wide basis and at a local level. There have been no strikes or major labour disputes over the last 20 years. 100% of our workers in China, 93% of our blue collar workers and 78% of our white collar workers in Sweden, respectively, and 99% of our blue collar workers and 85% of our white collar workers in Belgium are members of trade unions. Collective bargaining agreements are in place in Sweden and Belgium. We believe that our strong relationships between unions and management have enabled us to maintain a competitive cost base, while preserving a highly skilled and motivated manufacturing workforce.

Intellectual Property

We actively protect all of our intellectual property developed. We file patent applications in Europe and around the world (including the United States) to protect technology and improvements considered important to our business. No single patent is material to our business as a whole. Additionally, we own a number of registered trademarks, designs and patents registered in several countries and across a number of classes.

Agreement with Ford

As part of our separation from Ford in August 2010, a number of continuing bilateral supply and licensing agreements remain in place between Ford and Volvo Cars in the areas of engineering support, tools and intellectual property rights. All product related intellectual property developed by Volvo Cars under Ford's ownership is owned by Ford. Intellectual property developed by Volvo Cars after Geely's acquisition is primarily owned by Volvo Cars.

There are extensive royalty-free patent assignments and intellectual property licensing agreements in place between Ford and Volvo Cars in relation to the intellectual property developed during Ford's ownership of Volvo Cars covering patents, other non-patented intellectual property and certain confidential information. The overall purpose of the assignments and license agreements was for us to be able to continue our current and future business following our sale by Ford. The agreements are still effective, but will decrease in importance as we introduce cars based on new technology.

Agreement with AB Volvo

The Volvo brand name is owned by Volvo Trademark Holding AB, an entity that is jointly owned by AB Volvo and Volvo Cars. We have the right to use the brand name indefinitely for passenger cars, light trucks with pay-load up to 1,500 kilograms, sport utility vehicles and other vehicles while AB Volvo has the right to use the brand name for trucks, buses, construction equipment, marine and industrial engines, aerospace equipment and all other products.

Agreement with Ningbo Geely

We will have an irrevocable, perpetual license to the intellectual property developed as part of the CMA collaboration with Ningbo Geely and CEVT.

Chinese Joint Ventures

On 25 June 2015, we acquired an additional 20% interest in each of the Chinese Joint Ventures from Shanghai Geely. As a result of these acquisitions, we now hold a 50% interest in each of the Chinese Joint Ventures. Additionally, Daqing Volvo Car Manufacturing Co., Ltd acquired from Shanghai Geely 100% of the shares in three other entities, including Volvo Car (Asia Pacific). Volvo Car (Asia Pacific) holds 100% of the shares of Zhongjia Automobile Manufacturing (Chengdu) Co., Ltd., a Chinese entity that owns the Chengdu car plant. After the acquisitions, we have gained the power to control these entities through shareholder agreements. We have chosen to apply predecessor accounting for the acquisition of the Chinese Joint Ventures. Please see "*Presentation of Financial and Other Information*" for further information related to the consolidation.

With this acquisition, we are uniquely positioned with Geely as our joint venture partner, enabling quick decision making in China and financial transparency. The incorporation of the Chinese Joint Ventures is an important step towards the long term objective of capturing growth and sourcing potential in China while simplifying our legal structure.

Polestar Acquisition

On 8 July 2015, we completed the acquisition of Polestar Performance AB, the Swedish high performance car company, and Polestar Holding AB, which is the owner of the Polestar trademarks. We have not acquired the racing division of Polestar. Volvo Cars and Polestar share a long history; they have been working in motor sports since 1996 and in recent years, co-operated in developing Polestar versions of Volvo cars.

Insurance

In December 2015, we started our own captive insurance company, Volvo Car Insurance AB, and have obtained a captive insurance license from the Swedish Financial Supervisory Authority (*Finansinspektionen*). Volvo Car Insurance AB insures part of the group's risks in relation to property damage and business interruption, general and products liability and transport. With this captive insurance company, we have increased control over our insurance programs while reducing costs and enhancing risk management.

Product Recalls

There have been no significant product recalls in the three years ended 31 December 2015 or the quarter ended 31 March 2016. In August 2015, we initiated a recall of a small number of the 2015 XC90 models over possible fears of faulty paneling obstructing third-row airbag deployment. While the airbags are not faulty and there are no known safety issues, the recall is designed to correct a possible flaw in the third-row paneling in the car model that may obstruct deployment of the airbag. The current recall impacts approximately 10,000 cars. In December 2015, we initiated a recall of certain 2015 and 2016 models of the Volvo S60, V60, V60 CC, V70, XC70 and the S80 due to a fault in the engine control unit whereby the fuel gauge showed fuel availability but fuel was not going to the engine. We are working to remedy the fault by upgrading software in the impacted cars. The recall impacts approximately 85,000 cars. In February 2016, we initiated a recall of the 2016 models of the 60 and 70 models due to a fault causing engines to stop and restart while the car is in operation. This recall impacts approximately 59,000 cars. We are working to remedy this fault by upgrading the software in the impacted cars.

Legal Proceedings

We are party to various litigation matters, including regulatory and administrative proceedings, arising out of the normal course of business. We are not party to any legal proceedings at the present time that we believe could reasonably be expected to have a material adverse effect on our operations or consolidated financial position. Provisions or contingent liabilities have been disclosed in our financial statements where it is reasonably estimated that a liability could arise.

We are not in breach of any applicable environmental laws, in a manner that could reasonably be expected to have a material adverse effect on our operations or consolidated financial position. Provisions or contingent liabilities have been disclosed in our financial statements where it is reasonably estimated that a liability could arise.

REGULATION

The worldwide automotive industry is subject to various laws and governmental regulations including those related to vehicle design and safety and environmental matters such as exhaust and evaporative emissions, fuel economy, greenhouse gas emissions, noise, and pollution. In many jurisdictions, Volvo Cars and other manufacturers are subject to increasingly stringent vehicle emission control standards governing vehicle exhaust and evaporative emissions and related matters. Volvo Cars and other manufacturers face motor vehicle fuel economy and greenhouse gas ("***GHG***") emissions regulations that are ratcheting up fuel economy requirements and ratcheting down permitted GHG emissions levels over time. Automotive manufacturers such as Volvo Cars are required to implement safety measures including recalls for vehicles that do not or may not comply with governmental safety standards. Volvo Cars' current and potentially former manufacturing and assembly operations are subject to laws regulating the emission, discharge, release, and disposal of pollutants, hazardous substances, and wastes. Various other environmental, health, and safety compliance and permitting requirements apply to Volvo Cars' facilities. Volvo Cars has incurred, and expects to incur in the future, significant costs in complying with these regulations.

Motor Vehicle Emissions Standards

Europe

The European Union imposes emission standards on vehicles sold in Member States countries, while in non-Member States regulations under the United Nations Economic Commission for Europe ("***UNECE***") framework apply. The European Union and UNECE requirements are equivalent. The European Union has adopted directives and regulations that establish increasingly stringent standards for the emission of regulated pollutants from new passenger vehicles and light commercial vehicles sold in the European Union. The European Union first set exhaust emission standards in 1991 for all passenger cars, including for diesel, per a directive commonly referred to as "Euro 1". The European Union subsequently adopted more stringent standards, and they regulate emissions of a number of pollutants, including carbon monoxide ("***CO***"), oxides of nitrogen ("***NOx***"), particulate matter ("***PM***"), and hydrocarbons. "Euro 6" is the current standard, and it sets out emission standards which have applied to all new cars sold on or after 1 September 2015. The schedule for the rollout of "Euro 6" was introduced in 2007 through European Regulation EC/715/2007.

European emission standards also focus on further reducing emissions from diesel-fuelled vehicles. For example, the Euro 6 standard imposes significant reductions in NOx emissions compared to Euro 5 (a 67% reduction for diesel engines). To ensure such reductions can be met, manufacturers are likely to require the use of additional technologies. This is because technologies aimed at reducing NOx can increase particulate emissions and vice-versa, so car manufacturers are required to invest in new diesel engine filtration technology. This would further increase the cost of diesel engines, which currently cost more than gasoline engines. To comply with Euro 6 standards on diesels, we expect that we will need to implement technologies similar to those being developed to meet United States Tier 2 emission standards. These technologies will put additional cost pressures on the already challenging European market for small and mid-sized diesel vehicles. While we expect to be required to implement these technologies, we do not sell or plan to sell diesel cars in the United States. Gasoline engines are also affected by the new requirements. Euro 6 emissions requirements applicable to gasoline-fuelled vehicles will necessitate technology to reduce exhaust pollutant emissions will adversely affect vehicle fuel economy.

We also expect that the European Union will impose in the future new or stricter regulatory requirements pertaining to emissions testing. In particular, the European Union is in the process of developing new regulations that would mandate the use of RDE test procedures in light duty vehicle emissions compliance certification for emissions of NOx. RDE tests more closely simulate real-world driving conditions, including non-vehicle related conditions such as ambient air temperature. Compliance with such new tests could impose material new design and engineering costs on us and other members of the auto industry, particularly where the new tests are designed to simulate adverse conditions such as cold climates. The European Union began RDE testing in January 2016 and plans to require that new vehicle models achieve successful RDE test results starting in 2017 and that all new vehicles achieve successful RDE test results starting in 2019.

We must demonstrate that our cars will meet emission requirements before we can sell them in the European Union. The regulatory requirements include random testing of newly-assembled cars and a manufacturer in-use surveillance program.

China

China implements emissions regulations pursuant to the Chinese National Standards of the Ministry of Environmental Protection. New vehicles manufactured or sold in China must comply with emissions standards corresponding to Europe's "Euro 4" standards as well as requirements for OBD systems, also corresponding to European standards. From 1 January 2017, new gasoline-fueled vehicles, and from 1 January 2018, new diesel-fueled vehicles must comply with new emissions standards corresponding to Europe's "Euro V" standards ("***China V***"). Some cities and provinces have applied or will apply the new standards earlier than this date. For instance, Shanghai implemented the China V standards in May 2014, the standards are being applied in Guangzhou as of January 2016 and China V fuel quality standards are scheduled for implementation in eleven provinces from April 2016. Beijing implemented a China V-like standard customized to the city.

As in Europe, Chinese national, provincial, and municipal authorities are developing new and different vehicle emissions testing methodologies. These methodologies are currently not known and may in some cases be different from, or even incompatible with, one another, creating regulatory uncertainty that, if not resolved, could impose material costs on us and other vehicle manufacturers in the Chinese market. We are in dialogue with Chinese authorities to ensure that we are developing cars that will be fully compliant with applicable Chinese requirements.

In all jurisdictions, compliance with new and more stringent emissions standards will present significant technological challenges to automobile manufacturers and will likely require significant expenditures. Examples of these challenges include the development of advanced technologies, such as high performance batteries, base engine emissions and exhaust aftertreatment systems, as well as the development of electrification and for some automobile manufacturers and markets, alternative fuels. Although, in several instances, the technology is known and the main challenge relates to developing cost efficient solutions to meeting new standards, in sufficiently high volumes and for numerous variants. Manufacturers that are unable to develop commercially viable technologies within the time frames set by the new standards could lose their market share.

United States

Under the federal Clean Air Act, the EPA has responsibility for establishing and enforcing emission control standards regulating passenger cars and light trucks. The EPA has adopted increasingly stringent vehicle emission control standards over time, all but the most recent of which have been phased in and are now applicable to Volvo cars operating in the United States. These standards govern: vehicle exhaust emissions (also referred to as "tailpipe" emissions), vehicle evaporative emissions, onboard diagnostic ("***OBD***") systems for monitoring emissions, and emissions during cold temperature operation, among other matters. Vehicle emission standards are set to become more stringent in the future. In 2014, EPA finalised new vehicle emission and fuel standards for passenger vehicles and light-duty trucks, beginning with model year 2017 and increasing in stringency through 2025. These new standards, which EPA named the "Tier 3" standards, will further reduce the allowed levels of tailpipe and evaporative emissions and gasoline sulphur content. EPA promulgated the Tier 3 standards with the stated intention of reducing emissions of oxides of nitrogen, volatile organic compounds, PM, CO, and air toxics.

The federal Clean Air Act allows California to establish its own vehicle emissions standards, provided California's standards are at least as protective as EPA's federal standards and EPA approves a waiver allowing California's standards. Pursuant to this authority, California's Air Resources Board ("***ARB***") has adopted California-specific vehicle emission control standards which, like the federal standards, have become increasingly stringent over time. California's Low Emissions Vehicle Program "LEV" standards were phased in beginning with the 1994 model year. The ARB promulgated in 2012 "LEV III" standards, which apply to model year 2015 and newer vehicles, and require additional reductions in vehicle exhaust and evaporative emissions.

The LEV program also mandates that manufacturers produce and deliver a certain quantity of "zero emission vehicles" ("***ZEVs***") to the California market. The current ZEV regulations mandate substantial annual increases in the production and sale of battery-electric, fuel cell, and plug-in hybrid vehicles, particularly for the 2018–2025 model years, such that, by 2025, the State of California has estimated that approximately 15% of the new vehicles sold in California would be zero-emission or plug-in hybrid vehicles. As a small manufacturer, we are currently permitted to generate ZEV credits using only plug-in hybrid vehicles, without having to sell zero emission vehicles. However, we anticipate that we may become subject to additional ZEV requirements by 2022 due to our anticipated expansion, and are developing a plan to comply if and when that occurs.

After California has established vehicle emission standards, other states are permitted to adopt them. As of June 2009, thirteen additional states in the U.S. and the District of Columbia have adopted the LEV III standards, and as of June 2013 nine states other than California had adopted the ZEV requirements of the LEV program.

For each model year we must obtain certification from the ARB before we can sell cars in California or other states that have adopted the California emissions requirements, and we must obtain certification from EPA for cars sold in other states. While we believe all our products are in compliance with EPA and ARB certification requirements, both agencies perform "in-use" compliance evaluations of cars sold by us and other manufacturers. Both agencies have significant enforcement authority, including the ability to impose substantial penalties on a per-vehicle basis and the ability to demand recalls. In the wake of a recent enforcement action involving a major vehicle manufacturer, these agencies could increase their own enforcement activity and either agency—or we—could identify potential noncompliance, which could lead to action to remedy the issue.

Motor Vehicle Fuel Economy and Greenhouse Gas Emissions Regulation

Europe

By 1 January 2015, European Union legislation required that new cars registered in the European Union did not emit more than an average of 130 grams of carbon dioxide per kilometre ("***g CO_2/km***") for passenger vehicles sold in member states. This target was phased in between 2012 and 2015. The regulation applies differently to each manufacturer depending on the make-up of its fleet, as the CO_2 target is a target based on the average weight of the fleet vehicles sold. A penalty system applies to manufacturers failing to meet targets, with fees ranging from €5 to €95 per vehicle g CO_2/km shortfall in the years 2012–2018, and €95 g CO_2/km shortfall from 2019. In 2014, the European Union adopted a regulation that would reduce the emissions standard from 130 g CO2/km to 95 g CO_2/km. This new standard will take effect in 2021. However, 95% of each manufacturer's new cars must comply with this new standard by 2020. Subject to competition rules, manufacturers may form a group to meet the emissions targets. Compliance with the new standard will impose costs on Volvo Cars and other vehicle manufacturers.

Credits are available for CO_2 reduction technologies. For example, to further encourage eco-innovations which improve fuel economy, but may not demonstrate their full impact on emissions in testing (e.g. solar power or low-emission glass), manufacturers can be granted emission credits equivalent to a maximum emissions saving of 7 g CO_2/km per kilometre. This credit system will be in place until 2021. So-called "super credits" are also available to incentivize manufacturers to produce vehicles with significantly low emissions (below 50 g CO_2/km). A car emitting emissions below this threshold is counted as 1.5 cars. These super-credits are only in place until the end of 2015.

Legislation requires that the European Commission review the 2020 targets in 2015 and, if appropriate, make proposals for CO_2 emissions targets for new cars beyond 2020, including possibly setting a 2025 target. This review has not yet taken place. In any case, legislation requires that the European Commission maintain a clear emissions-reduction trajectory comparable to that achieved up to 2020.

Other non-European Union European countries may follow with similar regulations. For example, Switzerland has introduced similar regulations, which have been phased in from July 2012.

Some European Union member states have also introduced vehicle taxes based on CO_2 emission levels, pursuant to a directive issued by the European Commission in 2005. For example, the United Kingdom will introduce a series of tax bands based on a combination of fuel type and CO_2 emission levels from April 2017.

An EC regulation requiring low-rolling resistance tires, tire pressure monitoring systems and gear shift indicators came into force in 2012. An additional regulation came into force in the same year requiring the labelling of tires for noise and fuel efficiency.

A European Union directive on motor vehicle air conditioning units requires manufacturers to replace currently-used refrigerants with refrigerants having a lower global warming potential ("***GWP***") for certain vehicle model types. This requirement will be expanded to apply to all newly registered vehicles starting in January 2017. Further, from this date, the use of fluorinated gases in vehicle air conditioning units with a GWP above a certain threshold will not be permitted in the European Union.

The United Nations is developing a "world light duty test procedure" ("***WLTP***") to determine emissions and fuel consumption from vehicles. This test procedure will directly assess the regulated emissions of vehicles under real driving conditions, and replace the current "new European driving cycle" ("***NEDC***") test. Costs associated with new or incremental testing for WLTP could be significant. This new procedure is scheduled to come into force in 2017.

China

Fuel consumption regulations that require automobile manufactures to meet average fuel consumption standards across their passenger vehicle fleets also apply in China per GB27999-2014. Phase III is in place until 31 December 2015. The Chinese Ministry of Industry and Information Technology finalised its "Phase IV" standards in December 2014 (GB19578-2014). From 2016, more stringent fuel consumption regulations will be imposed. Full compliance with these new, more stringent fuel economy standards will be required by 2020, by which time the fleet-average consumption must be 5L/100km. Phase IV covers the period 2016–2020.

United States

The United States regulates motor vehicle fuel economy and GHG emissions, and these regulations are linked because fuel combustion is the main source of vehicle GHG emissions. Federal law requires that light-duty vehicles comply with minimum corporate average fuel economy ("***CAFE***") standards established by the National Highway Traffic Safety Administration ("***NHTSA***"). The 1975 Energy Policy and Conservation Act ("***EPCA***"), as amended by the 2007 Energy Independence and Security Act ("***EISA***"), requires NHTSA to establish annual passenger car and light truck CAFE standards at the maximum feasible average fuel economy level that NHTSA determines manufacturers can achieve, based on NHTSA's consideration of technological feasibility, economic practicability, the effect of other governmental standards bearing on fuel economy, and the need to conserve energy. The EPA also regulates GHG emissions from motor vehicles pursuant to its authority under the Clean Air Act. Specifically, Clean Air Act section 202(a) requires EPA to establish standards for new motor vehicle emissions that cause or contribute to air pollution that may reasonably be anticipated to endanger public health or welfare, and EPA made an endangerment findings with respect to GHGs in 2009. In establishing GHG emission standards, EPA must consider technical feasibility, cost, and available lead time.

Under these separate authorities, in 2010 the NHTSA and the EPA jointly promulgated a "National Program" of fuel economy and GHG emission reduction regulations applicable to model year 2012–2016 light-duty vehicles. NHTSA set CAFE standards for model year 2012–2016 vehicles that it projected would require manufacturers to meet a combined average fuel economy level of 34.1 miles per gallon ("***mpg***") in model year 2016. EPA established GHG emission standards that it projected to require, on an average industry fleet wide basis, 250 grams/mile of carbon dioxide ("$\boldsymbol{CO_2}$") in model year 2016. If this level were achieved solely through improvements in fuel efficiency, it would be equivalent to 35.5 mpg. However, a portion of the CO_2 reductions could be made through improvements in air conditioning leakage and use of alternative refrigerants, which would not contribute to fuel economy.

National Program GHG and fuel economy limits are set to become more stringent in the future. In 2012, EPA and NHTSA finalised rules extending the National Program through 2025: (1) NHTSA set CAFE standards for model years 2017–2021 and issued projected standards (to be reevaluated and finalised in a future rulemaking, to come by 2018) for model years 2022–2025 and (2) EPA set GHG emission standards for model years 2017–2025. NHTSA projected that its model year 2017–2021 CAFE standards would require, on an average industry fleet wide basis, a range from 40.3–41.0 mpg in model year 2021. NHTSA's standards for model years 2022–2025 are augural, meaning that they represent NHTSA's best estimate, based on the information available to the agency, of what levels of stringency might be maximally feasible in those model years. NHTSA projects that its model year 2022–2025 standards could require, on an average industry fleet wide basis, a range from 48.7–49.7 mpg in model year 2025. EPA established GHG emission standards that it projected to require, on an average industry fleet wide basis, a limit of 163 grams/mile of CO_2 emissions in model year 2025. If this level were achieved solely through improvements in fuel efficiency, it would be equivalent to 54.5 mpg. As noted above, a portion of the CO_2 reductions could be made through improvements in air conditioning leakage and use of alternative refrigerants, which would not contribute to fuel economy.

The CO_2 and CAFE standards under the National Program are "footprint-based," meaning that, in general, the larger the vehicle size or "footprint," the less numerically stringent the corresponding vehicle

CO_2 emissions and mpg targets. The agencies created the footprint-based standards with the stated intention of distributing the compliance burden across all vehicle footprints and all manufacturers. The estimated combined fleet average mpg levels are agency projections and, the agencies established separate standards for passenger cars and trucks, based on a vehicle's footprint, and the actual average achieved fuel economy and GHG emissions levels will be determined by the actual footprints and production volumes of the vehicle models that are produced.

Under the National Program, Volvo Cars and other manufacturers have the ability to generate credits for over-compliance with the CO_2 and CAFE standards. A manufacturer will generate credits if its car or truck fleet achieves a fleet average CO_2 or CAFE level exceeding the applicable standard. Conversely, a manufacturer will face a shortfall obligation if its fleet average CO_2 or CAFE level does not meet the applicable standard when all credits are taken into account. A manufacturer whose fleet generates credits in a given model year can apply those credits toward certain past or future years or trade the credits to others.

The National Program provides credit for direct and indirect air conditioning ("***A/C***") improvements, such as improvements to A/C leakage (including substitution of low GHG refrigerant) and A/C efficiency. The program makes available maximum total A/C credits for cars of 18.8 grams/mile CO_2-equivalent and for trucks of 24.4 grams/mile CO_2-equivalent. The regulations also allow manufacturers to generate fuel consumption improvement values for purposes of CAFE compliance based on such improvements in air conditioner efficiency.

The National Program will also provide credit to manufacturers who make GHG emissions and fuel economy improvements using technologies whose benefits are not measured by the two-cycle test mandated by EPCA. Further, manufacturers who use off-cycle technology will be permitted to generate fuel consumption improvement values for purposes of CAFE compliance. In addition, the National Program includes an incentive multiplier for CO_2 emissions compliance purposes for all electric vehicles, plug-in hybrid electric vehicles ("***PHEVs***"), and fuel cell vehicles.

We anticipate that compliance with the National Program could impose material costs on us and the auto industry in general as the program becomes more stringent over time. We are working to develop and implement improvements in our cars to achieve compliance with the future standards, and are in dialogue with EPA authorities regarding compliance options.

A manufacturer is subject to substantial civil penalties if it fails to meet CAFE or GHG emissions standards. Since 2011, we have paid annual penalties averaging approximately $1.1 million to $1.2 million per year for failure to achieve CAFE standards.

California previously asserted the right to regulate vehicle GHG emissions, and other states then asserted the right to adopt any California standards. However, following adoption of the National Program discussed above, California and the other states have agreed that compliance with the federal program would satisfy compliance with any purported state GHG requirements for the 2012–2025 model years.

In addition, EPA regulates the use of hydrofluorocarbons ("***HFCs***") in motor vehicle air conditioning systems under its Significant New Alternatives Policy program, pursuant to its authority under section 612 of the Clean Air Act. EPA finalised in 2015 a rule that will prohibit the use of various HFCs and HFC-containing refrigerant blends in new light-duty motor vehicles' air conditioning systems. The prohibition will take effect for certain HFCs and HFC blends as of model year 2017, and the prohibition will take effect for HFC-134a in 2021 (subject to certain limitations).

Vehicle Safety

Europe

The European Union has adopted vehicle safety standards and regulations and may continue to revise these standards to make them more stringent. The European Union overhauled its safety regulations in 2009, replacing more than fifty previously existing safety directives with one overarching safety regulation (the "***General Safety Regulation***"). Some of the requirements under the General Safety Regulation only came into force as late as last year. Since 2011, new vehicles have been required to have electronic stability control systems. In April 2015, the European Commission published a new study identifying a range of new vehicle safety technologies as part of a review of the current legislation. These technologies included intelligent speed assistance, automated emergency braking and seat belt reminder systems in passenger seats. A further European Commission communication on the review of the General Safety Regulation is expected later this year. Some of the safety features required or that may be required include low rolling resistance tires, tire pressure monitoring systems, road departure warning systems, rear-end collision warning systems, pedestrian detection systems, and automatic emergency alarm systems ("***eCall***"). In April 2015, the European Parliament voted in favour of eCall regulation requiring all new cars be equipped with this technology. The regulation will come into force from 31 March 2018.

China

China has modelled its vehicle safety laws on the United Nations' regulations for vehicle safety, but China's regulations include certain requirements that are specific to the local market. In 2014, the Standardization Administration of China published guidance that it may consider implementing new or revised standards relating to airbags, batteries, motors, and electric vehicle charging.

Aside from statutory obligations, a number of countries implement a New Car Assessment Program ("***NCAP***") which focus on passenger protection. These standards are typically higher than those required by statute. NCAPs are in place in China and across the European Union.

United States

The National Traffic and Motor Vehicle Safety Act of 1966 (the "***Safety Act***") requires motor vehicles and equipment sold in the United States to meet safety standards issued by NHTSA. Since then, various legislation has required the NHTSA to make further updates and modifications to American vehicle safety standards.

The Safety Act prohibits the sale in the United States of any new vehicle or equipment that does not conform to applicable vehicle safety standards established by NHTSA. Satisfying safety standards can be costly, in part because the standards can be in tension with the need to reduce vehicle weight in order to meet emissions and fuel economy standards.

We and other manufacturers are required to notify owners of any defects in vehicle safety and remedy such defects through vehicle recalls. The Safety Act also authorises the NHTSA to investigate complaints relating to vehicle safety. If NHTSA or a manufacturer determines that a vehicle is experiencing safety-related defects, the vehicle manufacturer must recall the vehicles that do not comply with the applicable safety standard. Depending upon the nature of the repair and the number of vehicles affected, the cost of any such recalls could be substantial.

NHTSA's safety standards cover a variety of matters and have been updated frequently. The 2000 Transportation Recall Enhancement, Accountability and Documentation Act ("***TREAD Act***") required that NHTSA: regulate vehicle rollover; impose more stringent tire safety standards; and, gather additional information relating to potential motor vehicle defects. The TREAD Act also substantially increased NHTSA's authority to impose civil penalties for noncompliance with regulatory requirements and allows for criminal penalties in connection with violations of the federal Fraud and False Statements Act. NHTSA expanded its New Car Assessment Program in 2002 with respect to vehicle rollover risk and child restraints and, in 2003, adopted early warning defect reporting requirements. NHTSA bolstered tire-pressure monitoring requirements in 2005. The 2005 Safe, Accountable, Flexible, Efficient Transportation Equity Act required that NHTSA: further regulate vehicle rollover; upgrade roof, power window, and door lock standards; set side impact protection standards; analyse seat belt technology and usage; and, set car labelling standards. The 2008 "Cameron Gulbransen Kids Transportation Safety Act" required NHTSA to establish various child protection standards pertaining to power windows, backing of vehicles, and brake shift interlock systems. NHTSA issued in 2008 a final rule revising side impact protection standards, requiring partial fleet compliance by 2010 and full fleet compliance by 2014. NHTSA issued in 2009 a final rule setting a more stringent vehicle roof crush standard, with partial fleet compliance required in 2012 and full complete compliance by 2016. NHTSA issued in 2011 a final rule intended to prevent the ejection of occupants in rollover accidents; requirements began applying in 2013 and are being phase in through 2017. NHTSA issued in 2012 a proposed rule mandating brake-throttle override systems to prevent unintended acceleration. NHTSA also issued in 2012 a proposed rule mandating the installation of event data recorders in vehicles. NHTSA issued in 2013 a proposed rule that would mandate installation of an approaching vehicle audible system with the intention of reducing collisions between hybrid or electric vehicle and pedestrians or bicyclists. Recently, NHTSA has issued or announced intentions to issue a number of proposed rules addressing specific technological requirements, including rollover structural integrity standards, vehicle-to-vehicle communications standards, and other requirements.

We are required to report to regulators certain information relating to customer complaints, warranty claims, field reports, and notices and claims involving property damage, injuries and fatalities in the United States and claims involving fatalities outside the United States. We are also required to report certain information concerning safety recalls and other safety campaigns outside the United States.

Meeting or exceeding many government-mandated safety standards can be costly and technologically challenging, particularly where standards may be in tension with the need to reduce vehicle weight in order to satisfy government-mandated emissions and fuel-economy standards. There has recently been a significant increase in both the number of safety recalls by manufacturers in the United States and vehicles involved in those recalls due, in part, to significant public and governmental attention on the recall process and NHTSA's expanded definition of safety defects. In addition, there has been a recent increase in civil penalties levied and the use of consent orders requiring direct oversight by NHTSA of certain manufacturers' safety processes, a trend that could continue. Should we or government safety regulators determine that a safety or other defect or noncompliance exists with respect to certain of our vehicles prior to the start of production, the launch of such vehicle could be delayed until such defect is remedied. The costs associated with any protracted delay in new model launches necessary to remedy such defects, or the cost of recall campaigns or warranty costs to remedy such defects in vehicles that have been sold, could be substantial. These recall and warranty costs could be exacerbated to the extent they relate to global platforms. Furthermore, launch delays or recall actions could adversely affect our reputation or market acceptance of our products.

Manufacturing and Assembly Facility Environmental, Health, and Safety Matters

Europe

Our plants and operations are also subject to local, national and international regulatory regimes in the European Union. The regulatory environment of our European Union business activities is shaped by European Union directives and regulations, which are either implemented in the individual Member States through national legislation or have direct application to the Member States or individuals. Environmental, health and safety ("***EHS***") laws and regulations in the European Union govern our relevant facilities and operations.

For example, some of our facilities have an extended history of manufacturing operations and related activities. Under the requirements of permits granted under laws implementing the IPPC Directive, Directive 2008/1/EC concerning integrated pollution prevention and control, or Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control) ("***IED Directive***"), or pursuant to more general requirements, we may be required to investigate and remediate contamination at facilities which it currently uses or has used in the past. Requirements to undertake remediation may be particularly relevant on the closure of an operational facility (including any contamination resulting from ageing infrastructure). In connection with contaminated properties, as well as our operations generally, claims may arise from government authorities, individuals and other third parties seeking damages for alleged personal injury or property damage resulting from hazardous substance contamination or exposure caused by our operations, facilities or products.

Further, as a manufacturer in the European Union, we are subject to the IED Directive, which, in addition to imposing requirements regarding soil and groundwater contamination, lays down rules on integrated prevention and control of pollution arising from industrial activities. The IED Directive is a recast of seven existing pieces of European Union legislation relating to industrial emissions (including, in particular, the Integrated Pollution Prevention and Control Directive (2008/1/EC)). It provides rules designed to prevent or, where that is not practicable, to reduce emissions into air, water and land and to prevent the generation of waste. It came into force on 6 January 2011, with new installations required to comply from 7 January 2013 and most existing installations required to comply from 7 January 2014. The IED Directive requires, among other things, installations within its scope to operate under a permit. Member State regulators must set permit conditions for an operator so as to achieve a high level of protection for the environment, based on the use of the Best-Available Techniques ("***BAT***"). The IED Directive defines BAT as "the most effective and advanced stage in the development of activities and their methods of operation which indicates the practical suitability of particular techniques for providing the basis for emission limit values and other permit conditions designed to prevent and, where that is not practicable, to reduce emissions and the impact on the environment as a whole". BAT is determined for each activity and operation that has an impact on the environment. The determination of BAT relies on sector specific BAT reference documents.

Laws and regulations of many jurisdictions (including the IED Directive) oblige us to prevent contamination of the soil by taking adequate precautions. The competent authorities may require each of the persons responsible to take remediation measures, or do so themselves, placing the costs for such action on the person responsible. In addition, operators of certain activities may have strict liability for environmental damage caused pursuant to the Environmental Liability Directive (2004/35/EC). The discovery of previously unknown contamination, or the imposition of new obligations to investigate or remediate contamination at any of our European Union facilities, could result in substantial unanticipated costs.

In addition, the laws and regulations of many of the European Union jurisdictions in which we operate requires an assessment to be undertaken to determine and assess the presence of asbestos in the buildings in which we operate. It is possible that remediation measures may be required in the future. Remediation costs can be significant.

Our European business is subject to a wide range of waste laws. The Waste Framework Directive (2008/98/EC) aims to protect the environment and human health through the prevention of the harmful effects of waste generation and management. Member States are required to take measures for the treatment of waste in line with the waste hierarchy (set out below) which prioritizes how waste in Europe should be managed: prevention; preparing for reuse; recycling; other recovery, notably energy recovery; and disposal.

In accordance with the "polluter pays" principle, the costs of waste management are to be borne by the original waste producer or by the current or previous waste holders. Any producer or holder of waste is required to carry out its own waste treatment or have treatment carried out by another establishment. Hazardous waste is prohibited from being mixed, requires appropriate labelling and packaging, and also requires storage and treatment in conditions that ensure the protection of health and the environment.

In particular, the European Union issued in 2000 a directive (1) requiring automobile manufactures to bear all or a significant part of the costs of taking back vehicles at the end of their lives, (2) requiring reuse or recycling of end-of-life vehicles, and (3) regulating the hazardous materials that may be used to manufacture certain vehicles sold in the European Union. The European Union directive also requires European Union member states to ensure that certain entities including car manufacturers, establish used vehicle collection and treatment facilities in collection with their end-of-life responsibilities.

The European Union requires control of the use of chemical products within the European Union by imposing on all affected industries the responsibility for ensuring and demonstrating the safe manufacture, use and disposal of chemicals. The REACH Regulations requires the registration of all chemicals manufactured in or imported into the European Union (either alone, in mixtures or in articles) with the European Chemicals Agency ("***ECHA***"). The REACH Regulation requires formal documentation of the relevant data required for hazard assessments for each substance registered as well as development of risk assessments for their registered uses. Most uses of high hazard substances such as carcinogens will require authorisation by ECHA.

Our European Union facilities are subject to Member States' laws implementing Directive 89/391/EEC on measures to encourage improvements in the safety and health of workers (the "***HSW Directive***"). The HSW Directive aims to eliminate the risk factors for occupational diseases and accidents by establishing rules on protecting the health and safety of workers. Its provisions relate to all sectors of activity, both public and private and an employer under the HSW Directive has a duty to ensure the health and safety of workers in every aspect of their work, including if they enlist external companies or persons.

The European Union's implementation of the Kyoto Protocol's requirements regarding greenhouse gas emission reductions consists of a wide variety of rules and regulations to reduce the European Union's carbon footprint in the areas of energy efficiency regulations, carbon dioxide emissions allowances trading, renewable energy requirements and construction requirements for the energy efficiency of buildings. It also imposes certain energy efficiency auditing requirements on businesses.

China

Our plants and operations are also subject to local, national and international regulatory regimes in China.

EHS laws and regulations in China govern our relevant facilities and operations, including regulations dealing with: (i) the storage, handling, management and treatment of hazardous substances and wastes (including asbestos in buildings); (ii) chemical regulation; (iii) water discharges; (iv) air emissions; (v) noise emissions; (vi) human health and safety; (vii) the clean-up and remediation of contaminated facilities; and (viii) the sale, use and recovery of the products that are manufactured.

Many of our operations require permits and controls to monitor or prevent pollution. We have incurred, and will continue to incur, capital and operating expenditure to ensure compliance with current and future Chinese EHS laws and regulations, which tend to become more stringent over time.

United States

Our current and potential future manufacturing and assembly operations in the United States are or will be subject to regulation under numerous environmental laws, including the Clean Air Act ("***CAA***"), the Clean Water Act, the Resource Conservation and Recovery Act ("***RCRA***"), the Toxic Substances Control Act ("***TSCA***"), the Comprehensive Environmental Response, Compensation, and Liability Act ("***CERCLA***"), and the Pollution Prevention Act, as well as state regulations that may impose additional or different environmental requirements. These federal and state regulations impose significant restrictions on air- and water-borne discharges of pollution from our facilities, the handling of hazardous materials at our facilities, and the disposal of wastes from our operations. We expect that these regulations will grow more stringent over time. The following is a summary of some of the regulations applicable to our operations.

The CAA and its implementing regulations, as well as corresponding state laws and regulations that regulate emissions of pollutants into the air, impose permitting and emission control requirements relating to specific air pollutants. Standards promulgated pursuant to the CAA may require that we install controls at or make other changes to our facilities. If new controls or changes to operations are needed, the costs could be significant. In addition, failure to comply with the requirements of the CAA and its implementing regulations could result in substantial fines, civil or criminal penalties, or other sanctions.

Legislative and regulatory measures to address GHG emissions are in various phases of discussion or implementation. At the federal legislative level, Congress has previously considered legislation requiring a mandatory reduction of GHG emissions. Although Congressional passage of such legislation does not appear imminent at this time, it could be adopted at a future date. It is also possible that Congress may pass alternative climate change bills that do not mandate a nationwide cap-and-trade program and instead focus on promoting renewable energy and energy efficiency or impose a carbon fee. In the absence of congressional legislation curbing GHG emissions, the EPA is moving ahead administratively under its CAA authority. In October 2009, the EPA finalised a rule requiring certain large emitters of GHGs to inventory and report their GHG emissions to the EPA. The EPA's regulations limiting GHG emissions from motor vehicles triggered the imposition of CAA construction and operating permit requirements under the Prevention of Significant Deterioration, and Title V permitting programs for certain large stationary sources that are already subject to these requirements due to emissions of conventional, or criteria, pollutants. Facilities that are required to obtain permits for their GHG emissions are required to reduce those emissions using "best available control technology," or BACT, standards, which are currently being developed on a case-by-case basis. New facilities or modification to our facilities may require us to satisfy BACT requirements and potentially require us to meet other CAA requirements applicable to GHG emissions. A number of states also have adopted reporting and mitigation requirements.

The Clean Water Act and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. The Clean Water Act and regulations implemented thereunder also prohibit the discharge of dredge and fill material into regulated waters, including wetlands, unless authorised by an appropriately issued permit. In addition, the Clean Water Act and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. Spill prevention, control and countermeasure requirements of federal laws require appropriate containment berms and similar structures to help prevent the contamination of navigable waters by a petroleum hydrocarbon tank spill, rupture or leak. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for noncompliance with discharge permits or other requirements of the Clean Water Act and analogous state laws and regulations.

Under CERCLA and related state laws, certain persons may be liable at sites where or from a release or threatened release of hazardous substances has occurred or is threatened. These persons can include the current owner or operator of property where a release or threatened release occurred, any persons who owned or operated the property when the release occurred, and any persons who disposed of, or arranged for the transportation or disposal of, hazardous substances at a contaminated property. Liability under CERCLA is strict, retroactive and, under certain circumstances, joint and several, so that any responsible party may be held liable for the entire cost of investigating and remediating the release of hazardous substances. RCRA regulates the generation, treatment, storage, handling, transportation and disposal of solid waste and requires states to develop programs to ensure the safe disposal of solid waste. Under RCRA, persons may be liable at sites where the past or present storage, handling, treatment, transportation, or disposal of any solid or hazardous waste may present an imminent and substantial endangerment to health or the environment. These persons can include the current owner or operator of property where disposal occurred, any persons who owned or operated the property when the disposal occurred, and any persons who disposed of, or arranged for the transportation or disposal of, hazardous substances at a contaminated property. Liability under RCRA is strict and, under certain circumstances, joint and several, so that any responsible party may be held liable for the entire cost of investigating and remediating the release of hazardous substances.

Regulators in the United States continue to introduce new regulations and legislation related to the selection and use of chemicals or substances of concern in products including motor vehicles by mandating broad prohibitions, green chemistry, life cycle analysis and product stewardship initiatives. These initiatives provide or would provide broad regulatory authority to ban or restrict the use of certain chemical substances and potentially affect automobile manufacturers' responsibilities for vehicle components at the end of a vehicle's life, as well as, chemical selection for product development and manufacturing. These emerging regulations could lead to increases in costs and supply chain complexity. In addition, the United States Congress is currently engaged in a process to reconcile separate bills which have been passed by the House of Representatives and the Senate that would amend TSCA in a number of significant respects. If this reconciliation process is successful and amendments are passed, then the EPA could have greater authority to regulate and ban chemicals, which may result in increased regulation of the chemicals in our manufacturing operations and in our vehicles.

We are subject to a number of federal and state laws and regulations related to safety, including the federal Occupational Safety and Health Act, or OSHA, and comparable state statutes, the purpose of which are to protect the health and safety of workers. Various OSHA standards may apply to our operations, including standards concerning notices of hazards, safety in excavation and demolition work, the handling of asbestos and asbestos-containing materials and worker training and emergency response programs. We also are subject to OSHA Process Safety Management regulations, which are designed to prevent or minimize the consequences of catastrophic releases of toxic, reactive, flammable or explosive chemicals. We have an internal safety, health, and security program designed to monitor and enforce compliance with worker safety requirements.

Noise Control

Passenger cars and light-duty trucks in the United States are subject to state and local regulations establishing permissible levels of vehicle noise. In addition, other jurisdictions have established noise control regulations. For example, a 2014 European Union directive mandates significant decreases in vehicle noise beginning in 2016 and increasing in stringency thereafter.

MANAGEMENT

Board of Directors

The Board of Directors of the Issuer (the "***Board***") consists of ten members nominated and elected by the Issuer's owners, as well as three union representatives. The Swedish Corporate Governance Code (*Sw. Svensk kod för bolagsstyrning*) requires that a majority of the members of the Board are independent of both the Company and its management and at least two of the members of the Board are independent of both the Company and its major shareholders. The table below sets out the names and ages of the members of the Board and the year of their appointment.

Name	Age	Position	Year first appointed
Li Shufu	52	Chairman	2010
Mikael Olsson	58	Vice Chairman	2013
Winnie K.W. Fok	60	Director	2010
Li Donghui	45	Director	2012
Lone Fønss Schrøder	56	Director	2010
Dr. Peter Zhang	50	Director	2010
Håkan Samuelsson	65	Director	2010
Carl-Peter Forster	62	Director	2013
Thomas Johnstone	60	Director	2015
Betsy Atkins	62	Director	2016
Glenn Bergström	60	Union Representative	2009
Marko Peltonen	50	Union Representative	2006
Jörgen Olsson	47	Union Representative	2016
Björn Ohlsson	52	Deputy Union Representative	2009
Magnus Sundemo	61	Deputy Union Representative	2008

Li Shufu. Mr. Li is the Chairman of the Company and the Founder and Chairman of Geely. Mr. Li started his career in the refrigerator and refrigerator parts manufacturing business in 1986, and then transferred to motorcycle manufacturing in 1993. In 1997, he entered the automobile manufacturing industry and has been devoted to the development of China's auto industry over the past two decades. Under Mr. Li's leadership, Geely has been committed to independent innovation and development. Geely has been undergoing a strategic transformation since 2007, including the acquisition of Volvo Cars in 2010. Mr. Li has received numerous awards, including the "Top 10 Private Sector Entrepreneurs in China", "Outstanding Figures in Chinese Automotive Industry", "Top 10 Philanthropists in China" and 2009 CCTV Top 10 Businessmen of the Year.

Mikael Olsson. Mr. Olsson is the Vice Chairman of the Board. Mr. Olsson is a former President and CEO of IKEA Group, where he worked for more than 30 years and was a member of the group's executive management for almost 20 years. During his CEO years, Mr. Olsson was chairman of the board of IKEA of Sweden AB (range development and design), the IKEA Industry Group (production), IKEA China Holdings as well as a number of Group Committees. Before taking on the role of CEO, Mr. Olsson chaired the board of numerous IKEA retail companies in Europe, the United States and Canada, as well as numerous IKEA business councils and group development projects. Mr. Olsson also currently serves as a member of the boards of directors of Ikano S.A., Tesco PLC, Lindengruppen AB, The Schiphol Group and Global Child Forum.

Winnie K.W. Fok. Ms. Fok is a Director of the Board. Ms. Fok was the Chief Executive Officer of EQT Partners Asia Limited until 2010. She joined EQT Partners Asia in 2000 as Managing Director and was appointed CEO in 2001. Prior to joining EQT Partners Asia, Ms. Fok was Managing Director of CEF New Asia Partners. From 1994 to 1998, she was the Director and co-head of Peregrine Direct Investments Ltd. In April 2004, Ms. Fok became a Board member of Aktiebolaget SKF (SKF) based in Gothenburg, Sweden. SKF is listed on the OM Stockholm Stock Exchange. Ms. Fok also currently serves as a member of the boards of directors of G4S Plc., Kemira Oyj and Skandinaviska Enskilda Banken AB. Ms. Fok has more than 22 years of experience in corporate advisory and direct investments. She is also a fellow of CPA Australia, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales.

Li Donghui. Mr. Donghui is a Director of the Board. Mr. Donghui has extensive experience within the automotive sector. In the late 1990s, he was a member of management at ASIMCO Braking System, after which he moved to Chinese manufacturer Brilliance and was involved in the company's partnership with BMW. Between 2006 and 2009, he worked at U.S. automotive conglomerate Cummins. He subsequently served as CFO at Chinese machinery manufacturer Liugong before joining Geely in 2011. Mr. Donghui has been a member of the board of directors of Zhejiang Geely Holding Group Co., Ltd since 2011. Mr. Donghui also currently serves as a member of the board of directors of Beijing Orient Landscaping Co., Ltd. and China CYTS Co., Ltd.

Lone Fønss Schrøder. Ms. Fønss Schrøder is a Director of the Board. Ms. Fønss Schrøder started her career at A.P. Möller-Maersk A/S, where she worked for more than 20 years and held several senior positions. From 2005 to 2010, she served as President and CEO of Wallenius Lines, a leading provider of global factory-to-dealer transport solutions for, among others, the automotive industry. Ms. Fønss Schrøder has extensive experience across the automotive logistics industry. Ms. Fønss Schrøder also currently serves as Chairman of the board of directors of SAXO Bank, Vice Chairman of the board of directors of Akastor ASA and as a member of the board of directors of Valmet Oy.

Dr. Peter Zhang. Dr. Zhang is a Director of the Board. Dr. Zhang joined Geely Automobile in February 2007 as Vice President, in charge of Internal Control and International Business, and until 2014, served on the board of directors of various Geely Automobile Group companies. He played an important role in Geely's acquisition of Volvo Cars throughout the deal process. He worked for major multinational companies for more than 10 years, with a variety of roles spanning from sales, business development, operational management, strategy and planning, and finance. Dr. Zhang also currently serves as a member of the board of directors of Carbon Recycling International.

Håkan Samuelsson. Mr. Samuelsson is a Director of the Board and currently acts as President and CEO. Mr. Samuelsson was appointed President and CEO in October 2012. Mr. Samuelsson started his professional career in 1977 at Scania Group ("***Scania***"), where he worked for more than 20 years. Mr. Samuelsson held leading positions within Scania's technical division before he joined the executive board in 1996. He brought his truck experience from Scania to MAN AG in 2000, when he became head of MAN Nutzfahrzeuge, a subsidiary of MAN AG. He became CEO of MAN in 2005, and initiated a broad restructuring of the group. Mr. Samuelsson has worked in Latin America and across Europe. Mr. Samuelsson also currently serves on the board of directors of Teknikföretagen.

Carl-Peter Forster. Mr. Forster is a Director of the Board. Mr. Forster started his career at McKinsey & Company as a management consultant in 1982. After four years there, he joined BMW in Munich, where he became a member of the Executive Board in 1999 as head of global manufacturing. In 2001, he joined the European division of General Motors and became Managing Director of Opel and Vice President of GM Europe. In 2006, he became CEO and President of GM Europe and joined the parent company's Global Automotive Strategy Board. After leaving General Motors, he became Group CEO at Tata Motors, where he was responsible for the Jaguar and Land Rover brands. In 2013, he joined the boards of Geely Automotive Holdings and the Company. Mr. Foster also currently serves as Chairman of the boards of directors of Friedola Tech GmbH and Lead Equities AG and as a member of the boards of directors of Jaguar Land Rover, UK, the London Taxi Company, Gordon Murray Design Ltd., The Mobility House AG, IMI PLC and Rexam PLC.

Thomas Johnstone. Mr. Johnstone is a Director of the Board. Mr. Johnstone has over 38 years' experience within the SKF Group in Gothenburg, Sweden, and previously served as President and CEO. Mr. Johnstone left the SKF Group on 31 December 2014 and has extensive industrial experience in the automotive industry. Mr. Johnstone currently serves as Chairman of the boards of directors of Husquarna AB and Combient AB and as a member of the boards of directors of Investor AB and Wärtsilä.

Betsy Atkins. Ms. Atkins is a Director of the Board. Ms. Atkins is the founder and CEO of Baja Corp, an American early-stage venture capital firm focusing on investments in global technology companies. Ms. Atkins also acts as advisor and sits on the board of several companies, including SAP AG, Schneider Electric, SL Green and Home Depot Supply.

Glenn Bergström. Mr. Bergström is a union representative on the Board.

Marko Peltonen. Mr. Peltonen is a union representative on the Board.

Jörgen Olsson. Mr. Olsson is a union representative on the Board.

Björn Ohlsson. Mr. Ohlsson is a deputy union representative on the Board.

Magnus Sundemo. Ms. Sundemo is a deputy union representative on the Board.

Management Team

The table below sets forth the name and ages of certain current executive officers of the Company.

Name	Age	Position
Håkan Samuelsson	65	President; CEO
Hans Oscarsson	50	Senior Vice President; CFO
Lars Danielson	66	Senior Vice President, Asia Pacific Region
Jonathan Goodman	52	Senior Vice President, Corporate Communications
Maria Hemberg	51	General Counsel, Senior Vice President, Group Legal and Corporate Governance
Thomas Ingenlath	52	Senior Vice President, Design
Lex Kerssemakers	56	Senior Vice President, Americas Region
Peter Mertens	55	Senior Vice President, Research & Development
Paul Welander	57	Senior Vice President, Human Resources, Quality and Product Strategy & Vehicle Line Management
Lars Wrebo	54	Senior Vice President, Purchasing & Manufacturing
Anders Gustafsson	47	Senior Vice President, Europe, Middle East and Africa (EMEA) Region
Klas Bendrik	46	Senior Vice President, Chief Information Officer
Björn Annwall	40	Senior Vice President, Marketing, Sales and Customer Service

Håkan Samuelsson. See "*—Board of Directors—Håkan Samuelsson*".

Hans Oscarsson. Mr. Oscarsson is Senior Vice President and CFO of the Company. Mr. Oscarsson has worked at Volvo Cars since 1990 and has extensive experience as a controller and CFO. Mr Oscarsson was temporary CFO for the Company during 2010 to 2011, and with that fulfilled a key role during Geely's acquisition of Volvo Cars.

Lars Danielson. Mr. Danielson is Senior Vice President, Asia Pacific Region. In 2006, Mr. Danielson joined Volvo Cars as general manager for the Torslanda plant in Gothenburg. In 2013, Mr Danielson became head of Volvo Cars' operations in China. Prior to joining Volvo Cars, Mr. Danielson served in a variety of capacities at Saab Automobile, Sweden and General Motors Europe.

Jonathan Goodman. Mr. Goodman is Senior Vice President, Corporate Communications. Mr. Goodman was most recently Executive Vice President Communications at PSA Peugeot Citroën in Paris. Prior to that, he held several leading positions within the PSA group, based in the UK, France, Belgium and Luxembourg.

Maria Hemberg. Ms. Hemberg is General Counsel, Senior Vice President, Group Legal and Corporate Governance. Ms. Hemberg serves as secretary of the Board. Ms. Hemberg began her career as associate lawyer at Mannheimer Swartling. Ms. Hemberg has practised corporate law, mergers and acquisitions (M&A), real estate, bankruptcy and labour law. Ms. Hemberg previously acted as legal counsel at SKF, where she focused on M&A and joint ventures, contract law and corporate governance.

Thomas Ingenlath. Mr. Ingenlath is Senior Vice President, Design. Mr. Ingenlath has 20 years of experience within the automotive industry, having worked in lead design positions at Audi, Volkswagen and Škoda. Before joining Volvo Cars, Mr. Ingenlath acted as Director of Design for Volkswagen Group at the Volkswagen Design Center in Potsdam.

Lex Kerssemakers. Mr. Kerssemakers is Senior Vice President, Americas Region and President and CEO of Volvo Cars of North America. Mr. Kerssemakers joined Volvo Cars in 1996 and has served in a variety of marketing and business strategy positions. Mr. Kerssemakers has served under Swedish, U.S. and Chinese ownership, and helped align shareholder and customer perspectives.

Peter Mertens. Dr. Mertens is Senior Vice President, Research & Development. Dr. Mertens has experience in a variety of roles, including product development and aftersales engineering. Dr. Mertens has previously served as Global Vehicle Line Executive at General Motors. Dr. Mertens also was previously responsible for Corporate Quality at Tata Motor Group, and Jaguar Land Rover's quality and safety performance globally.

Paul Welander. Mr. Welande is Senior Vice President, Human Resources, Quality and Product Strategy & Vehicle Line Management. Mr. Welander joined Volvo Cars in 1988, joining the Materials Laboratory. He worked there until 1994, when he became Test Manager. Mr. Welander went on to become Aftermarket Manager for Volvo Cars, North America, before returning to Sweden in 2001. Mr. Welander previously served as Vice President of Engineering of Volvo Cars.

Lars Wrebo. Mr. Wrebo is Senior Vice President, Purchasing & Manufacturing. In 1992, following various positions within Saab Automobile AB, Mr. Wrebo moved to Scania AB. In 1996, he took up the position of Managing Director at Scania Production Angers S.A.S. Mr. Wrebo then moved to MAN AG and became a member of the Executive Board of MAN Trucks and Bus AG, before joining Volvo Cars.

Anders Gustafsson. Mr. Gustafsson is Senior Vice President, EMEA Region. In 2009, he joined Volvo Cars Sweden as Deputy President and Sales Director Nordic and became President for Volvo Cars Sweden in 2011. In March 2015, Mr. Gustafsson joined Volvo Cars as Senior Vice President Europe and became a member of the Executive Management Team.

Klas Bendrik. Mr. Bendrik is Senior Vice President, Chief Information Officer. Mr. Bendrik's professional business career began at ABB and has included both line and management consultant positions in a global business environment. Mr. Bendrik joined Volvo Cars in 2010 as CIO. Since joining, Mr. Bendrik has led the successful IT separation from Ford and has driven the development and implementation of a business founded and customer oriented IT strategy.

Björn Annwall. Mr. Annwall is Senior Vice President, Marketing, Sales and Customer Service. In October 2015, Mr. Annwall joined Volvo Cars. Prior to joining Volvo Cars, Mr. Annwall was a partner at McKinsey & Company, where he worked on growth strategy, marketing and sales and transformation, primarily within the automotive and assembly sectors.

Board Practices

The Board continually monitors the Company's performance, evaluates the Company's strategic direction and business plan and other aspects such as business conduct in a responsible manner, sustainability and Code of Conduct adherence. The responsibilities of the Board are regulated by the Swedish Companies Act, the articles of association of the Company and the formal working procedures. The Board is expected to meet four to eight times per year. The Board conducts a yearly survey regarding its board work. Based on the result of the survey, the Board evaluates the performance and identifies possible areas of improvement.

Committees

The Audit Committee, the People & Compensation Committee and the Product Strategy & Investment Committee were established to handle certain tasks assigned to the committees on behalf of the Board. In addition, the Nomination Committee sets the appropriate remuneration principles for the Board and on a yearly basis proposes remuneration for the Board.

Nomination Committee

The major shareholders have elected a Nomination Committee to nominate members to the Board, set the appropriate remuneration principles for the Board and, on a yearly basis, propose the remuneration and other terms for the Board. Appointment or removal of a member of the Board shall be proposed by the Nomination Committee but subject to the approval of a shareholders' meeting. The Nomination Committee has adopted a framework for the nomination of members of 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 the Company, supports a sustainable development and meets the independence requirements of the Company.

Li Shufu and Mikael Olsson are currently members of the Nomination Committee.

Audit Committee

The Board is served by an Audit Committee, which is responsible for identifying and reporting relevant issues to the Board. The purpose of the Audit Committee is to monitor the integrity of our financial reporting system, internal controls, operation procedure and risk-management framework; recommend to the Board the appointment, removal and remuneration for the auditors (subject to approval at the annual shareholders' meeting) in accordance with the Swedish Companies Act; monitor the independence of the auditors; and review the effectiveness of internal audit and compliance function.

Lone Fønss Schröder (Chairman), Winnie Fok and Li Donghui are currently members of the Audit Committee.

People & Compensation Committee

The purpose of the Compensation Committee is to prepare, decide and present to the Board matters related to remuneration, remuneration principles, performance and succession planning of the CEO and the executive management, as well as other related matters. Michael Olsson (Chairman), Li Shufu, Thomas Johnstone and Peter Zhang are currently members of the People & Compensation Committee.

Product Strategy & Investment Committee

The purpose of the Product Strategy & Investment Committee is to oversee the Company's product strategy and the investments linked to it. The Committee works to ensure that the changes in society, people's views on mobility and cars as well as changes in the automotive market are reflected in the Company's strategic product plans and when choosing technology. Thomas Johnstone (Chairman), Carl-Peter Forster, Betsy Atkins and Håkan Samuelsson are part of the Product Strategy & Investment Committee.

Compensation

Our executive compensation program is comprised of base salary, benefits, two short-term incentive programs and a long-term incentive program. Base salaries paid to our executives are consistent with the scope of each executive's responsibilities such that base salaries reflect the fixed compensation necessary to recruit key leadership. Benefits paid to our executives are benefits packages in line with those of other companies in our sector and appropriate for the respective jurisdictions.

We have three global incentive programs: (i) Short Term Variable Pay ("***STVP***"); (ii) Volvo Bonus; and (iii) Long Term Variable Pay ("***LTVP***"). STVP and Volvo Bonus are both short-term incentive programs. While the STVP program only includes management, the Volvo Bonus program includes all employees. The LTVP is a program for the executive management team and senior executives. The STVP and Volvo Bonus programs are based on the company achieving certain EBIT targets. They have a defined ceiling in relation to base salary and any earned remuneration is paid in cash. The purpose of the LTVP is to attract, motivate and retain key competence within the company. Compensation awarded under the LTVP is based on the calculated market value of Volvo Cars over three years.

Compensation for management, including Board members and senior executives, for the year ended 31 December 2015 was SEK 260 million.

PRINCIPAL SHAREHOLDER

Volvo Car AB

The Issuer is a subsidiary of Geely Sweden Holdings AB, which is owned by Shanghai Geely Zhaoyuan International Investment Co., Ltd., with ultimate ownership held by Geely. Balances and transactions with Geely and its subsidiaries (not including Volvo Car AB and Volvo Car Corporation and its subsidiaries), are classified in the Consolidated Financial Statements as balances and transactions with related companies. See "*Certain Relationships and Related Party Transactions*", "*Corporate Structure and Financing Arrangements*" and the Consolidated Financial Statements included elsewhere in this offering memorandum. The Guarantor is a direct wholly owned subsidiary of the Issuer.

The share capital of the Issuer consists of 100,000 shares, all of which are owned by Geely Sweden Holdings AB, fully paid with a par value of SEK 5.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the course of our ordinary business activities, we regularly enter into agreements with or render services to related parties. In turn, such related parties may render services or deliver goods to us as part of their business. Purchase and supply agreements between subsidiaries and affiliated companies and with associated companies or shareholders of such associated companies are entered into on a regular basis within the ordinary course of business. We do not engage in any transactions with Board members and senior executives except for remuneration for services and share-based compensation as described in "*Management—Compensation*."

We believe that all transactions with affiliated companies and persons with which members of our board of management or our supervisory board are affiliated are negotiated and conducted on a basis equivalent to those that would have been achievable on an arm's-length basis, and that the terms of these transactions are comparable to those currently contracted with unrelated third-party suppliers, manufacturers and service providers. See note 5 to the Issuer Consolidated Financial Statements and note 3 to the Unaudited Interim Financial Statements included elsewhere in this offering memorandum. In addition to the foregoing ordinary course transactions, we have also entered into the following transactions with related parties that are not consolidated in our corporate structure:

	31 December			31 March	
	2013	2014(1)	2015(2)	2015(2)	2016
	(SEK in millions)				
Related companies(3)					
Sales of goods, services and other	945	728	1,032	131	355
Purchases of goods, services and other	350	449	934	203	225
Associated companies and Swedish joint ventures					
Sales of goods, services and other	2,641	1,699	1,588	438	443
Purchases of goods, services and other	1,533	1,252	1,785	484	575

	31 December			31 March	
	2013	2014(1)	2015(2)	2015(2)	2016
	(SEK in millions)				
Related companies(3)					
Receivables from	1,098	1,950	4,213	1,749	3,838
Payables to	562	502	4,377	1,643	4,273
Associated companies and Swedish joint ventures					
Receivables from	65	30	24	122	46
Payables to	72	71	149	86	116

(1) The financial information for the year ended 31 December 2014 has been restated to reflect the consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(2) The Chinese Joint Ventures have been consolidated into our financial statements as of 1 January 2015. See "*Presentation of Financial and Other Information*" and "*Business—Chinese Joint Ventures*".

(3) Related companies include companies outside of Volvo Cars, but within the sphere of companies of Geely.

Transactions with Geely

In 2014, we entered into an agreement with London Taxi Co., Ltd, a wholly owned subsidiary of Geely, regarding development, technical support and component sales. This agreement resulted in income of SEK 36 million, SEK 104 million, SEK 24 million and SEK 31 million for the years ended 31 December 2014 and 2015 and the quarters ended 31 March 2015 and 2016, respectively.

Transactions with Ningbo Geely

In 2014, we entered into an agreement with Ningbo Geely regarding certain common development activities, including the development of the CMA and other projects (e.g., our 3-cylinder engine and the HEP7 transmission projects). The agreement has resulted in:

(i) an income related to sale of licenses of SEK 407 million, SEK 188 million, SEK 0 million and SEK 52 million for the years ended 31 December 2014 and 2015 and the quarters ended 31 March 2015 and 2016, respectively;

(ii) other income of SEK 170 million, SEK 324 million, SEK 84 million and SEK 75 million for the years ended 31 December 2014 and 2015 and the quarters ended 31 March 2015 and 2016, respectively;

(iii) capitalised intangible assets (per year) of SEK 473 million, SEK 578 million, SEK 185 million and SEK 236 million as of the years ended 31 December 2014 and 2015 and the quarters ended 31 March 2015 and 2016, respectively; and

(iv) capitalized intangible assets (ending balance) of SEK 473 million, SEK 1,051 million, SEK 658 million and SEK 1,287 million as of the years ended 31 December 2014 and 2015 and the quarters ended 31 March 2015 and 2016, respectively.

Transactions with Shanghai Geely Zhaoyuan International Investment Co., Ltd

During 2015, we received capital contributions of SEK 3,992 million from Shanghai Geely Zhaoyuan International Investment Co., Ltd.

Transactions with Chinese Joint Ventures

On 25 June 2015, we completed the acquisition of an additional 20% interest in the Chinese Joint Ventures, increasing our ownership interest in each such entity to 50%. After the acquisition, we gained the power to control these entities through shareholder agreements, and the Chinese Joint Ventures have therefore been fully consolidated into our financial statements from 1 January 2015. Prior to the completion of this acquisition, certain transactions with the Chinese Joint Ventures were viewed as related party transactions. The financial information as of and for the quarter ended 31 March 2015 reflects consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2015 and the financial information as of and for the year ended 31 December 2014 has been restated to reflect consolidation of the Chinese Joint Ventures into our financial statements as of 1 January 2014.

DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

The following contains a summary of the material terms of certain financing arrangements to which we and certain of our subsidiaries are a party. The following summaries are not complete and are subject to the full text of the documents described below.

China Development Bank Facility

Overview

Volvo Car Corporation entered into the China Development Bank Facility as borrower. The facilities made available under the China Bank Development Facility comprise:

- a EUR 815,334,125 term loan facility ("***Facility A***"), the purpose of which is the prepayment of certain outstanding indebtedness;
- a EUR 106,977,229 term loan facility ("***Facility B***"), the purpose of which is to refinance project costs associated with the future car emissions research and development project and related chassis development; and
- a USD 800,000,000 term loan facility ("***Facility C***"), the purpose of which is the financing of the certain XC90 project costs.

As of the date of this offering memorandum, Facility A, Facility B and Facility C are fully drawn.

Security

As of 31 March 2016, the China Bank Development Facility was secured by a share pledge by the Issuer of shares in the Guarantor. This share pledge was released on 6 May 2016 and the China Development Bank Facility has been secured by a share pledge granted by Geely Sweden Holdings AB over the entire issued share capital of the Issuer.

Guarantors

The Issuer and Geely Sweden Holdings AB have (among other undertakings) provided an irrevocable, unconditional, joint and several, on demand guarantee all amounts payable to the Finance Parties (as defined in the China Development Bank Facility) by the borrower in connection with the China Development Bank Facility.

Repayment

Loans made under Facility A and Facility B must be repaid in thirteen semi-annual installments starting on 15 December 2014 pursuant to the repayment schedule as set forth in the China Development Bank Facility, and repaid in full on the final maturity date of 13 December 2020. Loans made under Facility C must be repaid in eleven semi-annual installments starting on 27 November 2016 pursuant to the repayment schedule as set forth in the China Development Bank Facility, and repaid in full on the maturity date of 27 November 2021.

Mandatory Prepayment

If it becomes unlawful in any applicable jurisdiction for any lender to perform its obligations under the China Development Bank Facility or to fund or maintain its participation in any loan, upon notification to the borrower, their commitment will be immediately canceled and the borrower must repay or prepay that lender's share of each relevant loan on the last day of the term of that loan (or earlier if required by the lender in certain circumstances).

Upon a change of control, no lender is obliged to fund utilisation, and the Agent shall, if lenders whose participations in the outstanding loans aggregate more than 66⅔% of all the outstanding loans then outstanding so require, 10 business days of notice to the borrower, cancel the total commitments and declare all outstanding loans and the total commitments, together with accrued interest and all other amounts accrued, immediately due and payable within 60 days of that notice. "Change of control" means Geely ceases, directly or indirectly, to be the beneficial owner and control at least 50.5% of the issued share capital and votes of the borrower or the Issuer ceases directly to own and control 100% of the entire issued share capital and votes of the borrower.

There are requirements set out in the documentation for certain reports to be delivered in connection with the XC90 Project (as defined below). The borrower has delivered a completion certificate with respect to this project and therefore further reports are not required.

Voluntary Prepayment and Cancellation

Subject to the break costs (if any) and prepayment premium (if any), the borrower may voluntarily prepay any amounts outstanding in whole or in part on 30 business days prior notice, in the case of Facility A and Facility B, subject to a minimum payment of EUR 10 million and in the case of Facility C, subject to a minimum payment of USD 10 million.

Interest and Fees

The rate of interest payable on any loan drawn under Facility A and Facility B is a fixed margin plus EURIBOR plus mandatory costs, if any. The rate of interest payable on any loan drawn under Facility C is a fixed margin plus LIBOR plus mandatory costs, if any. A customary market disruption clause appears in the China Development Bank Facility.

Representations and Warranties

The China Development Bank Facility contains customary representations and warranties, subject to certain exceptions and appropriate materiality qualifications, made as of the date of the agreement, and contains provisions that require the borrower and each guarantor to make certain representations and warranties on an ongoing basis.

Negative Covenants

The China Development Bank Facility contains negative covenants, subject to certain agreed exceptions, including, but not limited to, covenants restricting our ability to, among other things: (i) make dividends or distributions; (ii) create security; (iii) merge or consolidate with other companies or make acquisitions; (iv) dispose of certain assets; (v) enter into certain types of transactions other than on an arm's length basis and for full market value; (vi) make a substantial change to the general nature of the business; (vii) incur indebtedness or provide guarantees; (viii) make loans or extend credit to third parties; (ix) amend constitutional documents; (x) enter into certain types of treasury transactions; and (xi) in relation to each guarantor, carry on business or own assets.

Affirmative Covenants

The China Development Bank Facility contains affirmative covenants, subject to certain agreed exceptions, requiring us to observe certain covenants, including but not limited to, covenants relating to: (i) maintenance of corporate existence, its centre of main interests and establishments and relevant authorisations; (ii) compliance with laws, including environmental laws (and notification of claims regarding the same), anti-money laundering and anti-corruption laws and sanctions regulations; (iii) payment of taxes; (iv) maintenance of insurance; (v) ensuring that its obligations under certain finance documents rank at least pari passu with its other unsecured obligations; (vi) preservation and maintenance of intellectual property; (vii) maintenance of assets in good working order and condition; (viii) maintenance of pension schemes; (ix) provision of financial information (including annual audited and semiannual unaudited financial statements); (x) provision, in the case of the borrower, an annual report issued by an independent technical consultant covering the research, development and commercial production of the XC90 ("***XC90 Project***"); (xi) provision, in the case of the borrower, a quarterly report on the progress of the research and development project regarding future car emission engines and the related chassis development of certain cars; (xii) maintenance of sufficient funds to ensure the XC90 Project is in accordance with schedule (although note that this project is now complete); (xiii) further assurance in relation to security documents; (xiv) entry into entrustment or reciprocal loans; (xv) access to premises and accounts; (xvi) appointment of certain auditors; (xvii) satisfaction of conditions subsequent; (xviii) provision of syndication assistance; and (xix) good faith discussions regarding baskets following a Negative Net Income Event (as defined in the China Bank Development Facility).

Financial Covenant

The China Development Bank Facility contains financial covenants that require the borrower to ensure that (i) the ratio of consolidated net debt to adjusted consolidated EBITDA on the last day of the relevant period (being the 12 months ending on the last day of each financial year and each financial half-year) will not be greater than 3.0 to 1.0; and (ii) the ratio of free cash flow to debt service for any relevant period (being the 12 months ending on the last day of each financial year and each financial half-year) will not be less than 1.5 to 1.0. The ratios are based on the definitions provided under the China Development Bank Facility.

Events of Default

The China Development Bank Facility sets out certain events of default, the occurrence of which would allow the lenders to declare that all or part of the loans, together with accrued interest and other amounts outstanding are immediately due and payable and/or payable immediately on demand. These events of default include, among other events and subject to certain grace periods thresholds and other qualifications: (i) nonpayment of amounts due and payable under a finance document; (ii) breach of financial covenants or other obligations; (iii) breach of obligations other than a breach of financial covenants; (iv) inaccuracy of a representation in any material respect when made or deemed to be repeated; (v) certain cross defaults in respect of other indebtedness equal to or in excess of EUR 20 million; (vi) insolvency or insolvency proceedings; (vii) any expropriation, attachment, sequestration, distress, execution or analogous process; (viii) ineffectiveness or unlawfulness of the finance documents; (ix) cessation of business; (x) audit qualification; (xi) repudiation and rescission of the finance documents; (xii) litigation, judgments or decrees; (xiii) material adverse change; (xiv) creation of security over any share capital or assets of Geely Sweden Holdings AB or the Issuer or guarantees or indemnities provided by either of them other than under the finance documents; (xv) certain sanctions events and non-compliance with anti-money laundering and anti-corruption laws; (xvi) expropriation; and (xvii) non-compliance with or non-performance of a Subordination Deed (as defined in the China Bank Development Facility).

Assignments by the Lenders

Lenders may not assign their rights or transfer by way of novation any of their rights and obligations without the borrower's consent (not to be unreasonably withheld or delayed) unless the assignee is an affiliate of the assignor or there is an event of default outstanding.

Governing Law and Jurisdiction

The China Development Bank Facility is governed by English law. Any dispute or claim in connection with the China Development Bank Facility shall be referred to and finally resolved by binding arbitration at the Hong Kong International Arbitration Centre.

Term Credit Facility

Overview

The Guarantor, as borrower, and the Issuer, as guarantor, entered into the Term Credit Facility with AB Svensk Exportkredit (publ), as lender, for a total amount of SEK 1,500,000,000. Borrowings under the Term Credit Facility may be used for general corporate purposes including refinancing of indebtedness previously incurred by the Guarantor. The foregoing nothwithstanding, SEK 1,000,000,000 was utilised without transfer of funds to the Guarantor by way of set-off against a pre-existing loan of such amount granted by the same lender. As of the date of the offering memorandum, we had drawn the total committed amount of SEK 1,500,000,000 upon the facility. No further amounts can be borrowed or drawn under the Term Credit Facility. For the avoidance of doubt, prepaid amounts (whether voluntarily or mandatorily) cannot be re-borrowed.

Security and Guarantors

There is no security given to support the Term Credit Facility.

The Issuer has (among other undertakings) provided a guarantee on all amounts payable to the lender by the Guarantor in connection with the Term Credit Facility.

Maturity

The Term Credit Facility matures on the date falling four (4) years after the utilisation date, being 1 July 2019. The term of the Term Credit Facility will be automatically extended by one (1) year (from four (4) to five (5) years) unless the lender or the Guarantor has notified the other party no later than on the first anniversary of the utilisation date that an extension shall not apply. As of the date of this offering memorandum, neither has served such notice.

Mandatory Prepayment

If it becomes unlawful in any applicable jurisdiction for the lender to perform its obligations under the Term Credit Facility or to fund or maintain its participation in any loan, upon notification to the Guarantor, the lender's commitment will be immediately cancelled and all obligations of the Guarantor under such commitment will be payable on the last day of the relevant interest period (or earlier if required by the lender in certain circumstances).

Upon a change of control, the parties will in good faith enter into negotiations to continue the facility for up to 30 days from the change of control. After such period, the lender may by notice to the Guarantor cancel its commitments under the Term Credit Facility and declare all outstanding loans immediately due and payable, together with accrued interest and all other amounts due. Upon a change of control, the lender will not be obliged to participate in a loan. "Change of control" means (i) Geely Sweden Holdings AB ceases to be the beneficial and legal owner directly or indirectly through wholly owned subsidiaries of the entire issued share capital of the Guarantor; or (ii) Geely ceases to be the beneficial and legal owner directly or indirectly through wholly owned subsidiaries of at least 50.5 per cent. of the issued share capital of Geely Sweden Holdings AB.

Voluntary Prepayment and Cancellation

Subject to the break costs (if any), the Guarantor may voluntarily prepay any amounts outstanding in whole or in part on three business days prior notice, subject to a minimum payment of SEK 50 million.

Interest and Fees

The rate of interest payable on the loans under the Term Credit Facility is the rate per annum equal to the aggregate of a fixed margin plus STIBOR. A customary market disruption clause appears in the Term Credit Facility.

Representations and Warranties

The Term Credit Facility contains customary representations and warranties, subject to certain exceptions and appropriate materiality qualifications, made as of the date of the agreement, and contains provisions that require each of the Issuer and the Guarantor to make certain representations and warranties on an on-going basis.

Negative Covenants

The Term Credit Facility contains restrictive covenants, subject to certain agreed exceptions, including, but not limited to, covenants restricting our ability to, among other things: (i) make dividends or distributions; (ii) create security; (iii) merge or consolidate with other companies and or make acquisitions; (iv) dispose of certain assets; (v) enter into non-ordinary course derivative contracts; (vi) make a substantial change to the general nature of its business; (vii) incur indebtedness or provide guarantees; and (viii) make loans or extend credit to third parties.

Affirmative Covenants

The Term Credit Facility contains affirmative covenants, subject to certain agreed exceptions, including, but not limited to, covenants requiring us to: (i) maintain relevant authorisations; (ii) comply with laws, including environmental laws and sanctions regulations; (iii) pay taxes; (iv) maintain insurance; (v) ensure that its obligations under certain finance documents rank at least pari passu with its other unsecured obligations; (vi) preserve and maintain its intellectual property; (vii) maintain its assets in good working order and condition; and (viii) provide financial information (including annual audited and semi-annual unaudited consolidated financial statements of the Guarantor).

Financial Covenant

The Term Credit Facility contains financial covenants that require each of the Issuer and the Guarantor to ensure that (i) the ratio of consolidated EBITDA to net cash interest for any relevant period (being the preceding 12 months ending on a financial quarter) is not less than 3.5 to 1 and (ii) the consolidated net debt at the last day of the relevant period (being the preceding 12 months ending on a financial quarter) does not exceed 2.5 times the adjusted consolidated EBITDA. The covenants are based on the definitions provided under the Term Credit Facility.

Events of Default

The Terms Credit Facility sets out certain events of default, the occurrence of which would allow the lender to cancel its commitments and/or declare that all or part of its loans, together with accrued interest and other amounts outstanding, are immediately due and payable and/or payable immediately on demand. These events of default include, among other events and subject to certain grace periods thresholds and other qualifications: (i) non-payment of amounts due and payable under a finance document; (ii) breach of financial covenants or other obligations; (iii) inaccuracy of a representation in any material respect when made or deemed to be repeated; (iv) insolvency or insolvency proceedings; (v) any expropriation, attachment, sequestration, distress, execution or analogous process; (vi) cessation of business; (vii) certain cross defaults in respect of other indebtedness; (viii) ineffectiveness or unlawfulness of the finance documents; (ix) the Guarantor, or an entity or person related to the Guarantor, becomes a restricted person under applicable sanctions regulations; and (x) material adverse change.

Assignment by the lender

The lender may not assign its rights or transfer by way of novation any of its rights and obligations without the Guarantor's consent (or to be unreasonably withheld or delayed) unless the assignee is an affiliate of the assignor or there is an event of default outstanding.

Governing Law and Jurisdiction

The Term Credit Facility is governed by Swedish law. To the benefit of the lender only, the Swedish courts have exclusive jurisdiction to settle any dispute related to the Term Credit Facility.

Revolving Credit Facility

Overview

The Guarantor, as borrower, entered into the Revolving Credit Facility for a total amount of up to EUR 660 million. Borrowings under the Revolving Credit Facility may be used for general corporate purposes including refinancing of indebtedness previously incurred by the borrower (but excluding indebtedness under the China Development Bank Facility and the Term Credit Facility) and any indebtedness raised to refinance the China Development Bank Facility or Term Credit Facility (Replacement Indebtedness as defined in the Revolving Credit Facility). The borrower can opt to denominate borrowings under the Revolving Credit Facility in other currencies besides euros, subject to certain exceptions. As of the date of the offering memorandum, the borrower has not drawn upon the facility.

The first request of a loan under the Revolving Credit Facility is subject to certain conditions precedent including, among others, prior or simultaneous repayment of a facility agreement dated 1 February 2013 entered into between, among others, the borrower and ING Bank N.V., London Branch as facility agent, a copy of the borrower's financial policy which requires such company to have a minimum of 10% of net revenue available as cash or committed undrawn credit facilities and other standard conditions precedent such as the delivery of corporate and financial documentation, legal opinions and executed fee letters. Furthermore any advancement of a loan under the Revolving Credit Facility is subject to the repeating representations being correct in all material respects and no outstanding default. As at the date of the last supplement to the Revolving Credit Facility, the conditions precedent have been confirmed by the facility agent as being satisfied.

Security and Guarantors

There is no security given to support the Revolving Credit Facility.

The Issuer has (among other undertakings) provided a joint and several, on-demand guarantee on all amounts payable to each Finance Party (as defined in the Revolving Credit Facility) by the borrower in connection with the Revolving Credit Facility.

Maturity

The Revolving Credit Facility matures on 30 June 2017. The borrower may request to extend the maturity date to 30 June 2019 for all lenders. On 28 April 2016, we requested the extension of the maturity date of the Revolving Credit Facility. Each lender may individually agree to accept to extend the maturity date with respect to its commitment by responding within the 20 days following the borrower's request to extend the maturity.

Mandatory Prepayment

If it becomes unlawful in any applicable jurisdiction for any lender to perform its obligations under the Revolving Credit Facility or to fund or maintain its participation in any loan, upon notification to the facility agent, their commitment will be immediately cancelled and the borrower must pay or prepay the lender's share of each relevant loan on the last day of the term of that loan (or earlier if required by the lender in certain circumstances).

Upon a change of control, the parties will in good faith enter into negotiations to continue the facility for up to 30 days from the change of control. After such period, the lender may, by notice to the borrower, cancel its commitments under the Revolving Credit Facility and declare all outstanding loans by that lender immediately due and payable, together with accrued interest and all other amounts due to that lender. Upon a change of control, no lender will be obliged to participate in a loan (save for a rollover loan). "Change of control" means Geely ceases to be the beneficial and legal owner directly or indirectly through wholly owned subsidiaries of at least 50.5% of the issued share capital of Geely Sweden Holdings AB or Geely Sweden Holdings AB ceases to be the beneficial and legal owner directly or indirectly through wholly owned subsidiaries of the entire issued share capital of the Issuer.

Voluntary Prepayment and Cancellation

The borrower may voluntarily prepay any amounts outstanding in whole or in part on three business days prior notice, subject to a minimum payment of EUR 10 million. Any amounts voluntarily prepaid may be re-borrowed in accordance with the terms and conditions of the Revolving Credit Facility. Any amounts voluntarily prepaid may be re-borrowed in accordance with the terms and conditions of the Revolving Credit Facility. The borrower may voluntarily cancel the facility in whole or in part on five business days prior notice, subject to a minimum payment of EUR 5 million.

Interest and Fees

The rate of interest payable on the loans under the Revolving Credit Facility is the rate per annum equal to the aggregate of the margin plus EURIBOR (in the case of loans in euro) or LIBOR (or another IBOR to the extent LIBOR is not applicable) (in the case of loans in any other currency other than euro) and is payable on the last day of each term or, if shorter, at six-month intervals. The margin is calculated based on the ratio of consolidated net debt to adjusted consolidated EBITDA (as defined in the Revolving Credit Facility). Interest is payable on the loans in the currency in which the relevant amount on which it is payable is denominated. A customary market disruption clause appears in the Revolving Credit Facility.

The borrower is further required to pay certain commitment fees on available but unutilised commitments under the Revolving Credit Facility, at a rate equal to a percentage of the applicable margin. The borrower is also required to pay utilisation fees based on outstanding loans under the Revolving Credit Facility should it be drawn upon.

Representations and Warranties

The Revolving Credit Facility contains customary representations and warranties, subject to certain exceptions and appropriate materiality qualifications, made as of the date of the agreement, and contains provisions that require the borrower to make certain representations and warranties on an ongoing basis.

Negative Covenants

The Revolving Credit Facility contains restrictive covenants, subject to certain agreed exceptions, including, but not limited to, covenants restricting our ability to, among other things: (i) make dividends or distributions; (ii) create security; (iii) merge or consolidate with other companies or make acquisitions; (iv) dispose of certain assets; (v) enter into non-ordinary course derivative contracts; (vi) make a substantial change to the general nature of its business; (vii) incur indebtedness or provide guarantees;

(viii) make loans or extend credit to third parties; or (ix) make equity contributions to Chinese Joint Venture Companies (as defined in the Revolving Credit Facility). In addition, the borrower must not allow the Term Facility or the China Development Bank Facility to be prepaid in full prior to the prepayment and cancellation in full of the Revolving Credit Facility, other than in order to replace either facility in whole or in part with Replacement Indebtedness.

Affirmative Covenants

The Revolving Credit Facility contains affirmative covenants, subject to certain agreed exceptions, including, but not limited to, covenants requiring us to: (i) maintain its corporate existence and relevant authorisations; (ii) comply with laws, including environmental laws and sanctions regulations; (iii) pay taxes; (iv) maintain insurance; (v) ensure that its obligations under certain finance documents rank at least pari passu with its other unsecured obligations; (vi) preserve and maintain its intellectual property; (vii) maintain its assets in good working order and condition (including maintaining its intellectual property and opening and maintaining its bank accounts at an acceptable bank); (viii) provide financial information (including annual audited and quarterly unaudited consolidated financial statements of the borrower and the Issuer); and (ix) where the Term Facility or the China Development Bank Facility is refinanced on terms more beneficial than the terms of the Revolving Credit Facility, offer to amend the Revolving Credit Facility to match any beneficial terms.

Financial Covenant

The Revolving Credit Facility contains financial covenants that require the Issuer to ensure that (i) the ratio of consolidated EBITDA to net cash interest for any relevant period (being the preceding 12 months ending on a financial quarter) is not less than 3.5 to 1 and (ii) consolidated net debt at the last day of the relevant period (being the preceding 12 months ending on a financial quarter) does not exceed 2.5 times adjusted consolidated EBITDA for that relevant period. The covenants are based on the definitions provided under the Revolving Credit Facility.

Events of Default

The Revolving Credit Facility sets out certain events of default, the occurrence of which would allow the lenders to cancel their commitments and/or declare that all or part of their loans, together with accrued interest and other amounts outstanding, are immediately due and payable and/or payable immediately on demand. These events of default include, among other events and subject to certain grace periods thresholds and other qualifications: (i) non-payment of amounts due and payable under a finance document; (ii) breach of financial covenants or other obligations; (iii) inaccuracy of a representation in any material respect when made or deemed to be repeated; (iv) insolvency or insolvency proceedings; (v) any expropriation, attachment, sequestration, distress, execution or analogous process; (vi) certain cross defaults in respect of other indebtedness; (vii) cessation of business; (viii) ineffectiveness or unlawfulness of the finance documents; (ix) change of ownership; and (x) material adverse change.

Assignments by the Lenders

Lenders may not assign their rights or transfer by way of novation any of their rights and obligations without the borrower's consent (not to be unreasonably withheld or delayed) unless the assignee is an affiliate of the assignor or there is an event of default outstanding.

Governing Law and Jurisdiction

The Revolving Credit Facility is governed by English law. The English courts have exclusive jurisdiction to settle any dispute related to the Revolving Credit Facility.

Local Chinese Funding

Our subsidiaries, Daqing Volvo Car Manufacturing Co. Ltd, Volvo Car (Asia Pacific) and Zhongjia Automobile Manufacturing(Chengdu) Co., Ltd., have entered into certain credit facilities for the provision of working capital lines and capital expenditure expenses with each of Industrial Bank Co. Ltd, Bank of China Limited and China Construction Bank Corporation for an aggregate principal contract amount of RMB 4,555 million (the "***Local Chinese Credit Facilities***"). The Local Chinese Credit Facilities are provided on an on-demand basis and are unsecured. The Local Chinese Credit Facilities have a maturity period of 1 to 6 years, and bear interest at fixed or floating interest rates with reference to either the RMB loan prime rate or the base interest rate announced by the People's Bank of China. As of 31 March 2016, the principal amount outstanding under the Local Chinese Credit Facilities was RMB 3,898 million. The loan agreements for the Local Chinese Credit Facilities are governed by Chinese law and contain customary conditions, representations, undertakings, default and indemnities for facilities of this nature.

Hedging Arrangements

As part of the management of our foreign exchange exposure, we enter into certain hedging agreements, including options, forwards and other financial instruments. The fair value of these derivatives as of 31 December 2015 was SEK 1,061 million. These derivatives are transacted with banks that have allocated uncommitted credit lines to cover any potential mark-to-market value of these deals. As of 31 December 2015, we had credit lines agreed with approximately nine banks.

DESCRIPTION OF THE NOTES

The Notes will be issued under and will be governed by an Indenture, to be dated on or about 18 May 2016 (the "Indenture"). The Indenture will be entered into by the Volvo Car AB (the "Issuer"), the Guarantor (as defined below) and HSBC Corporate Trustee Company (UK) Limited, as trustee (the "Trustee"). Copies of the form of the Indenture are available upon request to the Issuer.

You will find the definitions of capitalized terms used in this description either in the body of this section or at the end of this section under "—Certain Definitions."

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange. The Notes are expected to be admitted to trading on the Luxembourg Stock Exchange's Euro MTF Market.

The Indenture will not be qualified under the U.S. Trust Indenture Act of 1939, as amended. The terms of the Notes will include those stated in the Indenture.

General

The Notes

The Notes:

- are general unsecured, senior obligations of the Issuer;
- are being offered in an aggregate principal amount of €500 million;
- mature on 2021 at their aggregate principal amount;
- will be issued in denominations of €100,000 and integral multiples of €1,000 in excess thereof;
- will be represented by one or more global notes in registered form without interest coupons attached (see "Book-Entry; Delivery, and Form");
- rank equally in right of payment to any existing and future senior unsecured Indebtedness of the Issuer; and
- will be repaid at par in euro.

Additional Notes

The Issuer may issue additional notes (the "Additional Notes") from time to time after this offering. The Notes offered hereby and, if issued, any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase.

Interest

Interest on the Notes will:

- accrue at the rate of 3¼% per annum;
- accrue from the Issue Date or the most recent interest payment date;
- be payable in cash semi-annually in arrears, with the first interest payment covering the period from the Issue Date to 18 November 2016;
- be payable semi-annually on 18 May and 18 November of each year to the holders of record on 3 May and 3 November, as the case may be, immediately preceding the related interest payment dates; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Guarantees

The obligations of the Issuer under the Notes, including the repurchase obligation of the Issuer resulting from a Change of Control, will be unconditionally guaranteed, on a joint and several basis, by Volvo Personvagnar Aktiebolag (also known as Volvo Car Corporation) (the "Guarantor"). This guarantee (the "Note Guarantee") by the Guarantor will not exceed the maximum amount that can be guaranteed by the Guarantor without rendering the Note Guarantee, as it relates to the Guarantor, voidable or unenforceable under applicable laws affecting the rights of creditors generally and in particular (without limiting the generality of the aforementioned) the Guarantor shall not be liable for any obligations under the Note Guarantee to the extent required by an application of the provisions of the Swedish Companies Act (Sw, *Aktiebolagslagen*) regulating distributions of assets (including profits and dividends and any other form of transfer of value (Sw. *värdeöverföring*) within the meaning of the Swedish Companies Act).

The Guarantee of a Guarantor will be automatically and unconditionally released:

(1) in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger, consolidation, amalgamation or combination) to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary if the sale or other disposition does not violate the Indenture;

(2) in connection with any sale or other disposition of Capital Stock of that Guarantor (or Capital Stock of any Parent of such Guarantor (other than the Issuer)) to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary;

(3) in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger, consolidation, amalgamation or combination) to the Issuer or another Guarantor;

(4) upon the release of the Guarantee, security or Indebtedness that gave rise to the obligations to Guarantee the Notes, so long as no other Indebtedness of the Issuer or a Restricted Subsidiary is at that time guaranteed or secured by such Guarantor in a manner that would require the granting of a Guarantee;

(5) if the Issuer designates any Restricted Subsidiary that is a Guarantor to be an Unrestricted Subsidiary in accordance with the covenant "—Designation of Restricted and Unrestricted Subsidiaries";

(6) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "—Defeasance" and "—Satisfaction and Discharge";

(7) upon the full and final payment of the Notes;

(8) as described below under the caption "—Amendments and Waivers;" or

(9) with respect to an entity that is not the Surviving Person, as a result of a transaction permitted by "—Certain Covenants—Consolidation, Merger and Sales of Assets."

Upon any occurrence giving rise to a release of a Guarantee, as specified above, the Trustee will execute any documents reasonably required in order to evidence or effect such release, discharge and termination in respect of such Guarantee. Neither the Issuer, the Trustee nor any Guarantor will be required to make a notation on the Notes to reflect any such release, discharge or termination.

Ranking

The Notes will be senior unsecured obligations of the Issuer and the Note Guarantee will be a senior unsecured obligation of the Guarantor. The payment of the principal of, premium, if any, and interest on the Notes and the obligations of the Guarantor under the Note Guarantee will:

- rank *pari passu* in right of payment with all other Indebtedness of the Issuer and the Guarantor, as applicable, that is not by its terms expressly contractually subordinated to other Indebtedness of the Issuer and the Guarantor, as applicable;
- rank senior in right of payment to all Indebtedness of the Issuer and the Guarantor, as applicable, that is, by its terms, expressly subordinated to the Notes; and
- be effectively subordinated to the Secured Indebtedness of the Issuer and the Guarantor, as applicable, to the extent of the value of the collateral securing such Indebtedness, and to the Indebtedness of the Issuer's Subsidiaries that are not a Guarantor of the Notes.

Form of Notes

The Notes will be represented initially by a global note in registered form (the "Global Note"). The principal amount of the Global Note will at all times represent the total outstanding principal amount of the Notes represented thereby.

The Global Note will be deposited with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking (*société anonyme*) ("Clearstream Banking"). Ownership of interests in the Global Note (the "Book-Entry Interests") will be limited to persons that have accounts with Euroclear and/or Clearstream Banking, as applicable, or persons that hold interests through any such participant. Euroclear and Clearstream Banking will hold interests in the Global Note on behalf of their participants through customers' securities accounts. Except under the limited circumstances described in "Book-Entry; Delivery and Form," book-entry interests will not be held in definitive certificated form.

Paying Agent and Registrar

HSBC Bank plc will initially act as paying agent (the "Paying Agent") for the Notes. HSBC Bank plc will initially act as registrar (the "Registrar") for the Notes. The Issuer shall at all times maintain a Paying Agent in a jurisdiction within the European Union where no withholding or deduction is required pursuant to the legislation described in paragraph (d) of "Additional Amounts" below. The Issuer may change the Paying Agent or Registrar for the Notes, and the Issuer may act as Registrar for its Notes. For further information on payments on the Notes and transfers of the Notes, see "Book-Entry; Delivery, and Form."

Optional Redemption

Optional Make-Whole Redemption

Upon not less than 10 nor more than 60 days' written notice, the Issuer may redeem at any time, at its option, all or part of the Notes at a redemption price equal to the greater of:

(1) 100% of the principal amount of the Notes to be redeemed; and

(2) the sum of the present values of the remaining scheduled payments of principal thereof and interest thereon (exclusive of interest accrued to the date of redemption), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Bund Rate plus 50 basis points,

plus, in each case unpaid interest accrued thereon to, but excluding, the date of redemption.

For the avoidance of doubt, calculation of the redemption price shall not be a duty or obligation of the Trustee or any Agent.

If such optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest, if any, will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to beneficial holders whose Notes will be subject to redemption by the Issuer.

Optional Redemption of the Notes upon an Equity Offering

Upon not less than 10 nor more than 60 days' written notice, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the Notes, at a redemption price equal to 103.25% of the principal amount of the Notes being redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the redemption date (subject to the rights of holders of the Notes on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds from one or more Equity Offerings. The Issuer may only do this, however, if:

(a) at least 50% of the aggregate principal amount of the initially issued Notes (excluding Notes that are held by the Issuer or any of its Subsidiaries) would remain outstanding immediately after the occurrence of such proposed redemption; and

(b) the redemption occurs within 180 days after the closing of such Equity Offering.

General

Any redemption and notice of redemption may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent (including, without limitation, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering and, in the case of a redemption of the Notes, the incurrence of indebtedness the proceeds of which will be used to redeem the Notes). In addition, if such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice shall state that, in the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed.

In the case of any partial redemption, the Notes to be redeemed will be selected in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed, as certified by the Issuer to the Trustee, or, if the Notes are not listed, then on a *pro rata* basis, by lot or by such other method as the Trustee in its sole discretion will deem to be fair and appropriate, although no Note of €100,000 in original principal amount or less will be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to that Note will state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued and delivered in the name of the holder thereof upon cancellation of the original Note.

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portion thereof called for redemption on the applicable redemption date. Any such redemption or notice may, at the Issuer's discretion, be subject to one or more conditions precedent.

Redemption for Changes in Withholding Taxes

The Issuer is entitled to redeem the Notes issued by it, at its option, in whole but not in part, upon not less than 10 nor more than 60 days' notice, at 100% of the principal amount of such Notes, plus accrued and unpaid interest (if any) to the date of redemption (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date) and all Additional Amounts (as defined under "—Additional Amounts"), if any, then due and which will become due on the date of the redemption as a result of the redemption or otherwise, if due to a Change in Tax Law:

(a) in the case of the Issuer or any Guarantor, as the case may be, the Issuer or Guarantor has, or would, on the next date on which any amount would be payable with respect to such Notes, become obligated to pay to the holder or beneficial owner of any Note any Additional Amounts; and

(b) in the case of any Guarantor, only if such payment cannot be made by the Issuer or another Guarantor without the obligation to pay Additional Amounts,

provided, *however*, that the Issuer determines, in its reasonable judgment, that the obligation to pay such Additional Amounts cannot be avoided by the use of reasonable measures available to it (including, for the avoidance of doubt, appointment of a new Paying Agent where such appointment is reasonable), and *provided*, *further*, that at the time such notice is given, such obligation to pay Additional Amounts (as defined below) remains in effect.

For purposes hereof, a "Change in Tax Law" shall mean any change in or an amendment to the laws, treaties, regulations or rulings of any Relevant Taxing Jurisdiction (as defined below under "—Additional Amounts"), including any change in the official position regarding the application, administration or administrative or judicial interpretation of such laws, treaties, regulations or rulings; which change or amendment has not been publicly announced as formally proposed before and which becomes effective on or after the Issue Date (or, if the Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction on a date after the Issue Date, such later date).

Notice of any such redemption shall be irrevocable. Prior to the publication of any notice of redemption described in this paragraph, the Issuer shall deliver to the Trustee (a) an Officer's Certificate stating that the Issuer is entitled to effect such redemption in accordance with the terms set forth in the Indenture including setting forth a statement of the facts showing that the conditions precedent to its right to redeem has been satisfied and that it or the relevant Guarantor (but in the case of a Guarantor, only if the payment giving rise to such requirement cannot be made by the Issuer or another Guarantor without the obligation to pay Additional Amounts) would not be able to avoid the obligation to pay Additional Amounts by taking reasonable measures available to it, and (b) a written opinion of counsel of recognised standing and reasonably acceptable to the Trustee to the effect that the Issuer or any Guarantor has become obligated to pay such Additional Amounts as a result of a Change in Tax Law).

The foregoing provisions shall apply *mutatis mutandis* to any successor Person, after such successor Person becomes a party to the Indenture, with respect to a Change in Tax Law occurring after the time such successor Person becomes a party to the Indenture.

Additional Amounts

All payments made under or with respect to the Notes under the Indenture or pursuant to any Note Guarantee shall be made free and clear of and without withholding or deduction for or on account of any present or future Taxes imposed or levied by or on behalf of: (i) Sweden or any political subdivision or governmental authority thereof or therein having the power to tax; (ii) any jurisdiction from or through which payment on the Notes or any Note Guarantee is made, or any political subdivision or governmental authority thereof or therein having the power to tax; or (iii) any other jurisdiction in which the Issuer or any Guarantor is incorporated or organized, engaged in business for tax purposes or resident for tax purposes, or any political subdivision or governmental authority thereof or therein having the power to tax (each a "Relevant Taxing Jurisdiction"), unless the Issuer or any Guarantor is required to withhold or deduct Taxes by law or by the interpretation or administration thereof by the relevant government authority or agency. If the Issuer or any Guarantor is so required to withhold or deduct any amount for or on account of Taxes imposed or levied by or on behalf of any Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes or any Note Guarantee, the Issuer or such Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount (including Additional Amounts) received by each holder after such withholding or deduction (including any withholding or deduction on such Additional Amounts) will not be less than the amount such holder would have received if such Taxes had not been withheld or deducted; *provided*, *however*, that no Additional Amounts will be payable with respect to payments made to any holder or beneficial owner for or on account of:

(a) any Taxes that would not have been imposed, assessed, levied or collected but for the existence of a present or former business or personal connection between the holder or beneficial owner of the Notes and the Relevant Taxing Jurisdiction imposing such Taxes (other than the mere acquisition, holding, enforcement or receipt of payment in respect of the Notes or any Note Guarantee);

(b) any Taxes that would not have been imposed, assessed, levied or collected but for the fact that where presentation is required, the applicable Note was presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to such Additional Amounts if it had presented the Note on any day during such 30-day period;

(c) any Taxes that would not have been imposed, assessed, levied or collected had the holder or beneficial owner of the Notes or any Note Guarantee complied to the extent it is legally entitled to do so, on a timely basis, with a written request (at least 90 days prior to the Relevant Date) of an Issuer or any Guarantor for any applicable information, documentation or certification concerning the nationality, residence or identity or connection with the Relevant Taxing Jurisdiction of the holder or beneficial owner, which if provided on a timely basis, would have permitted the payment to be made without withholding or deduction (or with a reduced rate of withholding or deduction);

(d) any withholding or deduction imposed on a payment to or for the benefit of an individual that is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, or pursuant to any European Union legislation amending or replacing such Directive;

(e) any withholding or deduction imposed on the applicable Note that is presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the Note to another paying agent in a Member State of the European Union;

(f) any estate, inheritance, gift, sales, excise, transfer, personal property or similar Taxes;

(g) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Note Guarantee;

(h) any withholding or deduction required to be made from a payment pursuant to Sections 1471-1474 of the U.S. Internal Revenue Code of 1986, as of the issue date (the "Code") (or any amended or successor version of such sections), any current or future regulations or official interpretations thereof, any similar law or regulations adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any agreements entered into pursuant to Section 1471(b)(1) of the Code; or

(i) any Taxes that are payable on account of any combination of (a) through (h) above.

In addition, Additional Amounts will not be paid in respect of any payment in respect of the Notes to any holder or beneficial owner of the applicable Notes that is a fiduciary, a partnership, a limited liability company or any person other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of a Relevant Taxing Jurisdiction to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary, a member of such partnership, an interest holder in such limited liability company or a beneficial owner that would not have been entitled to such Additional Amounts had such beneficiary, settlor, member, interest holder or beneficial owner been the holder of such Notes.

For purposes of the foregoing, the "Relevant Date" means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the monies payable has not been received by the Paying Agent on or prior to such due date, the Relevant Date means the first date on which, the full amount of such monies having been so received and being available for payment to holders, notice to that effect has been duly given to the holders.

Wherever in the Indenture or the Notes or any Note Guarantee there are mentioned, in any context, (1) the payment of principal, (2) purchase prices in connection with a purchase of Notes under the Indenture or the Notes, (3) interest or (4) any other amount payable on or with respect to any of the Notes or any Note Guarantee, such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

At least 30 days prior to each date on which payment of principal of or premium, if any, interest or other amounts on the Notes or any Note Guarantee is to be made (unless an obligation to pay Additional Amounts arises less than 45 days prior to that payment date, in which case it shall be promptly thereafter), if the Issuer or any Guarantor will be obligated to pay Additional Amounts with respect to any such payment, such Issuer will promptly furnish the Trustee and the Paying Agent, if other than the Trustee, with an Officer's Certificate stating that such Additional Amounts will be payable and the amounts estimated to be so payable, and will set forth such other information necessary to enable the Trustee or the Paying Agent to pay such Additional Amounts to the holders on the payment date.

The Issuer or the relevant Guarantor will make all withholdings and deductions required by law and will remit the full amount deducted or withheld to the relevant tax authority in accordance with applicable law. The Issuer or the relevant Guarantor will use its reasonable efforts to obtain tax receipts from each tax authority evidencing the payment of any Taxes so deducted or withheld. The Issuer or the relevant Guarantor will furnish to the Trustee, within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of tax receipts evidencing payment by the Issuer or a Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee) by such entity. If requested by the Trustee, the Issuer or the relevant Guarantor will provide to the Trustee such information as may be in the possession of the Issuer or the relevant Guarantor to enable the Trustee to determine the amount of withholding taxes attributable to any particular holder; *provided*, *however*, that in no event shall the Issuer or the relevant Guarantor be required to disclose any information that it reasonably deems to be confidential.

The Issuer and the Guarantor will pay and indemnify the holders for any present or future stamp, court or documentary Taxes, or any other excise, property or similar Taxes which arise in any Relevant Taxing Jurisdiction, from the execution, delivery and registration of the Notes, the Note Guarantee, the Indenture and any document or instrument referred to therein, upon original issuance and initial resale of the Notes, or in connection with the enforcement of the Notes, any Note Guarantee, the Indenture or any other document or instrument referred to therein or on the receipt of any payments with respect thereto (limited solely in the case of Taxes attributable to the receipt of any payments with respect thereto to any such Taxes imposed in a Relevant Taxing Jurisdiction that are not excluded under clauses (a) through (f) or (h) above or any combination thereof).

The foregoing obligations will survive any termination, defeasance or discharge of the Indenture. References in this section ("—Additional Amounts") to the Issuer or any Guarantor shall apply to any successor(s) thereto.

Change of Control

Each holder of the Notes, upon the occurrence of a Change of Control, will have the right to require that the Issuer repurchase such holder's Notes, at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Unless the Issuer has exercised its right to redeem all the Notes as described under "—Optional Redemption", the Issuer will, within 30 days following a Change of Control, provide a notice to the holders of the Notes (a "Change of Control Offer") with a copy to the Trustee and the Paying Agent stating:

(1) that a Change of Control has occurred and that such holder has the right to require the Issuer to purchase such holder's Notes, at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant interest payment date (the "Change of Control Payment"));

(2) the circumstances and relevant facts regarding such Change of Control;

(3) the repurchase date (which shall be no earlier than 10 days nor later than 60 days from the date such notice is provided (the "Change of Control Payment Date"));

(4) that each Note will be subject to repurchase only in integral multiples of €1,000 (*provided* that no Note of less than €100,000 remains outstanding thereafter); and

(5) the instructions determined by the Issuer, consistent with the covenant described hereunder, that a holder must follow in order to have its Notes purchased.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(a) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;

(b) deposit with, or to the order of, the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered;

(c) deliver or cause to be delivered to the Paying Agent for cancelation the Notes properly accepted; and

(d) deliver or cause to be delivered to the Trustee an Officer's Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

The Paying Agent will promptly deliver or cause to be delivered to each holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee (or an authentication agent approved by it) will, in the case of Definitive Registered Notes, promptly authenticate and mail to each holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Notwithstanding anything to the contrary herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of a Change of Control, if a definitive agreement is in place for the Change of Control or an offer or other transaction that if consummated would result in a Change of Control has been publicly announced, and if applicable, not withdrawn, at the time the Change of Control Offer is made.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations or applicable listing requirements conflict with the provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

The Issuer will not be required to repurchase Notes pursuant to this Change of Control feature if a notice of redemption has been given pursuant to the Indenture as described above under the caption "—Optional Redemption," unless and until there is a default in payment of the applicable redemption price.

The Change of Control repurchase feature is a result of negotiations between the Issuer and the initial purchasers. We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we would decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of Indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings

The Issuer's ability to repurchase Notes upon a Change of Control may be limited by a number of factors. The occurrence of some of the events that constitute a Change of Control would also require a mandatory prepayment of Indebtedness under the Existing Credit Facilities. Our future Indebtedness may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the holders of their right to require the Issuer to repurchase Notes could cause a default under such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on us. Finally, the Issuer's ability to pay cash to the holders of Notes following the occurrence of a Change of Control may be limited by our then existing financial resources. We cannot assure you that sufficient funds will be available when necessary to make any required repurchases.

The provisions under the Indenture relating to the Issuer's obligation to make an offer to repurchase Notes as a result of a Change of Control may be waived or modified with the written consent of the holders of a majority in principal amount of the Notes issued under the Indenture.

Certain Covenants

Restricted Payments

(a) The Issuer will not, and will not permit its Restricted Subsidiaries to, directly or indirectly, make any Restricted Payment; *provided*, *however*, that the Issuer or any Restricted Subsidiary may make a Restricted Payment if on the date thereof, and after giving *pro forma* effect to such proposed Restricted Payment:

(1) no Default or Event of Default will have occurred and be continuing or would immediately occur as a consequence of such Restricted Payment; and

(2) the aggregate amount of all Restricted Payments declared or made after the Issue Date (including Restricted Payments permitted by clauses (b)(1), (8), (11) and (13) below, but excluding all other Restricted Payments described in paragraph (b) below) does not exceed the sum of (without duplication):

(i) 50% of the Consolidated Net Income of the Issuer for the period from the beginning of the fiscal half commencing immediately prior to the Issue Date, to the end of the Issuer's most recently ended fiscal half for which financial statements are available at the time of such proposed Restricted Payment (or, if such Consolidated Net Income shall be a negative number, minus 100% of such negative amount); *plus*

(ii) the aggregate net cash proceeds and the Fair Market Value of property or assets or marketable securities received by the Issuer after the Issue Date as capital contributions or from the issuance or sale (other than to any Subsidiary) of shares of the Issuer's Qualified Capital Stock or warrants, options or rights to purchase shares of the Issuer's Qualified Capital Stock or Subordinated Shareholder Debt (except, in each case to the extent such proceeds are used to purchase, redeem or otherwise retire Capital Stock as set forth in clause (b)(5) or (6) below) (excluding the net cash proceeds from the issuance of the Issuer's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Issuer or any Subsidiary until and to the extent such borrowing is repaid); *plus*

(iii) the amount by which the Issuer's Indebtedness or Indebtedness of any Restricted Subsidiary is reduced on the Issuer's consolidated balance sheet after the Issue Date upon the conversion or exchange (other than by the Issuer or its Restricted Subsidiary) of such Indebtedness into the Issuer's Qualified Capital Stock or Subordinated Shareholder Debt, together with the aggregate net cash proceeds and the Fair Market Value of property or assets or marketable securities received by the Issuer at the time of such conversion or exchange (excluding the net cash proceeds from the issuance of the Issuer's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Issuer or any Restricted Subsidiary until and to the extent such borrowing is repaid); *plus*

(iv) (x) in the case of any Investment that is sold, disposed of or otherwise cancelled, liquidated or repaid, constituting a Restricted Payment made after the Issue Date, an amount equal to

100% of the aggregate amount received in cash and the Fair Market Value of the property or assets and marketable securities received by the Issuer or any Restricted Subsidiary and (y) in the case of the designation of an Unrestricted Subsidiary as a Restricted Subsidiary or if an Unrestricted Subsidiary is merged or consolidated into the Issuer or a Restricted Subsidiary or the assets of an Unrestricted Subsidiary are transferred to the Issuer or a Restricted Subsidiary (as long as the designation of such Subsidiary as an Unrestricted Subsidiary was deemed a Restricted Payment), the Fair Market Value of the Issuer's interest in such Subsidiary as of the date of such designation or at the time of such merger, consolidation or transfer of assets; *plus*

(v) to the extent that any Investment constituting a Restricted Payment that was made after the Issue Date is made in an entity that subsequently becomes a Restricted Subsidiary, the Fair Market Value of such Investment of the Issuer and the Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary; *plus*

(vi) 100% of any dividends or distributions received by the Issuer or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends or distributions were not otherwise included in the Consolidated Net Income of the Issuer for such period.

(b) The foregoing limitations contained in paragraph (a) do not apply to the following Restricted Payments by the Issuer or any Restricted Subsidiary so long as (with respect to subparagraphs (3) to (10) and (13) below) no Default or Event of Default has occurred or is continuing:

(1) the payment of any dividend within 60 days after the date of its declaration or publication if at such date of declaration or publication, as the case may be, such payment would have been permitted by the provisions of this section "—Restricted Payments";

(2) cash payments in lieu of issuing fractional shares pursuant to the exchange or conversion of any exchangeable or convertible securities;

(3) the repurchase, redemption or other acquisition or retirement for value of any shares of the Issuer's Capital Stock or options, warrants or other rights to acquire such Capital Stock in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares or scrip), or out of the net cash proceeds of a substantially concurrent issuance and sale (other than to a Restricted Subsidiary of the Issuer) of, shares of the Issuer's Qualified Capital Stock or options, warrants or other rights to acquire such Qualified Capital Stock;

(4) the repurchase, redemption, defeasance or other acquisition or retirement for value or payment of principal of any Subordinated Obligation in exchange for, or out of the net cash proceeds of a substantially concurrent issuance and sale (other than to a Restricted Subsidiary of the Issuer) of, shares of the Issuer's Qualified Capital Stock; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (a)(2)(ii) above;

(5) the purchase, redemption, defeasance or other acquisition or retirement for value of any Subordinated Obligation (other than Disqualified Stock): (a) in exchange for, or out of the net cash proceeds of a substantially concurrent incurrence (other than to a Restricted Subsidiary of the Issuer) of, Indebtedness incurred to refinance such subordinated obligations; (b) following the occurrence of a Change of Control (or other similar event described therein as a "change of control"), but only (i) if the Issuer shall have first complied with the terms described under "—Change of Control" and purchased all Notes tendered pursuant to the offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Obligation and (ii) at a purchase price not greater than 101% of the principal amount of such Subordinated Obligation plus accrued and unpaid interest; or (c) consisting of Acquired Indebtedness (other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Issuer or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such transaction or series of transactions);

(6) the repurchase, redemption or other acquisition or retirement for value of any Qualified Capital Stock of the Issuer held by any current or former officer, director, employee or consultant of the Issuer or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, restricted stock grant, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Qualified Capital Stock does not exceed €15 million in any calendar year with unused amounts in any calendar year being carried over to succeeding calendar years;

(7) the declaration or payment of any dividend or distribution to all holders of Capital Stock of a Subsidiary of the Issuer on a *pro rata* basis or on a basis that results in the receipt by the Issuer or any of its Restricted Subsidiaries of dividends or distributions of greater value than the Issuer or such Restricted Subsidiary would receive on a *pro rata* basis;

(8) the declaration and payment by the Issuer of, or loans, advances, dividends or distributions to any Parent to pay, dividends on the common stock or common equity interests of the Issuer or any Parent following a Public Offering of such common stock or common equity interests, in an amount not to exceed in any fiscal year the greater of (a) 6% of the net cash proceeds received by the Issuer from such Public Offering or contributed to the equity (other than through the issuance of Disqualified Stock) of the Issuer or contributed as Subordinated Shareholder Debt to the Issuer and (b) following the Initial Public Offering, an amount equal to the greater of (i) 7% of the Market Capitalization and (ii) 7% of the IPO Market Capitalization; provided that in the case of this clause (b) after giving *pro forma* effect to such loans, advances, dividends or distributions, the Consolidated Net Leverage Ratio shall be equal to or less than 3.0 to 1.0;

(9) the repurchase of Capital Stock deemed to occur upon the exercise of stock options, warrants or other similar rights or instruments with respect to which payment of the exercise price has been forgiven, or if such Capital Stock represents a portion of such exercise price, if the cumulative aggregate value of such deemed repurchases does not exceed the cumulative aggregate amount of the exercise price of such options received;

(10) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock, or of any Preferred Stock, of the Issuer or any Restricted Subsidiary of the Issuer issued on or after the Issue Date;

(11) so long as no Default or Event of Default has occurred and is continuing, other Restricted Payments at any time outstanding in an aggregate amount not to exceed €250.0 million since the Issue Date;

(12) Permitted Parent Payments; and

(13) any Restricted Payment; *provided* that the Consolidated Net Leverage Ratio of the Issuer on a *pro forma* basis after giving effect to any such Restricted Payment is equal to or less than 3.0 to 1.0.

Limitation on Liens

The Indenture provides that neither the Issuer nor the Guarantor may, directly or indirectly, create, Incur or suffer to exist any Lien (other than Permitted Liens) upon any of its respective property or assets (including Capital Stock), whether owned on the date of the Indenture or acquired after that date, securing any Indebtedness of the Issuer or the Guarantor, unless contemporaneously with (or prior to) the Incurrence of the Liens effective provision is made to secure the Indebtedness due under the Indenture and the Notes, equally and ratably with (or prior to in the case of Liens with respect to Subordinated Obligations) the Indebtedness secured by such Lien for so long as such Indebtedness is so secured. Any such Lien created in favor of the Notes will be automatically and unconditionally released and discharged upon the release and discharge of the initial Lien to which it relates.

Limitations on Guarantees

The Issuer will not cause or permit any of its Restricted Subsidiaries, directly or indirectly, to Guarantee any Credit Facilities or Public Debt of the Issuer or the Guarantor unless such Restricted Subsidiary executes and delivers to the Trustee a Note Guarantee pursuant to which such Restricted Subsidiary will Guarantee payment of the Notes on the same terms and conditions as those set forth in the Indenture; *provided, however*, that the foregoing shall not apply to any Guarantee of any Credit Facility in existence on the Issue Date and any refinancing, replacement, restatement, amendment, modification or extension thereof.

Consolidation, Mergers and Sales of Assets

The Issuer

The Indenture provides that the Issuer may not consolidate or merge with or into (whether or not the Issuer is the Surviving Person), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties and assets in one or more related transactions, to another Person unless:

(1) the Surviving Person is an entity organized and existing under the laws of any member state of the European Union (as of December 31, 2003), Switzerland, the United States of America, or any State thereof or the District of Columbia, or the jurisdiction of formation of the Issuer on the Issue Date; or, if the Surviving Person is an entity organized and existing under the laws of any other jurisdiction, the Issuer delivers to the Trustee an Opinion of Counsel to the effect that the rights of the holders of the Notes would not be affected adversely as a result of the law of the jurisdiction of organization of the Surviving Person, insofar as such law affects the ability of the Surviving Person to pay and perform its obligations and undertakings in connection with the Notes and the Indenture or the ability of the holders to enforce such obligations and undertakings;

(2) the Surviving Person (if other than the Issuer) shall expressly assume, in a transaction or series of transactions involving the Issuer, by a supplemental indenture in a form satisfactory to the Trustee, all of the obligations of the Issuer under the Indenture (including the obligation to pay Additional Amounts);

(3) at the time of and immediately after such transaction, no Default or Event of Default shall have occurred and be continuing; and

(4) the Issuer delivers to the Trustee an Officer's Certificate and an Opinion of Counsel.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Issuer, which properties and assets, if held by the Issuer instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Issuer on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer.

The Surviving Person will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Indenture, but in the case of a lease of all or substantially all of its assets, the predecessor company will not be released from its obligations under the Indenture or the Notes.

The provisions under "—The Issuer" above shall not restrict (and shall not apply to) (i) any Restricted Subsidiary from consolidating with, merging or liquidating into or transferring all or substantially all of its properties and assets to the Issuer or any other Restricted Subsidiary; (ii) any consolidation or merger of the Issuer or liquidation into or transfer of all or substantially all of its properties and assets to any Restricted Subsidiary, provided that if the Issuer is not the Surviving Person, the relevant Restricted Subsidiary will assume the obligations of the Issuer under the Notes and the Indenture and clauses (1) and (3) above shall apply to such transaction; or (iii) the merger, consolidation or other combination of the Issuer with or into another person for the purpose of changing the legal domicile of the Issuer, reincorporating (or other similar transaction) the Issuer in another jurisdiction, or changing the legal form of the Issuer.

There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the properties or assets of a Person.

The Guarantor

The Indenture provides that the initial Guarantor may not consolidate or merge with or into, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties and assets in one or more related transactions to another Person unless:

(1) the Surviving Person is an entity organized and existing under the laws of any member state of the European Union (as of December 31, 2003), Switzerland, the United States of America, or any State thereof or the District of Columbia, or the jurisdiction of formation of the initial Guarantor on the

Issue Date; or, if the Surviving Person is an entity organized and existing under the laws of any other jurisdiction, the initial Guarantor delivers to the Trustee an Opinion of Counsel to the effect that the rights of the holders of the Notes would not be affected adversely as a result of the law of the jurisdiction of organization of the Surviving Person, insofar as such law affects the ability of the Surviving Person to pay and perform its obligations and undertakings in connection with the Notes and the Indenture or the ability of the holders to enforce such obligations and undertakings;

(2) the Surviving Person (if other than the Issuer or any Restricted Subsidiary that is a Guarantor or becomes a Guarantor substantially concurrently with the transaction) shall expressly assume, in a transaction or series of transactions involving the initial Guarantor, by a supplemental indenture in a form satisfactory to the Trustee, all of the obligations of the initial Guarantor under its Note Guarantee (including the obligation to pay Additional Amounts); and

(3) the initial Guarantor delivers to the Trustee an Officer's Certificate and an Opinion of Counsel.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the initial Guarantor, which properties and assets, if held by the initial Guarantor instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the initial Guarantor on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the initial Guarantor.

The Surviving Person will succeed to, and be substituted for, and may exercise every right and power of, the initial Guarantor under its Note Guarantee, but in the case of a lease of all or substantially all of its assets, the predecessor company will not be released from its obligations under its Note Guarantee.

The provisions under "—The Guarantor" above shall not restrict (and shall not apply to) (i) any Restricted Subsidiary from consolidating with, merging or liquidating into or transferring all or substantially all of its properties and assets to the Issuer or any other Restricted Subsidiary; (ii) any consolidation or merger of the initial Guarantor or liquidation into or transfer of all or substantially all of its properties and assets to the Issuer or any Restricted Subsidiary, provided that if the initial Guarantor is not the Surviving Person, the Issuer or the relevant Restricted Subsidiary will assume the obligations of the initial Guarantor under its Note Guarantee; or (iii) the merger, consolidation or other combination of the initial Guarantor with or into another person for the purpose of changing the legal domicile of the initial Guarantor, reincorporating (or other similar transaction) the initial Guarantor in another jurisdiction, or changing the legal form of the initial Guarantor.

There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the properties or assets of a Person.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of the Issuer may designate any Subsidiary (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary if:

(a) no Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such designation;

(b) such Subsidiary and any of its Subsidiaries do not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, the Issuer or any Restricted Subsidiary other than a Subsidiary of the Subsidiary to be so designated;

(c) either:

    (1) the Subsidiary to be so designated has total consolidated assets of €1,000 or less; or

    (2) if such Subsidiary has consolidated assets greater than €1,000, then such designation and the Investment of the Issuer in such Subsidiary complies with the covenant described under "—Restricted Payments"; and

(d) such Subsidiary is a Person with respect to which neither the Issuer nor any Restricted Subsidiary has any direct or indirect obligation:

    (1) to subscribe for additional Capital Stock of such Person; or

(2) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results.

In the event of any such designation, the Issuer shall be deemed to have made an Investment constituting a Restricted Payment pursuant to the covenant described under "—Restricted Payments."

The Board of Directors of the Issuer may designate any Unrestricted Subsidiary to be a Restricted Subsidiary if such Unrestricted Subsidiary's primary business is a Permitted Business and immediately after giving effect to such designation:

(a) no Default or Event of Default shall have occurred and be continuing at the time of and after giving effect to such designation, and

(b) all Liens of such Unrestricted Subsidiary outstanding immediately following such designation would, if Incurred at that time, have been permitted to be Incurred for all purposes of the Indenture.

Any such designation of a Subsidiary as a Restricted Subsidiary or Unrestricted Subsidiary by the Board of Directors of the Issuer shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors of the Issuer giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing provisions.

Reports

For so long as any Notes are outstanding, the Issuer will provide the Trustee with:

(1) annual reports containing, to the extent applicable, the following information: (a) audited consolidated balance sheets of the Issuer as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Issuer for the two most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) unaudited *pro forma* income statement information and balance sheet information of the Issuer (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year; (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources of the Issuer; (d) a description of the business of the Issuer; and (e) a description of management and shareholders, material debt instruments, material affiliate transactions, material risk factors and material subsequent events all in substantially the same form as presented in the Offering Memorandum, within 120 days following the end of each fiscal year; *provided* that the information in clause (e) may be provided in the footnotes to the audited financial statements.

(2) semi-annual financial information of the Issuer as of and for the period from the beginning of each year to the close of the first half period, together with comparable information for the corresponding period of the preceding year, and an operating and financial review of the financial statements, including a discussion of the results of operations, financial condition, and material changes in liquidity and financial resources of the Issuer within 60 days following the end of the fiscal half; and

(3) promptly after the occurrence of any material acquisition, disposition or restructuring of the Issuer and the Restricted Subsidiaries, taken as a whole, or any changes of the Chief Executive Officer or Chief Financial Officer of the Issuer or change in auditors of the Issuer or any other material event that the Issuer announces publicly, a report containing a description of such event,

provided, *however*, that only to the extent reasonably available, at any time that any of the Issuer's Subsidiaries are Unrestricted Subsidiaries, the semi-annual and annual financial information required by this paragraph will include a presentation, either on the face of the financial statements, in the footnotes thereto, or in "Operating and Financial Review" or other comparable section, of the financial condition and results of operations of the Issuer and the Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

Contemporaneously with the furnishing of each such report discussed above, the Issuer will also: (a) provide a press release to the appropriate internationally recognized wire services in connection with such report; and (b) post such report on the Issuer's website.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a "*Suspension Event*"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (the "*Reversion Date*"), the provisions of the Indenture summarized under the following captions will not apply to the Notes:

(1) "—Restricted Payments";

(2) the provisions of clause (3) of the first paragraph of the covenant described under "—Consolidation, Mergers and Sales of Assets—The Issuer"; and

(3) "—Limitations on Guarantees";

and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to the Issuer and its Restricted Subsidiaries.

Such covenants and any related default provisions will again apply according to their terms from the Reversion Date. Such covenants will not, however, be of any effect with regard to actions of the Issuer or any Restricted Subsidiary properly taken during the continuance of the Suspension Event, and no action taken prior to the Reversion Date will constitute a Default or Event of Default. The "Restricted Payments" covenant will be interpreted as if it has been in effect since the date of the Indenture. In addition, the Indenture will also permit, without causing a Default or Event of Default, the Issuer or any of the Restricted Subsidiaries to honor any contractual commitments or take actions in the future after any date on which the Notes cease to have an Investment Grade Status as long as the contractual commitments were entered into during the Suspension Event and not in anticipation of the Notes no longer having an Investment Grade Status. The Issuer shall notify the Trustee that the conditions set forth in the first paragraph under this caption have been satisfied, provided that no such notification shall be a condition for the suspension of the covenants described under this caption to be effective. The Trustee shall be under no obligation to notify the Holders of the fact that the conditions have been satisfied. There can be no assurance that the Notes will ever achieve or maintain an Investment Grade Status.

Events of Default

The Indenture provides that any one or more of the following described events, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Notes issued under such Indenture:

(1) failure for 30 days to pay interest on the Notes, including any Additional Amounts in respect thereof, when due; or

(2) failure to pay principal of or premium, if any, on the Notes when due, whether at maturity, upon redemption, by declaration or otherwise; or

(3) failure to observe or perform any other covenant contained in the Indenture for 60 days after notice as provided in the Indenture; or

(4) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by the Issuer or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists or is Incurred after the Issue Date, if: (A) such default results in the acceleration of such Indebtedness prior to its express maturity or will constitute a default in the payment of such Indebtedness; and (B) the principal amount of any such Indebtedness that has been accelerated or not paid at maturity, when added to the aggregate principal amount of all other such Indebtedness, at such time, that has been accelerated or not paid at maturity, exceeds €40 million; or

(5) any final judgment or judgments (not covered by insurance) which can no longer be appealed for the payment of money in excess of €40 million shall be rendered against the Issuer thereunder or the Issuer or any of its Restricted Subsidiaries and shall not be discharged for any period of 60 consecutive days during which a stay of enforcement shall not be in effect; or

(6) any Note Guarantee shall cease to be in full force and effect in accordance with its terms for any reason except pursuant to the terms of the Indenture governing the release of the Note Guarantee or the satisfaction in full of all the obligations thereunder or shall be declared invalid or unenforceable

other than as contemplated by its terms, or any Guarantor shall repudiate, deny or disaffirm any of its obligations thereunder; or

(7) certain events in bankruptcy, insolvency or reorganization of the Issuer or any of the Issuer's Significant Subsidiaries, which are also Restricted Subsidiaries.

A default under paragraph (3) of this section will not constitute an Event of Default under the Indenture unless the Trustee or holders of 25% in principal amount of the outstanding Notes under the Indenture notify the Issuer of such default and such default is not cured within the time specified in paragraph (3).

The Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Notes under the Indenture may declare the principal of and interest (including any Additional Amounts) on such Notes due and payable immediately on the occurrence of an Event of Default; *provided*, *however*, that, after such acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding Notes may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal (which may be waived, modified or amended with the consent of the Holders of at least 90% of the principal amount of the Notes then outstanding as set forth under "—Amendments and Waivers"), have been cured or waived as provided in the Indenture. For information as to waiver of defaults, see "—Amendments and Waivers."

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any holders of Notes issued thereunder unless such holders shall have offered to the Trustee indemnity and/or security satisfactory to it. Subject to the provisions for the indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Notes issued thereunder then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee.

No holder of any Note will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless written notice of a continuing Event of Default shall have previously been given in accordance with the terms of the Indenture and reasonable indemnity shall have been offered to the Trustee to institute such proceeding as Trustee, the Trustee shall have failed to institute such proceeding within 60 days and the Trustee shall not have received from the holders of a majority in aggregate principal amount of the outstanding Notes under the Indenture a direction inconsistent with such request within such 60-day period. However, such limitations do not apply to a suit instituted by a holder of a Note for enforcement of payment of the principal of and premium, if any, or interest on such Note on or after the respective due dates expressed in such Note.

The holders of a majority in aggregate outstanding principal amount of the Notes affected thereby may, on behalf of the holders of all the Notes, waive any existing default, except a default in respect of a covenant or provision that cannot be modified or amended without consent of the holders of 90% of the principal amount of the Notes outstanding (including a default in the payment of principal, premium, if any, or interest). The Issuer is required to file annually with the Trustee a certificate as to whether or not the Issuer is in compliance with all the conditions and covenants under the applicable Indenture.

Amendments and Waivers

Subject to certain exceptions, the Indenture may be amended with the consent of the holders of a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes) and, subject to certain exceptions, any existing default or compliance with any provisions may be waived with the consent of the holders of a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes). However, without the consent of holders of at least 90% of the aggregate principal amount of the Notes then outstanding, no amendment or waiver may, among other things:

(1) reduce the percentage of principal amount of Notes whose holders must consent to an amendment;

(2) reduce the stated rate of or extend the stated time for payment of interest on any Note;

(3) reduce the principal of or extend the Stated Maturity of any Note;

(4) reduce the premium payable upon the redemption of any such Note or change the time (other than notice periods) at which any Note may be redeemed as described above under "Optional Redemption";

(5) make any Note payable in money other than that stated in the Note;

(6) impair the right of any holder to institute suit for the enforcement of any payment on or with respect to such holder's Notes;

(7) change the obligation of the Issuer or any Guarantor to pay Additional Amounts;

(8) make any change in the amendment provisions which require each holder's consent or in the waiver provisions; or

(9) release any Guarantor from their Note Guarantee, except in accordance with the terms of the Indenture.

Without the consent of any holder, the Issuer and the Trustee may amend the Indenture to:

(1) cure any ambiguity, omission, defect or inconsistency;

(2) conform the text of the Indenture, the Note Guarantee or the Notes to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture, the Note Guarantee or the Notes;

(3) add Note Guarantee with respect to the Notes;

(4) secure the Notes;

(5) add to the covenants of the Issuer and the Guarantor for the benefit of the holders or surrender any right or power conferred upon the Issuer;

(6) evidence and provide the acceptance and appointment of a successor trustee;

(7) comply with the rules of any applicable securities depositary;

(8) issue Additional Notes in accordance with such Indenture;

(9) provide for the assumption of the Issuer's or a Guarantor's obligations to holders of the Notes and/or Note Guarantee in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Guarantor's assets; or

(10) make any change that does not adversely affect the rights of any holder.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment or waiver to or under the Indenture. It is sufficient if such consent approves the substance of the proposed amendment or waiver. After an amendment, supplement or waiver under the Indenture becomes effective, the Issuer is required to provide to the holders a notice briefly describing such amendment, supplement or waiver. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the amendment, supplement or waiver.

Defeasance

The Issuer at any time may terminate all its obligations under the Notes issued by it and the Indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain a registrar and paying agent in respect of the Notes.

The Issuer at any time may terminate its obligations under covenants described under "Certain Covenants" (other than "—Certain Covenants—Consolidation, Merger and Sales of Assets") and "Change of Control", the operation of the cross-default upon a payment default, cross-acceleration provisions, the bankruptcy provisions with respect to Subsidiaries and the judgment default provision described under "Events of Default" above ("covenant defeasance").

The Issuer may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to such Notes. If the Issuer exercises its covenant defeasance option, payment of the Notes may not be accelerated because of an Event of Default specified in paragraphs (3), (4), (5) or (7) (as it relates to Subsidiaries) under "Events of Default" above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the "defeasance trust") with the Trustee or such other entity designated by the Trustee for this purpose for the benefit of the holders cash in euro or Designated Government Obligations for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of an Opinion of Counsel (subject to customary exceptions and exclusions) to the effect that holders of such Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred. In the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable U.S. federal income tax law.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect as to all the Notes issued thereunder, when:

(1) either:

   (a) all the Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee or Paying Agent, as applicable, for cancellation; or

   (b) all the Notes that have not been delivered to the Trustee or Paying Agent, as applicable, for cancellation (i) have become due and payable by reason of the mailing of a notice of redemption or otherwise, (ii) will become due and payable within one year or (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee or Paying Agent, as applicable, in the name, and at the expense, of the Issuer and the Issuer or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee or such other entity designated by the Trustee for this purpose, cash in euro or Designated Government Obligations, or a combination, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;

(2) the Issuer or any Guarantor has paid or caused to be paid all other sums payable by it under the Indenture; and

(3) the Issuer has delivered irrevocable instructions to the Trustee or such other entity designated by the Trustee for this purpose under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver an Officer's Certificate and an Opinion of Counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been complied with; *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)).

No Personal Liability of Directors, Officers, Employees and Stockholders

No member of the Board of Directors, director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor, as such, shall have any liability for any obligations of the Issuer or any Guarantor under the Notes, the Indenture or the Note Guarantee or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder by accepting a Note waives and releases all such liability and agrees not to enforce any claim in respect of the Notes, the Indenture or the Note Guarantee to the extent that it would give rise to such personal liability. The waiver and release are part of the consideration for issuance of the Notes and the Note Guarantee. Such waiver and release may not be effective to waive liability under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Consent to Jurisdiction and Service of Process

The Indenture provides that the Issuer and each Guarantor irrevocably agree to accept notice and service of process in any suit, action or proceeding with respect to the Indenture and the Notes, as the case may be, brought in any U.S. federal or state court located in the Borough of Manhattan in the City of New York and that the Issuer and each Guarantor submits to the jurisdiction thereof.

Concerning the Trustee

HSBC Corporate Trustee Company (UK) Limited is the Trustee under the Indenture and HSBC Bank Plc has been appointed by the Issuer as Registrar with regard to the Notes. The Trustee, or Authentication Agent, authenticates each Global Note and, as Registrar, is responsible for the transfer and registration of Notes exchanged in accordance with the Indenture. Upon the occurrence of an Event of Default as defined under the Indenture, the Trustee must notify the holders of the Notes issued thereunder of such default and thereafter the Trustee may pursue various actions and remedies on behalf of the holders of such Notes as set out in the Indenture and approved by the holders of the Notes. In its capacity as Trustee, the Trustee may sue on its own behalf the holders of the Notes. The Trustee will not be liable for any action it takes or omits to take in good faith which it believes, acting in good faith, to be authorized under the Indenture. The Trustee is further entitled to require and rely in good faith on an Officer's Certificate or Opinion of Counsel before taking action. The Trustee is indemnified by the Issuer under the Indenture for any and all loss, damage, claim proceedings, demands, costs, expenses or liability including taxes incurred by the Trustee without negligence or willful misconduct on its part in connection with the acceptance of administration of the trust under the Indenture. The Trustee may resign at any time by notifying the Issuer in writing. The Trustee may be removed by the holders of a majority in principal amount of the Notes as the case may be, by notifying the Issuer and the Trustee in writing, and such majority holders may appoint a successor trustee with the Issuer's consent. In addition, the Issuer may remove the Trustee upon certain bankruptcy and similar events relating to the Trustee or if the Trustee becomes incapable of acting with respect to its duties under the Indenture.

Validity of Claims

The time of validity for a payment of interest, principal, the redemption price or another amount payable under the Indenture is six years from the date on which such payment is due.

Governing Law

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The Note Guarantee will be governed by, and construed in accordance with, the laws of the State of New York, except that certain matters concerning the limitations thereof will be construed in accordance with applicable local law.

Certain Definitions

"Accounting Principles" means IFRS or, upon adoption thereof by the Issuer and notice to the Trustee, any other accounting standards which are generally acceptable in the jurisdiction of organization of the Issuer, approved by the relevant regulatory or other accounting bodies in that jurisdiction and internationally generally acceptable.

"Affiliate" of any specified Person means:

(1) any other Person, directly or indirectly, controlling or controlled by, or

(2) under direct or indirect common control with such specified Person.

For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Acquired Indebtedness" means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary, or (2) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with such Person becoming a Restricted Subsidiary or such acquisition or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with the Issuer or any Restricted Subsidiary. Acquired

Indebtedness shall be deemed to have been Incurred, with respect to clause (1) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary and, with respect to clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to clause (3) of the preceding sentence, on the date of the relevant merger, consolidation or other combination.

"Board of Directors" means, with respect to the Issuer or any Guarantor, as the case may be, the Board of Directors (or other body performing functions similar to any of those performed by a Board of Directors or any committee thereof duly authorized to act on behalf of such Board (or other body)).

"Business Day" means any day other than:

(1) a Saturday or Sunday,

(2) a day on which banking institutions in Stockholm, London or the jurisdiction of organization of the Paying Agent (other than the Trustee) are authorized or required by law or executive order to remain closed, or

(3) except for purposes of payment made on or in respect of the Notes by a Paying Agent other than the Trustee, a day on which the corporate trust office of the Trustee is closed for business.

"Beneficial Owner" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"Bund Rate" means, with respect to any redemption date, the rate per annum equal to the equivalent yield to maturity as of such date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such redemption date, where:

(1) "Comparable German Bund Issue" means the German *Bundesanleihe* security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to 18 May 2021 and that would be utilized at the time of selection and in accordance with customary financial practice, in pricing new issues of euro-denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the Notes and of a maturity most nearly equal to 18 May 2021; *provided*, *however*, that, if the period from such redemption date to 18 May 2021 is not equal to the fixed maturity of the German *Bundesanleihe* security selected by such Reference German Bund Dealer, the Bund Rate shall be determined by linear interpolation (calculated to the nearest one-twelfth of a year) from the yields of German *Bundesanleihe* securities for which such yields are given, except that if the period from such redemption date to 18 May 2021, is less than one year, a fixed maturity of one year shall be used;

(2) "Comparable German Bund Price" means, with respect to any redemption date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Issuer obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(3) "Reference German Bund Dealer" means any dealer of German *Bundesanleihe* securities appointed by the Issuer in good faith; and

(4) "Reference German Bund Dealer Quotations" means, with respect to each Reference German Bund Dealer and any redemption date, the average as determined by the Issuer in good faith of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference German Bund Dealer at 3:30 p.m. Frankfurt, Germany, time on the third Business Day preceding the redemption date.

"Capital Lease Obligations" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with Accounting Principles, as in effect as of the Issue Date, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with such Accounting Principles; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Cash Equivalents" means:

(1) marketable debt obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the European Union, the United States of America, the People's Republic of China or Switzerland (including, in each case, any agency or instrumentality thereof) or any other country whose long-term debt is rated "A-3" or higher by Moody's or "A-" or higher by S&P or the equivalent rating category of another internationally recognized rating agency (such international recognition being determined in the sole judgment of the senior management of the Issuer acting in good faith), as the case may be, the payment of which is backed by the full faith and credit of the relevant country, and which are not callable or redeemable at the Issuer's option;

(2) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition issued or guaranteed by a bank or trust company whose long-term debt is rated "Baa1" or higher by Moody's or "BBB+" or higher by S&P or the equivalent rating category of another internationally recognized rating agency (such international recognition being determined in the sole judgment of the senior management of the Issuer acting in good faith);

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) above entered into with any financial institution meeting the qualifications specified in clause (2) above;

(4) commercial paper having a credit rating of either A-1 or higher by S&P or P-1 or higher by Moody's or the equivalent rating category of another internationally recognized rating agency and, in each case, maturing within one year after the date of acquisition; and

(5) investments accessible within five Business Days in money market funds which (i) have a credit rating of A-1 or higher by S&P or P-1 or higher by Moody's or the equivalent rating category of another internationally recognized rating agency; (ii) invest substantially all their assets in securities of the types described in paragraphs (1), (2) and (4) above and (iii) are not issued or guaranteed by the Issuer or any of its Restricted Subsidiaries.

"Cash Management Arrangements" means the cash management arrangements of the Issuer or the Guarantor and their Affiliates (including any Indebtedness arising thereunder) which arrangements are in the ordinary course of business.

"Change of Control" means the occurrence of any of the following:

(1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole to any Person (including any "person" (as that term is used in Section 13(d)(3) of the Exchange Act)) other than one or more Permitted Holders;

(2) the adoption of a plan relating to the liquidation or dissolution of the Issuer; or

(3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any "person" as defined above) other than one or more Permitted Holders becomes the Beneficial Owner, directly or indirectly, of more than 50% of the issued and outstanding Voting Stock of the Issuer measured by voting power rather than number of shares, provided that no Change of Control shall be deemed to occur by reason of the Issuer becoming a Subsidiary of a Successor Parent.

"Chinese Development Bank Facility" and "Chinese Development Bank Facility Agreement" mean the revolving credit facility dated 30 November 2012 (as subsequently amended and restated on 22 November 2013, 9 November 2015 and 6 May 2016), between, among others, Volvo Car Corporation as borrower and China Development Bank Corporation, Bank of China Limited, Luxembourg Branch, Bank of Communications Co. Ltd., Offshore Banking Unit and Industrial and Commercial Bank of China (Europe) S.A., Sucursal En España as arrangers, as amended, modified, extended, restructured, renewed, refinanced, restated, increased, replaced or refunded in whole or in part from time to time and whether by the same or any other agent, lender or group of lenders.

"Commodities Agreement" means any agreement or arrangement designed to protect the relevant Person against fluctuations in commodities prices.

"Consolidated EBITDA" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus the following to the extent deducted in calculating such Consolidated Net Income, without duplication:

(1) provision for taxes based on income or profits of such Person and its Subsidiaries which are Restricted Subsidiaries for such period; *plus*

(2) the Consolidated Net Interest Expense of such Person and its Subsidiaries which are Restricted Subsidiaries for such period; *plus*

(3) depreciation, amortization (including, without limitation, amortization of intangibles and deferred financing fees) and other non-cash charges and expenses (including, without limitation, write-downs and impairment of property, plant, equipment and intangibles and other long-lived assets and the impact of purchase accounting on such Person and its Restricted Subsidiaries for such period) of such Person and its Restricted Subsidiaries (excluding any such non-cash charge or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in a prior period) for such period; *plus*

(4) any expenses, charges or other costs related to the issuance of any Capital Stock, or any Permitted Investment, acquisition, disposition, recapitalization or listing or the Incurrence of Indebtedness whether or not successful and, in each case, deducted in such period in computing Consolidated Net Income; *plus*

(5) the amount of any minority interest expense consisting of subsidiary income attributable to minority equity interests of third parties in any Restricted Subsidiary in such period or any prior period, except to the extent of dividends declared or paid on, or other cash payments in respect of, Equity Interests held by such parties; *plus*

(6) any income, charge or other expense attributable to post-employment benefit, pension, fund or similar obligation other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme; *minus*

(7) non-cash items increasing such Consolidated Net Income for such period (other than any non-cash items increasing such Consolidated Net Income pursuant to clauses (1) through (10) of the definition of Consolidated Net Income), other than the reversal of a reserve for cash charges in a future period in the ordinary course of business,

in each case, on a consolidated basis and determined in accordance with Accounting Principles.

"Consolidated Net Income" means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiaries), determined in accordance with Accounting Principles and without any reduction in respect of preferred stock dividends; *provided* that:

(1) the net income or loss of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions or other payment paid in cash or cash equivalents (or to the extent converted into cash or cash equivalents) to the specified Person or a Restricted Subsidiary which is a Subsidiary of such Person;

(2) solely for the purpose of determining the amount available for Restricted Payments under clause (a)(2)(i) under the caption "—Certain Covenants—Restricted Payments," any net income or loss of any Restricted Subsidiary (other than any Guarantor) will be excluded if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer (or any Guarantor that holds the Equity Interests of such Restricted Subsidiary, as applicable) by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than: (a) restrictions that have been waived or otherwise released; (b) restrictions pursuant to or

permitted under the Notes or the Indenture; (c) contractual restrictions in effect on the Issue Date with respect to such Restricted Subsidiary (including the Existing Credit Facilities) and other restrictions with respect to such Restricted Subsidiary that, taken as a whole, are not materially less favorable to the Holders of the Notes than such restrictions in effect on the Issue Date, except that the Issuer's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or cash equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary (other than any Guarantor), to the limitation contained in this clause);

(3) any net gain or loss realized upon the sale or other disposition of any asset or disposed operations of the Issuer or any Restricted Subsidiaries (including pursuant to any sale leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the Issuer) will be excluded;

(4) any one-time non-cash charges or any amortization or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of, or merger or consolidation with, another Person or business or resulting from any reorganization or restructuring involving the Issuer or its Subsidiaries will be excluded;

(5) the cumulative effect of a change in accounting principles will be excluded;

(6) any extraordinary, exceptional or nonrecurring gains or losses or any charges in respect of any restructuring, redundancy or severance (in each case as determined in good faith by the Issuer) will be excluded;

(7) any unrealized gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations will be excluded;

(8) any non-cash compensation charge or expenses arising from any grant of stock, stock options or other equity-based awards will be excluded;

(9) any goodwill or other intangible asset impairment charges will be excluded;

(10) all deferred financing costs written off and premium paid in connection with any early extinguishment of Indebtedness and any net gain or loss from any write-off or forgiveness of Indebtedness will be excluded; and

(11) all foreign currency translation gains and losses will be excluded.

"Consolidated Net Interest Expense" means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense (net of interest income) of such Person and its Subsidiaries which are Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt discount (but not debt issuance costs, commissions, fees and expenses), non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark-to-market valuation of Hedging Obligations or other derivative instruments, gains or losses attributable to the discounting of liabilities or provisions as required under Accounting Principles and the unwinding of the discount and expected return on assets relating to pension schemes, plans and similar pension arrangements), the interest component of deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges Incurred in respect of letter of credit or bankers' acceptance financings; *plus*

(2) the consolidated interest expense of such Person and its Subsidiaries which are Restricted Subsidiaries that was capitalized during such period; *plus*

(3) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Subsidiaries which are Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Subsidiaries which are Restricted Subsidiaries; *plus*

(4) net payments and receipts (if any) pursuant to interest rate Hedging Obligations (excluding amortization of fees) with respect to Indebtedness; *plus*

(5) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of any Restricted Subsidiary, other than dividends on Equity Interests payable to the Issuer or a Restricted Subsidiary.

Notwithstanding any of the foregoing, Consolidated Net Interest Expense shall not include any payments on any operating leases, including on any sublease, rental or license of property (or guarantee thereof).

"Consolidated Net Leverage" means, with respect to any Person as of any date of determination, the total amount of Indebtedness of such Person and its Restricted Subsidiaries on a consolidated basis in accordance with Accounting Principles (excluding Hedging Obligations entered into for bona fide hedging purposes and not for speculative purposes), minus cash and Cash Equivalents, other than Cash Equivalents issued by or guaranteed by the People's Republic of China, of such Person and its Restricted Subsidiaries.

"Consolidated Net Leverage Ratio" means, with respect to any specified Person as of any date of determination, the ratio of (x) the Consolidated Net Leverage of such Person on such date to (y) the Consolidated EBITDA of such Person for the most recently ended two full fiscal halves for which financial statements are available. In the event that the specified Person or any of its Subsidiaries Incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) subsequent to the commencement of the period for which the Consolidated Net Leverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Consolidated Net Leverage Ratio is made (for the purposes of this definition, the "Calculation Date"), then the Consolidated Net Leverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of the Issuer or the initial Guarantor) to such Incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Consolidated EBITDA for such period:

(1) acquisitions that have been made by the Issuer or any of its Restricted Subsidiaries, including through mergers or consolidations, of any or by any Person, and including all related financing transactions and including increases in ownership of any Restricted Subsidiary, during the two fiscal half reference period or subsequent to such reference period and on or prior to the Calculation Date will be given *pro forma* effect (as determined in good faith by a responsible financial or accounting officer of the Issuer or of the initial Guarantor and may include anticipated expense, cost reduction and cost saving synergies) as if the same had occurred on the first day of the four fiscal quarter reference period;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with Accounting Principles, and operations, businesses or groups of assets that constitute an operating unit or division of a business (and ownership interests therein) disposed of on or prior to the Calculation Date, will be excluded on a pro forma basis as if the same had occurred on the first day of the two fiscal half reference period;

(3) the Consolidated Net Interest Expense attributable to discontinued operations, as determined in accordance with Accounting Principles, and operations, businesses or groups of assets that constitute an operating unit or division of a business (and ownership interests therein) disposed of on or prior to the Calculation Date, will be excluded on a pro forma basis as if the same had occurred on the first day of the two fiscal half reference period, but only to the extent that the obligations giving rise to such Consolidated Net Interest Expense will not be obligations of the Issuer or any of its Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary of the Issuer on the Calculation Date will be deemed to have been a Restricted Subsidiary of the Issuer at all times during the two fiscal half reference period; and

(5) any Person that is not a Restricted Subsidiary of the Issuer on the Calculation Date will be deemed not to have been a Restricted Subsidiary of the Issuer at any time during the two fiscal half reference period.

"Consolidated Total Assets" means, as of any date of determination, the total amount of all assets of the Issuer and its Restricted Subsidiaries, determined on a consolidated basis in accordance with Accounting Principles, as of the end of the most recent fiscal half for which the Issuer's financial statements are available.

"Credit Facilities" means one or more debt facilities (including, without limitation, the Existing Credit Facilities) or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, bankers acceptances, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit.

"Currency Agreement" means any foreign currency exchange contract, currency swap agreement or other similar agreement or arrangement.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default (as defined herein).

"Designated Government Obligations" means direct non-callable and non-redeemable obligations (in each case, with respect to the issuer thereof) of any member state of the European Union that is a member of the European Union as of the Issue Date or of the United States of America (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is secured by the full faith and credit of the applicable member state or of the United States of America, as the case may be.

"Disqualified Stock" means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

(1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise,

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock; or

(3) is redeemable at the option of the holder thereof, in whole or in part,

in each case on or prior to the date that is 90 days after the earlier of the (a) Stated Maturity of the Notes or (b) date on which there are no Notes outstanding; *provided*, *however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" shall not constitute Disqualified Stock if, in the case of "change of control" provisions applicable to such Capital Stock, they are not more favorable to the holders of such Capital Stock than the provisions described under "—Change of Control."

"Equity Interest" means Capital Stock and all warrants, options or other rights to acquire Capital Stock.

"Equity Investors" means (a) Mr. Li Shufu, (b) Li Xing Xing, (c) Zhejiang Geely Holding Group Co., Ltd., (d) Shanghai Jiading State-owned Assets Supervision and Administration Commission, (e) Shanghai Jiading State-owned Assets Operation Co., Ltd., (f) Shanghai Jiading Industrial Area Development (Group) Co., Ltd., and, in each case of (a) through (f) (whether individually or collectively), Affiliates thereof.

"Equity Offering" means (x) a public or private sale of Qualified Capital Stock of the Issuer (other than a public offering on Form S-8) or any similar offering in other jurisdictions, or (y) the sale of Qualified Capital Stock or other securities by any Person, the proceeds of which are contributed as Subordinated Shareholder Debt or to the equity of the Issuer or any of its Restricted Subsidiaries.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

"Existing Credit Facilities" means the Chinese Development Bank Facility, the Revolving Credit Facility and the Svensk Exportkredit Facility.

"Fair Market Value" means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress of either party, determined in good faith by the Issuer's or the initial Guarantor's Chief Executive Officer, Chief Financial Officer or other accounting or financial officer of the Issuer or the initial Guarantor.

"Geely" means Geely Sweden Holdings AB (registered in Sweden under registered number 556810-9010) and any successor thereto.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise), or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, *however*, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "guarantor" shall mean any Person Guaranteeing any obligation.

"Guarantee Agreement" means, in the context of a consolidation, merger or sale of all or substantially all of the assets of a Guarantor, an agreement by which the Surviving Person from such a transaction expressly assumes all of the obligations of such Guarantor under its Note Guarantee.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Commodities Agreement or Currency Agreement.

"IFRS" means international financial reporting standards and interpretations issued by the International Accounting Standards Board and adopted by the European Commission, as in effect on the Issue Date, or with respect to any obligation with respect to financial reporting, as in effect from time to time. At any date after the Issue Date, the Issuer may, by written notice to the Trustee, make an election to establish that IFRS means IFRS as in effect on a date that is after the Issue Date and on or prior to the date of such election.

"Incur" means issue, assume, guarantee, incur or otherwise become liable for; *provided*, *however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. The terms "Incurred" and "Incurrence" shall have correlative meanings. In connection with credit facilities, overdraft facilities, debt facilities and similar instruments or arrangements with banks, other institutions, funds or investors that provide for commitments or similar obligations to make loans or other advances, "Incur" means entering into the contractual commitment or agreement or similar obligation to make such loan or advance.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication):

(1) the principal of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable,

(2) all Capital Lease Obligations of such Person,

(3) all obligations of such Person issued or assumed as the deferred purchase price of property, where the deferred payment is arranged primarily as a means of raising finance, which purchase price is due more than one year after the date of placing such property in service or taking final delivery and title thereto, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business),

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, bank guarantee, banker's acceptance or similar credit transaction (except to the extent such reimbursement obligation relates to trade debt in the ordinary course of business and such reimbursement obligation is paid within 90 days after payment of the trade debt), in each case only to the extent that the underlying obligation in respect of which the instrument was issued would be treated as Indebtedness,

(5) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any subsidiary of such Person, any Preferred Stock (but excluding, in each case, any accrued dividends),

(6) all obligations of the type referred to in paragraphs (1) through (5) of other Persons for which such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee,

(7) all obligations of the type referred to in paragraphs (1) through (6) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets and the amount of the obligation so secured, and

(8) to the extent not otherwise included in this definition, net Hedging Obligations of such Person;

if and to the extent any of the preceding items (other than letters of credit or Indebtedness specified in clauses (6), (7) or (8)) would appear as a liability upon a balance sheet of such Person in accordance with Accounting Principles.

For the avoidance of doubt, the following will not be treated as Indebtedness:

(1) Subordinated Shareholder Debt;

(2) trade debt Incurred in the ordinary course of business and not overdue by 90 days or more;

(3) any lease, concession or license of property which would be considered an operating lease under the Accounting Principles as in effect on the Issue Date, or any guarantee thereof;

(4) (i) workers' compensation claims, self-insurance obligations, social security or wage Taxes, pension fund obligations or contributions or similar claims, obligations or contributions, (ii) letters of credit, bank guarantees, banker's acceptances and similar credit transactions (except in relation to reimbursement obligations that would constitute Indebtedness under sub-paragraph (4) of the immediately preceding paragraph) and (iii) performance, surety and similar bonds and completion guarantees provided in the ordinary course of business for any reason whatsoever;

(5) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred or assumed in connection with the disposition or acquisition of any business, assets or Capital Stock of a Subsidiary; *provided* that the maximum aggregate liability in respect of all such Indebtedness (other than in respect of tax and environmental indemnities) shall at no time exceed, in the case of a disposition, the gross proceeds actually received by the Issuer or its Restricted Subsidiaries in connection with such disposition and, in the case of an acquisition, the fair market value of any business assets or Capital Stock acquired;

(6) repurchase obligations with respect to government securities in the ordinary course of business, and

(7) obligations arising from the leasing of vehicles, parts and other assets in the ordinary course of business (including risk-sharing arrangements of any type whatsoever in relation to residual values of vehicles).

"Initial Public Offering" means an Equity Offering of common stock or other common equity interests of the Issuer or any Parent or any successor of the Issuer or any Parent (the "IPO Entity") following which there is a Public Market and, as a result of which, the shares of common stock or other common equity interests of the IPO Entity in such offering are listed on an internationally recognized exchange or traded on an internationally recognized market.

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement or other similar financial agreement or arrangement.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of such Person) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person; *provided*, *however*, that (i) advances, loans or other extensions of credit arising under the Cash Management Arrangements and (ii) advances to officers, directors, employees and consultants for business related expenses in the ordinary course of business, in each case, shall not be deemed Investments.

"Investment Grade" means a rating of BBB- or higher by S&P and Baa3 or higher by Moody's or the equivalent of such ratings by S&P or Moody's and the equivalent rating category of any Rating Agencies substituted for S&P or Moody's.

"Investment Grade Status" shall occur when the Notes receive both of the following:

(1) a rating of "BBB-" or higher from S&P; and

(2) a rating of "Baa3" or higher from Moody's,

or the equivalent of such rating by either such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization.

"IPO Market Capitalization" means an amount equal to (1) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity at the time of closing of the Initial Public Offering multiplied by (2) the price per share at which such shares of common stock or common equity interests are sold in such Initial Public Offering.

"Issue Date" means 18 May 2016.

"Issuer" means Volvo Car AB, a Swedish public limited liability company and any successor thereto.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Market Capitalization" means an amount equal to (1) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity on the date of the declaration of the relevant dividend multiplied by (2) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Nationally Recognized Statistical Rating Organization" means a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi) (F) under the U.S. Exchange Act.

"Note Guarantee" means the Guarantee by a Guarantor of the Issuer's obligations under the Notes.

"Officer's Certificate" means a certificate signed by one Responsible Officer of the Issuer.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of or counsel to the Issuer, a Subsidiary of the Issuer or the Trustee.

"Parent" means any Person of which the Issuer at any time is or becomes a Subsidiary and any holding companies established by any Permitted Holder for purposes of holding its investment in the Issuer or in any Parent.

"Permitted Business" means any businesses, services or activities engaged in by the Issuer or any Restricted Subsidiary on the Issue Date and any businesses, services or activities related, ancillary or complementary to any of the foregoing or any extensions or developments of any thereof.

"Permitted Holder" means, collectively, (i) the Equity Investors and their Related Parties, (ii) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of the Issuer or any Parent, acting in such capacity and (iii) any group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act or any successor provision) of which any of the foregoing (including any Persons mentioned in the following sentence, but excluding any Person referred to in clause (ii)) are members; *provided* that in the case of such group and without giving effect to the existence of such group or any other group, the Persons referenced to in clause (i) and such Persons referred to in the following sentence, collectively, have beneficial ownership of more than 50% of the total voting power of the Voting Stock of the Issuer or any of its direct or indirect parent companies held by such group. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"Permitted Investments" means:

(1) any Investment in the Issuer or any Restricted Subsidiary;

(2) any Investment in Cash Equivalents;

(3) any Investment by the Issuer or any Restricted Subsidiary in a Person, if as a result of such Investment:

(a) such Person becomes a Restricted Subsidiary; or

(b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary;

(4) any acquisition of assets or Capital Stock solely in exchange for the issuance of Capital Stock (other than Disqualified Stock) of the Issuer;

(5) any Investments received in compromise or resolution of: (a) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or their Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (b) litigation, arbitration or other disputes;

(6) Investments in receivables owing to the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business;

(7) Investments represented by Hedging Obligations;

(8) Investments in the Notes and any other Indebtedness of the Issuer or any Restricted Subsidiary;

(9) Investments acquired after the Issue Date as a result of the acquisition by the Issuer or any Restricted Subsidiary of another Person, including by way of a merger, amalgamation or consolidation with or into the Issuer or its Restricted Subsidiaries to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(10) any Investment to the extent made using as consideration Capital Stock of the Issuer (other than Disqualified Stock), Subordinated Shareholder Debt or Capital Stock of a Parent;

(11) loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers, employees or consultants of the Issuer or any Restricted Subsidiary (1) for purposes of funding any such person's purchase of Capital Stock or Subordinated Shareholder Debt (or similar obligations) of the Issuer, its Subsidiaries or any Parent) or (2) (in the case of this clause (2) not exceeding €5 million in the aggregate outstanding at any time;

(12) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets;

(13) other Investments in any Person, when taken together with all other Investments made pursuant to this sub-paragraph (13) that are not to exceed in any fiscal year the greater of €750 million or 5.0% of Consolidated Total Assets.

"Permitted Liens" means, with respect to any Person:

(1) pledges or deposits by such Person under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits or cash or Designated Government Obligations to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import or customs duties or for the payment of rent;

(2) Liens imposed by law, including carriers', warehousemen's and mechanics' Liens, in each case for sums not yet due or being contested in good faith;

(3) Liens for taxes, assessments or other governmental charges not yet subject to penalties for non-payment or which are being contested in good faith provided appropriate reserves, if any, as are required, have been made in respect thereof;

(4) Liens in favor of issuers of surety or performance bonds or letters of credit or bankers' acceptances issued pursuant to the request of and for the account of such Person in the ordinary course of its business;

(5) encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties or liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(6) Liens securing Hedging Obligations;

(7) leases, subleases and licenses of real property which do not materially interfere with the ordinary conduct of the business of the Issuer or any Restricted Subsidiary and leases, subleases and licenses of other assets in the ordinary course of business;

(8) Liens for the purpose of securing the payment (or the refinancing of the payment) of all or a part of the purchase price of, or Capital Lease Obligations with respect to, assets or property acquired or constructed in the ordinary course of business; *provided* that:

(a) the aggregate principal amount secured by such Liens does not exceed the cost of the assets or property so acquired or constructed; and

(b) such Liens are created within 180 days of construction or acquisition of such assets or property (or, upon a refinancing, replace Liens created within such period) and do not encumber any other assets or property of the Issuer or any Restricted Subsidiary other than such assets or property and assets affixed or appurtenant thereto;

(9) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary institution; *provided* that such deposit account is not intended by the Issuer or any Restricted Subsidiary to provide collateral to the depositary institution;

(10) Liens arising from United States Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Issuer or any Restricted Subsidiary in the ordinary course of business;

(11) Liens existing on the Issue Date;

(12) Liens on property or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary; *provided*, *however*, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such other Person becoming a Restricted Subsidiary of the Issuer; *provided further*, *however*, that any such Lien may not extend to any other property owned by the Issuer or any Restricted Subsidiary;

(13) Liens on property at the time the Issuer or any Restricted Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into the Issuer or any Restricted Subsidiary; *provided*, *however*, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such acquisition; *provided further*, *however*, that such Liens may not extend to any other property owned by the Issuer or any Restricted Subsidiary;

(14) Liens securing Indebtedness or other obligations of the Issuer to a Restricted Subsidiary or of a Restricted Subsidiary owing to the Issuer or any Restricted Subsidiary;

(15) Liens securing the Notes and all other Indebtedness which by its terms must be secured if the Notes are secured;

(16) Liens securing Indebtedness Incurred to refinance Indebtedness that was previously secured;

(17) Liens arising by operation of law or by agreement to the same effect in the ordinary course of business;

(18) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods or assets entered into in the ordinary course of business;

(19) Liens over cash paid into an escrow account pursuant to any purchase price retention arrangement as part of any permitted disposal by the Issuer or any Restricted Subsidiary on condition that the cash paid into such escrow account in relation to a disposal does not represent more than 15% of the net proceeds of such disposal;

(20) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(21) Liens securing the Indebtedness in respect of Receivables Financing;

(22) Liens on any proceeds loan made by the Issuer or any Restricted Subsidiary in connection with any future Incurrence of Indebtedness permitted under the Indenture and securing that Indebtedness;

(23) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities, or liens over cash accounts and receivables securing cash pooling or other Cash Management Arrangements;

(24) Liens arising or granted in connection with repurchase obligations with respect to government securities in the ordinary course of business;

(25) Liens arising as a consequence of any finance or capital leases of vehicles (including a Lien arising due to a pay-back guarantee or residual value guarantee provided in the ordinary course of business);

(26) Liens securing any pension liabilities;

(27) Liens on (a) escrowed proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) and (b) on cash set aside at the time of the Incurrence of any Indebtedness or governmental securities purchased with such cash, in either case to the extent such cash or governmental securities are held in an escrow account or similar arrangement;

(28) Liens provided that the maximum amount of Indebtedness secured in the aggregate at any one time pursuant to this clause (28) does not exceed the greater of €315.0 million or 2.5% of Consolidated Total Assets; and

(29) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (1) through (28); provided that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced.

"Permitted Parent Payments" means, without duplication as to amounts, payments to any Parent to permit such entity to pay:

(1) customary indemnification obligations of any Parent owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements with any such Person to the extent relating to the Issuer and/or its Subsidiaries;

(2) obligations of any Parent in respect of directors' fees, remuneration and expenses (including director and officer insurance (including premiums therefore)) to the extent relating to the Issuer and/or its Subsidiaries;

(3) professional fees and expenses of any Parent related to the ownership of the Capital Stock of the Issuer and its Subsidiaries (including, without limitation, accounting, legal, audit corporate reporting, and administrative expenses and other reasonable and normal course expenses required to maintain such Parent's corporate existence or its holding of the Capital Stock of the Issuer);

(4) any income taxes to the extent such income taxes are attributable to the income of the Parent derived from the Issuer and its Subsidiaries or the Issuer and its Subsidiaries and reduced by any such income taxes directly paid by the Issuer or any of its Subsidiaries;

(5) expenses incurred by any Parent in connection with any public offering or other sale of Capital Stock or Indebtedness, (i) where the net proceeds of such offering or sale are intended to be received by or contributed to the Issuer or a Subsidiary of the Issuer or (ii) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed to the Issuer or a Subsidiary of the Issuer; and

(6) for the sole purpose of reducing Geely's, the Issuer's or any of its Restricted Subsidiaries' consolidated tax liabilities, the Issuer or any of its Restricted Subsidiaries' shall be entitled to give and/or receive group contributions (*koncernbidrag*) to/from the Issuer, provided that no cash or other funds are transferred from the Issuer or any of its Restricted Subsidiaries to Geely as a result thereof. No group

contribution may be made by the Issuer or any Restricted Subsidiary to Geely under this paragraph if an Event of Default is outstanding.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency, instrumentality or political subdivision thereof, or any other entity.

"Preferred Stock" as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

"Public Debt" means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities (other than the Notes or a Guarantee of the Notes) issued in (1) a public offering registered under the Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale, and in each case, in excess of €100 million in aggregate principal amount.

"Public Market" means any time after:

(1) an Equity Offering has been consummated; and

(2) shares of common stock or other common equity interests of the IPO Entity having a market value in excess of €100 million on the date of such Equity Offering have been distributed pursuant to such Equity Offering.

"Public Offering" means any offering, including an Initial Public Offering, of shares of common stock or other common equity interests that are listed on an exchange or publicly offered (which shall include an offering pursuant to Rule 144A or Regulation S under the Securities Act to professional market investors or similar Persons).

"Qualified Capital Stock" means any Capital Stock which is not Disqualified Stock.

"Rating Agencies" means:

(1) S&P and

(2) Moody's, or

(3) if S&P or Moody's or both shall not make a rating of the Notes publicly available, despite the Issuer using its commercially reasonable efforts to obtain such a rating, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for S&P or Moody's or both, as the case may be.

"Receivables Financings" means any financing transaction or series of financing transactions that have been or may be entered into by the Issuer or any of its Restricted Subsidiaries pursuant to which the Issuer or any Restricted Subsidiary may sell, convey or otherwise transfer to another Person, or may grant a security interest in, any receivables or interests therein for credit or liquidity management purposes (including discounting or factoring transactions) in the ordinary course of business (whether such receivables are then existing or arising in the future) including without limitation, all security interests in goods financed thereby, the proceeds of such receivables, and other assets which are customarily sold or in respect of which security interests are customarily granted in connection with securitization transactions involving such assets.

"refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness.

"refinanced" and "refinancing" shall have correlative meanings.

"Related Parties" with respect to any Permitted Holder, means:

(1) any controlling equity holder, majority (or more) owned Subsidiary or partner or member of such Person;

(2) in the case of an individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof;

(3) any trust, corporation, partnership, limited liability company or other Person for which one or more of the Permitted Holders and other Related Parties of any thereof constitute the beneficiaries, stockholders, partners or owners thereof, or Persons beneficially holding in the aggregate a majority (or more) controlling interest therein; or

(4) any investment fund or vehicle managed, sponsored or advised by such Person or any successor thereto, or by any Affiliate of such Person or any such successor.

"Responsible Officer" means the chief executive officer, president, chief financial officer, treasurer, assistant treasurer, managing director, management board member or director of a company.

"Restricted Investment" means an Investment other than a Permitted Investment.

"Restricted Payments" means any of the following:

(1) to declare or pay any dividend on or make any distribution (whether made in cash, securities or other property) with respect to any of the Capital Stock of the Issuer or any Restricted Subsidiary (including, without limitation, any payment in connection with any merger, consolidation, amalgamation or other combination involving the Issuer or any Restricted Subsidiary) except for (a) dividends or distributions payable solely in shares of the Issuer or Qualified Capital Stock of the Issuer or in options, warrants or other rights to acquire such shares or Qualified Capital Stock or in Subordinated Shareholder Debt or (b) dividends or distributions payable to the Issuer or a Restricted Subsidiary (and, in the case of any such Restricted Subsidiary making such dividend or distribution, to holders of its Capital Stock other than the Issuer or another Restricted Subsidiary on no more than a *pro rata* basis, measured by value);

(2) to purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger, consolidation, amalgamation or other combination), directly or indirectly, any shares of the Issuer's Capital Stock or any Capital Stock of any direct or indirect Parent of the Issuer held by Persons other than the Issuer or its Restricted Subsidiaries (other than in exchange for Subordinated Shareholder Debt or Qualified Capital Stock of the Issuer);

(3) to make any principal payment on, or repurchase, redeem, defease or otherwise acquire or retire for value, prior to any scheduled principal payment, sinking fund payment or maturity, any Subordinated Obligation (other than (i) intercompany Indebtedness between the Issuer or any Restricted Subsidiary or among Restricted Subsidiaries of the Issuer or (ii) any such payment, repurchase, redemption, defeasance or other acquisition in anticipation of satisfying a sinking fund obligation, principal installment or maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance, other acquisition or retirement); or

(4) to make any Restricted Investment.

If any Restricted Payment described above is not made in cash, the amount of the proposed Restricted Payment will be the fair market value of the asset to be transferred as at the date of transfer.

"Restricted Subsidiary" means any Subsidiary of the Issuer and its Subsidiaries, other than an Unrestricted Subsidiary.

"Revolving Credit Facility" means the revolving credit facility dated 30 June 2014 (as amended and restated by a supplemental agreement dated 30 June 2015, a supplemental agreement dated 9 December 2015 and a supplemental agreement dated 7 March 2016), among, *inter alios*, Volvo Car Corporation as borrower and DNB Bank ASA, Sweden Branch, Swedbank AB (publ), ANZ Bank (Europe) Limited, Bank of China Limited, Luxembourg Branch, Barclays Bank PLC, BNP Paribas Fortis SA/NV Bankfilial Sverige, HSBC Bank PLC, ING Belgium N.V./S.A., Lloyds Bank PLC, Nordea Bank AB (publ), Santander Bank, Zweigniederlassung Der Santander Consumer Bank AG and Société Générale as original lenders, as amended, modified, extended, restructured, renewed, refinanced, restated, increased, replaced or refunded in whole or in part from time to time and whether by the same or any other agent, lender or group of lenders.

"S&P" means Standard & Poor's Corporation and its successors.

"SEC" means the U.S. Securities and Exchange Commission.

"Secured Indebtedness" means any Indebtedness for borrowed money secured by a Lien.

"Significant Subsidiary" means, with respect to any Person, any Subsidiary of such Person that satisfies the criteria for a "significant subsidiary" set forth in Rule 1.02 of Regulation S-X under the Exchange Act.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Subordinated Obligation" means any Indebtedness of the Issuer or a Guarantor (whether outstanding on the Issue Date or thereafter Incurred) that is subordinate or junior in right of payment to the Notes of the Guarantor's Note Guarantee pursuant to a written agreement to that effect.

"Subordinated Shareholder Debt" means, collectively, any funds provided to the Issuer by any direct or indirect Parent of the Issuer, or Affiliate of such Parent, pursuant to any security, instrument or agreement, other than Capital Stock, that pursuant to its terms:

(1) does not (including upon the happening of any event) mature or require any amortization or other payment of principal prior the first anniversary of the maturity of the Notes (other than through conversion or exchange of any such security or instrument for Qualified Capital Stock or for any other security or instrument meeting the requirements of the definition);

(2) does not (including upon the happening of any event) require the payment in cash or otherwise, of interest or any other amounts prior to the first anniversary of the maturity of the Notes (*provided* that interest may accrete while such Subordinated Shareholder Debt is outstanding and accretion interest may become due upon maturity as permitted by clause (1) or acceleration of maturity as permitted by clause (3) below and any interest may be satisfied at any time by the issue to the holders thereof of additional Subordinated Shareholder Debt);

(3) does not (including upon the happening of any event) provide for the acceleration of its maturity and its holders have no right (including upon the happening of any event) to declare a default or event of default or take any enforcement action, prior to the first anniversary of the maturity of the Notes;

(4) is not secured by a Lien or any assets of the Issuer or a Restricted Subsidiary and is not guaranteed by any Subsidiary of the Issuer;

(5) is contractually subordinated and junior in right of payment to the prior payment in full in cash of all obligations (including principal, interest, premium (if any) and Additional Amounts (if any)) of the Issuer under the Notes and the Guarantor under the Note Guarantee; and

(6) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date on which the Notes mature other than into or for Qualified Capital Stock of the Issuer;

provided that in any event or circumstance that results in such Indebtedness ceasing to qualify as Subordinated Shareholder Debt, such Indebtedness shall constitute an Incurrence of such Indebtedness by the Issuer, and any and all Restricted Payments made through the use of the net proceeds from the Incurrence of such Indebtedness since the date of the original issuance of such Subordinated Shareholder Debt shall constitute new Restricted Payments that are deemed to have been made after the date of the original issuance of such Subordinated Shareholder Debt.

"Subsidiary" means a subsidiary within the meaning of Chapter 1, Section 11 of the Swedish Companies Act (*Sw. Aktiebolagslagen* (2005:551) or its equivalent from time to time).

Unless otherwise provided, all references to Subsidiaries shall be to Subsidiaries of the Issuer and any Guarantor.

"Successor Parent" with respect to any Person means any other Person with more than 50% of the total voting power of the Voting Stock of which is, at the time the first Person becomes a Subsidiary of such other Person, "beneficially owned" (as defined below) by one or more Persons that "beneficially owned" (as defined below) more than 50% of the total voting power of the Voting Stock of the first Person immediately prior to the first Person becoming a Subsidiary of such other Person. For purposes hereof, "beneficially own" has the meaning correlative to the term "beneficial owner," as such term is defined in Rules 13d-3 and 13d-5 under the Exchange Act (as in effect on the Issue Date).

"Surviving Person" means, with respect to any Person involved in any merger, consolidation or other business combination or the sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of such Person's assets, the Person formed by or surviving such transaction or the Person to which such disposition is made.

"Svensk Exportkredit Facility" and "Svensk Exportkredit Facility Agreement" mean the credit facility dated 25 June 2015 (as subsequently amended and restated on 4 March 2016), between Volvo Car Corporation as borrower, Geely Sweden AB as guarantor and AB Svensk Exportkredit (publ) as lender,

"Tax" means any tax, duty, levy, impost, assessment or other governmental charge, including penalties, interest and other liabilities related thereto, and, for the avoidance of doubt, including any withholding or deduction for or on account of Tax. "Taxes" and "Taxation" have meanings correlative to the foregoing.

"Unrestricted Subsidiary" means:

(1) any Subsidiary of the Issuer that at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of the Issuer pursuant to the "Designation of Unrestricted and Restricted Subsidiaries" covenant); and

(2) any Subsidiary of an Unrestricted Subsidiary.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

BOOK-ENTRY, DELIVERY AND FORM

General

The Notes sold outside the United States pursuant to Regulation S under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "***Global Note***"). The Global Note will be deposited, on the Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream.

Ownership of interests in the Global Note (the "***Book-Entry Interests***") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants. The Book-Entry Interests in the Notes will be issued only in denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

The Book-Entry Interests will not be held in definitive form. Instead, Euroclear or Clearstream, as applicable, will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, owners of interest in the Global Note will not have the Notes registered in their names, will not receive physical delivery of the Notes in certificated form and will not be considered the registered owners or "holders" of Notes under the Indenture for any purpose.

So long as the Notes are held in global form, the common depositary for Euroclear and Clearstream (or their respective nominees), as applicable, will be considered the sole holders of Global Note for all purposes under the Indenture. As such, participants must rely on the procedures of Euroclear and/or Clearstream, as applicable, and indirect participants must rely on the procedures of Euroclear and/or Clearstream, as applicable, and the participants through which they own Book-Entry Interests in order to exercise any rights of holders under the Indenture.

Neither we, the Registrar, nor the Trustee under the Indenture, nor any of our respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Issuance of Definitive Registered Notes

Under the terms of the Indenture, owners of Book-Entry Interests will receive definitive Notes in registered form (the "***Definitive Registered Notes***"):

- if Euroclear or Clearstream notify the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days,
- if the Issuer, at its option, notifies the Trustee and Paying Agent in writing that it elects to exchange in whole, but not in part, the Global Note for Definitive Registered Notes,
- if Euroclear or Clearstream so requests following an event of default under the Indenture, or
- if the owner of a Book-Entry Interest requests such exchange in writing delivered through Euroclear and Clearstream following an event of default under of the Indenture.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear, Clearstream, or the Issuer, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in "*Notice to Investors*," unless that legend is not required by the Indenture or applicable law.

To the extent permitted by law, we, the Trustee, the Paying Agent and the Registrar shall be entitled to treat the registered holder of the Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such.

We will not impose any fees or other charges in respect of the Notes, however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and/or Clearstream, as applicable.

Redemption of the Global Note

In the event the Global Note, or any portion thereof, is redeemed, Euroclear and/or Clearstream, will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear or Clearstream in connection with the redemption of such Global Note (or any portion thereof). We understand that, under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or on such other basis as they deem fair and appropriate, *provided*, *however*, that no Book-Entry Interest of less than €100,000 principal amount at maturity, or less, may be redeemed in part.

Payments on Global Note

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest, additional interest and additional amounts) will be made by the Issuer to the Principal Paying Agent. The Principal Paying Agent will, in turn, make such payments to the order of the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their respective procedures.

Under the Indenture, the Issuer and the Trustee will treat the registered holder of the Global Notes (for example, Euroclear or Clearstream (or their nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither we, the Trustee, the Registrar nor the any Paying Agent or any of their respective agents has or will have any responsibility or liability for:

- any aspects of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, for any such payments made by Euroclear or Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest, or
- payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in "street name".

Currency and Payment for the Global Note

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Note, will be paid to holders of interest in such Notes through Euroclear and/or Clearstream, as applicable, in euro.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of the Notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. However, if there is an event of default under the Indenture, each of Euroclear and Clearstream reserves the right to exchange the Global Note for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to their respective participants.

Transfers

Transfers between participants in Euroclear and/or Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell the Notes to persons in territories which require physical delivery of such securities or to pledge such securities, such holder of Notes must transfer its interests in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

The Global Note will bear a legend to the effect set forth in "*Notice to Investors*." Book-Entry Interests in the Global Note will be subject to the restrictions on transfer discussed in "*Notice to Investors*."

Information Concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither we, nor the Initial Purchasers are responsible for those operations or procedures.

The Company understands as follows with respect to Euroclear and Clearstream: Euroclear and Clearstream hold securities for participating organisations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and/or Clearstream is also available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodian relationship with a Euroclear and/or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited.

Global Clearance and Settlement Under the Book-Entry System

The Notes represented by the Global Note are expected to be admitted to the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF market thereof, and any permitted secondary market trading activity in such Notes will therefore be required to be settled in immediately available funds.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Note among participants in Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. Neither we, the Trustee, the Registrar nor the Principal Paying Agent will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes will be made in euros. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

CERTAIN TAX CONSIDERATIONS

Swedish Taxation

The following summary outlines certain Swedish tax consequences relating to holders of Notes. The summary is based on the laws of Sweden in effect as at the date of this offering memorandum and is intended to provide general information only. The summary is not exhaustive and does thus not address all potential aspects of Swedish taxation that may be relevant for a potential investor in the Notes and is neither intended to be nor should be construed as legal or tax advice. In particular, the summary does not address situations where Notes are held in an investment savings account (Sw. investeringssparkonto) that are subject to a specific tax regime or the rules regarding reporting obligations for, among others, payers of interest. Specific tax consequences may be applicable to certain categories of corporations, e.g. investment companies and life insurance companies, not described below. Investors should consult a professional tax advisor regarding the Swedish and foreign tax consequences (including the applicability and effect of tax treaties for the avoidance of double taxation) of acquiring, owning and disposing of Notes in their particular circumstances.

Non-resident holders of Notes

As used herein, a non-resident holder means a holder of Notes who is (a) an individual who is not a resident of Sweden for tax purposes and who has no connection to Sweden other than his/her investment in the Notes, or (b) an entity not organised under the laws of Sweden.

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to a non-resident holder of any Notes should not be subject to Swedish income tax, provided that such a holder does not have a permanent establishment in Sweden to which the Notes are effectively connected. Under Swedish tax law, no withholding tax is imposed on payments of principal or any amount that is considered to be interest for Swedish tax purposes to a non-resident holder of Notes.

Under Swedish tax law, a capital gain on a sale of Notes by a non-resident holder will not be subject to Swedish income tax unless the non-resident holder of Notes carries on business activities in Sweden through a permanent establishment to which the Notes are effectively connected.

Private individuals who are not resident in Sweden for tax purposes may be liable to capital gains taxation in Sweden upon disposal or redemption of certain financial instruments, depending on the classification of the particular financial instrument for Swedish income tax purposes, if they have been resident in Sweden for tax purposes due to a habitual abode in Sweden or stay in Sweden for six consecutive months at any time during the calendar year of disposal or redemption or the 10 calendar years preceding the year of disposal or redemption. This liability may, however, be limited by tax treaties between Sweden and other countries.

Resident holders of Notes

As used herein, a resident holder of Notes means a holder of Notes who is (a) an individual who is a resident in Sweden for tax purposes or (b) an entity organised under the laws of Sweden.

Generally, for Swedish corporations and private individuals (and estates of deceased individuals) that are resident holders of Notes, all capital income (e.g., income that is considered to be interest for Swedish tax purposes and capital gains on Notes) will be taxable. Specific tax consequences may be applicable if, and to the extent that, a resident holder of Notes realises a capital loss on the Notes and to any currency exchange gains or losses.

Amortisation of principal is not otherwise subject to Swedish income tax. Under Swedish tax law no withholding tax is imposed on payments of principal or interest to a resident holder of Notes. However, if amounts that are considered to be interest for Swedish tax purposes are paid by a legal entity resident in Sweden, including a Swedish branch of a non-resident entity, to a private individual (or an estate of a deceased individual) that is a resident holder of Notes, Swedish preliminary taxes (Sw. *preliminärskatt*) are normally withheld by the legal entity at a rate of 30%. Swedish preliminary taxes should normally also be withheld on other returns on Notes (but not capital gains), if the return is paid out together with such a payment of interest and by such legal entity referred to above.

European Union Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), the competent authority of each Member State is required to provide to the competent authorities of another Member State details of certain payments of interest or similar income paid or secured by a person established within its jurisdiction to or for the benefit of an individual resident in that other Member State or certain limited types of entities established in that other Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-European Union countries and territories including Switzerland have adopted similar measures (either provision of information or transitional withholding (a withholding system in the case of Switzerland)).

On November 10, 2015, the Council of the European Union adopted a directive repealing the Savings Directive from January 1, 2017 in the case of Austria and from January 1, 2016 in the case of all other Member States (subject to ongoing requirements to fulfill administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is aligned with the single global Standard for Automatic Exchange of Financial Account Information in Tax Matters developed and released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

Investors who are in any doubt as to their position should consult their independent professional advisers.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement (the "***Purchase Agreement***") to be dated as of the date of this offering memorandum, the Issuer has agreed to sell to each Initial Purchaser, and each such Initial Purchaser has agreed, severally and not jointly, to purchase the Notes, from the Issuer. The Initial Purchasers are Barclays Bank PLC, HSBC Bank plc, ING Bank N.V. London Branch, Nordea Bank Danmark A/S, Société Générale and Swedbank AB (publ).

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by counsel.

The Initial Purchasers propose to offer the Notes initially at the price indicated on the cover page hereof. After the initial offering, the offering price and other selling terms of the Notes may from time to time be varied by the Initial Purchasers without notice. The Initial Purchasers may offer and sell Notes through certain of their affiliates.

Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

The Purchase Agreement provides that we will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. We have agreed, subject to certain limited exceptions, not to offer, sell, contract to sell or otherwise dispose of, except as provided under the Purchase Agreement, any debt securities of, or guaranteed by, us that are substantially similar to the Notes during the period from the date of the Purchase Agreement through and including the date 90 days after the date of the Purchase Agreement.

The Notes and Guarantee have not been and will not be registered under the U.S. Securities Act. The Initial Purchasers have agreed that they will only offer or sell the Notes outside the United States in offshore transactions in accordance with Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Initial Purchaser has represented, warranted and agreed with us that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity, within the meaning of Section 21 of the FSMA, received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to us, and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

No action has been taken in any jurisdiction, including the United Kingdom, by us or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to us or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes and the Guarantee may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Notes and the Guarantee may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the Offering, the distribution of this offering memorandum and resale of the Notes. See "*Notice to Investors*".

The Notes and the Guarantee are a new issue of securities for which there currently is no market. We have applied, through our listing agent, for the Notes to be admitted to the Official List of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF Market thereof, however, we cannot assure you that the Notes will be approved for listing or that such listing will be maintained. The Initial Purchasers have advised us that they presently intend to make a market in the Notes after completion of the Offering.

The Initial Purchasers are not obligated, however, to make a market in the Notes, and any market-making activity may be discontinued at any time at the sole discretion of the Initial Purchasers without notice. In addition, any such market-making activity will be subject to the limits imposed by the U.S. Securities Act and the U.S. Exchange Act, we cannot assure you that any market for the Notes will develop, that it will be liquid if it does develop, or that you will be able to sell any Notes at a particular time or at a price which will be favourable to you. See "*Risk Factors—Risks Relating to Our Debt, the Notes and the Guarantee—There is no existing trading market for the Notes and we cannot assure you that an active trading market will develop, which could adversely impact your ability to sell your Notes*".

In connection with the Offering, the Stabilizing Manager, or persons acting on its behalf, may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Stabilizing Manager, or persons acting on its behalf, may bid for and purchase Notes in the open markets to stabilize the price of the Notes. The Stabilizing Manager, or persons acting on its behalf, may also over allot the Offering, creating a syndicate short position, and may bid for and purchase Notes in the open market to cover the syndicate short position. In addition, the Stabilizing Manager, or persons acting on its behalf, may bid for and purchase Notes in market making transactions as permitted by applicable laws and regulations and impose penalty bids. These activities may stabilize or maintain the respective market price of the Notes above market levels that may otherwise prevail. The Stabilizing Manager is not required to engage in these activities, and may end these activities at any time. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes. See "*Risk Factors—Risks Relating to Our Debt, the Notes and the Guarantee—There is no existing trading market for the Notes and we cannot assure you that an active trading market will develop, which could adversely impact your ability to sell your Notes*".

The Initial Purchasers or their respective affiliates have engaged in, and may in the future engage in, investment banking, financial advisory, consulting, commercial banking and other commercial dealings in the ordinary course of business with the Issuer, its principal shareholders or its affiliates. They have received, and expect to receive, customary fees and commissions for these transactions. Certain of the Initial Purchasers and/or their affiliates, in particular, Swedbank AB (publ), Barclays Bank PLC, HSBC Bank PLC, ING Belgium NV/SA, Nordea Bank AB (publ) and Société Générale are lenders under the Revolving Credit Facility. In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and trading activities may involve securities and/or instruments of the Issuer or Issuer's affiliates (including the Notes).

TRANSFER RESTRICTIONS

You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act, or the securities laws of any other jurisdiction, and, unless so registered, may not be offered, sold, pledged or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or the securities laws of any other jurisdiction. The Notes are being offered by this offering memorandum only outside the United States in offshore transactions in reliance upon Regulation S under the U.S. Securities Act.

Each purchaser of the Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us and the Initial Purchasers as follows:

(a) You understand and acknowledge that the Notes and the Guarantee have not been registered under the U.S. Securities Act or any other applicable securities laws, the Notes are being offered for resale in offshore transactions in compliance with Regulation S under the U.S. Securities Act, and none of the Notes may be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or in a transaction not subject to such laws and in each case in compliance with the conditions for transfer set forth in paragraphs (d) and (e) below.

(b) You are purchasing the Notes in an offshore transaction in accordance with Regulation S.

(c) You acknowledge that neither we nor the Initial Purchasers, nor any person representing any of them, has made any representation to you with respect to us or the offer or sale of any of the Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that neither the Initial Purchasers nor any person representing the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this offering memorandum. You have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.

(d) You are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or the securities laws of any other jurisdiction, subject to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within its or their control and subject to your or their ability to resell such Notes pursuant to Regulation S or any other exemption from registration available under the U.S. Securities Act.

(e) You agree on your own behalf and on behalf of any investor account for which you are purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes only (i) to the Issuer or any subsidiary thereof, (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act, (iii) pursuant to offers and sales in offshore transactions outside the United States in compliance with Regulation S or (iv) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clauses (iii) and (iv) to require the delivery of an opinion of counsel, certification or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the reverse of the security is completed and delivered by the transferor to the Transfer Agent. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

Each purchaser acknowledges that each Note will contain a legend substantially to the following effect:

THE SECURITY EVIDENCED HEREBY WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "***U.S. SECURITIES ACT***"), AND HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OR OTHER

JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT AND (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED THE SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, ONLY (A) TO THE ISSUER, THE GUARANTOR OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES IN OFFSHORE TRANSACTIONS OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRANSFER AGENT, AND (III) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE THAT IS FOUR MONTHS AND A DAY AFTER THE SETTLEMENT DATE.

If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

(a) You agree that you will give to each person to whom you transfer the Notes notice of any restrictions on the transfer of such Notes.

(b) You acknowledge that until 40 days after the commencement of the Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act.

(c) You acknowledge that the Transfer Agent will not be required to accept for registration or transfer any Notes acquired by you except upon presentation of evidence satisfactory to us and the Transfer Agent that the restrictions set forth herein have been complied with.

(d) You acknowledge that we and the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgements, representations, warranties and agreements and agree that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by your purchase of the Notes are no longer accurate, it shall promptly notify the Initial Purchasers. If you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each such investor account and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

(e) You understand that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to us or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under "*Plan of Distribution*".

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us by Latham & Watkins (London) LLP, London, United Kingdom, as to matters of U.S. federal law, and certain other legal matters are being passed upon for us by Mannheimer Swartling Advokatbyrå AB with respect to Swedish law. Certain legal matters in connection with the Offering of the Notes will be passed upon for the Initial Purchasers by Shearman & Sterling (London) LLP, London, United Kingdom as to matters of U.S. federal law, and certain other legal matters are being passed upon for the Initial Purchasers by Advokatfirman Vinge AB with respect to Swedish law.

INDEPENDENT AUDITORS

The Audited Consolidated Financial Statements have been audited by Deloitte, independent auditors, as stated in the auditor's reports appearing herein.

The Interim Financial Statements have been reviewed by Deloitte, independent auditors, as stated in the auditor's report appearing herein.

WHERE PROSPECTIVE INVESTORS CAN FIND MORE INFORMATION

Each purchaser of the Notes from the Initial Purchasers will be furnished with a copy of this offering memorandum and any related amendments or supplements to this offering memorandum. Each person receiving this offering memorandum and any related amendments or supplements to the offering memorandum acknowledges that:

(a) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(b) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(c) except as provided pursuant to (a) above, no person has been authorised to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorised by the Initial Purchasers or us.

Copies of our organisational documents, the Indenture (which includes the form of the Notes), and our most recent consolidated financial statements published by us, may be obtained by request to the Issuer and, for so long as the Notes are listed on the Luxembourg Stock Exchange and admitted to trading on Euro MTF Market of that exchange and the rules of that exchange so require, inspected and obtained at the office of the listing agent in Luxembourg. See "*Listing and General Information*".

SERVICE OF PROCESS AND ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer and the Guarantor are organised under the laws of Sweden. Future Guarantors may be organised under the laws of non-U.S. jurisdictions.

Substantially all of the Issuer's and Guarantor's directors and all of their executive officers are non-residents of the United States. Although the Issuer and the Guarantor have submitted to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, you may be unable to effect service of process within the United States on some of the directors and executive officers of the Issuer and the Guarantor. In addition, as many of the Issuer's and Guarantor's assets and the assets of their respective directors and executive officers are located outside of the United States, you may be unable to enforce against them or us judgments obtained in the U.S. courts predicated on civil liability provisions of the federal securities laws of the United States.

If a judgment is obtained in a U.S. court against the Issuer or Guarantor, investors will need to enforce such judgment in jurisdictions where we have assets. You should consult with your own advisors in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the United States.

Sweden

Pursuant to the provisions of the Regulation (EU) No. 1215/2012 of the European Parliament and of the Council of 12 December 2012, on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the "***2012 Brussels Regulation***"), a judgment entered against a company incorporated in Sweden (a "***Swedish Party***") in the courts of a Member State (as defined therein, i.e. all Member States of the European Union) and which is enforceable in such a Member State, will be directly enforceable in Sweden upon the satisfaction of the formal requirements of the 2012 Brussels Regulation without any declaration of enforceability being required. It should be noted, however, that a party may apply for refusal of recognition or refusal of enforcement, as applicable, in accordance with the 2012 Brussels Regulation. Such an application shall be submitted to the relevant district court (Sw. *tingsrätt*).

Pursuant to the 2012 Brussels Regulation, if a judgment contains a measure or an order which is not known under the laws of the Member State in which the recognition of the judgment is invoked or in which the enforcement of the judgment, the court settlement or the authentic instrument is sought, that measure or order shall, to the extent possible, be adapted to a measure or order known under the laws of that Member State which has equivalent effects attached to it and which pursues similar aims and interests.

Pursuant to the provisions of the Council Regulation (EC) No. 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the "***2000 Brussels Regulation***"), which is applicable to legal proceedings instituted, to authentic instruments formally drawn up or registered and to court settlements approved or concluded before 10 January 2015, a judgment entered against a Swedish Party in the courts of a Member State (as defined therein, i.e. all Member States of the European Union) and which is enforceable in such a Member State, will be directly enforceable in Sweden only upon the satisfaction of the following requirements: (a) that a motion for enforcement has been filed with and granted by the relevant district court (Sw. *tingsrätt*) and (b) that the formal requirements in the 2000 Brussels Regulation have been fulfilled. However, upon an appeal of the declaration of enforceability pursuant to the 2000 Brussels Regulation the court with which an appeal is lodged may stay the proceedings.

Pursuant to the provisions of the 2007 Lugano Convention on the Recognition of Judgments in Civil and Commercial Matters (the "***Lugano Convention***"), a judgment entered against a Swedish Party in the courts of a Contracting State (as defined in the Lugano Convention) and which is enforceable in such a Contracting State, will be directly enforceable in Sweden only upon the satisfaction of the following requirements: (a) that a motion for enforcement has been filed with the relevant district court (Sw. *tingsrätt*) as provided by law and has been granted; (b) that no appeals lie against the judgment entered in the courts of such Contracting State; (c) that the courts of such Contracting State had jurisdiction; (d) that summons has been duly served on the respondent in the proceedings before the courts of such State; (e) that the judgment is not inconsistent with a prior judgment given between the same parties in the same matter; and (f) that the judgment does not contravene fundamental principles of the legal order or the public policy of Sweden.

A judgment entered against a Swedish Party in the courts of a state which is not, under the terms of the 2012 Brussels Regulation, the 2000 Brussels Regulation and the Lugano Convention, a Member State (as defined in the 2012 Brussels Regulation and the 2000 Brussels Regulation) or a Contracting State (as defined in the Lugano Convention), e.g. the United States, would not be recognised or enforceable in Sweden as a matter of law without a retrial on its merits (but will be of persuasive authority as a matter of evidence before the courts of law, administrative tribunals or executive or other public authorities of Sweden). However, there is Swedish case law to indicate that such judgments:

- that are based on a contract which expressly excludes the jurisdiction of the courts of Sweden;
- that were rendered under observance of due process of law;
- against which there lies no further right to appeal; and
- the recognition of which would not manifestly contravene fundamental principles of the legal order or the public policy of Sweden,

ought to be examined by the appropriate Swedish district court following which such court may issue a new judgment, based on the foreign judgment, without retrial of the merits of the dispute although the court will be free to do so at its own discretion. The exact scope of this principle has yet to be determined.

Whereas Swedish courts may award judgments in currencies other than Swedish kronor, judgments will be enforced in Swedish kronor, generally at the rate of exchange prevailing at the date of enforcement rather than at the date of judgment. However, the judgment creditor may, subject to availability of the foreign currency, convert such local currency into the foreign currency after payment and remove such foreign currency from Sweden.

It is not established under Swedish law if a power of attorney can be made irrevocable as it is unclear whether or not any power of attorney, including any appointment as process agent for service of process is irrevocable. In any event such power of attorney or appointment of process agent will terminate upon bankruptcy of the Issuer. See *"Certain Insolvency Law Considerations—Sweden"*.

CERTAIN INSOLVENCY LAW CONSIDERATIONS

The following is a brief description of certain insolvency law considerations in Sweden. The descriptions below do not purport to be complete or discuss all of the limitations or considerations that may affect the Notes and Guarantee. Proceedings of bankruptcy, insolvency or a similar event could be initiated in any of these jurisdictions. Prospective investors in the Notes should consult their own legal advisors with respect to such limitations and considerations. Please see "Risk Factors—Risks Relating to Our Debt, the Notes and the Guarantee".

Sweden

Applicable Insolvency Law

As follows from the section "—*EU Insolvency Law*" below, a Swedish entity will in principle be subject to insolvency proceedings covered by the EU Insolvency Regulation if it has its "center of main interest" (as defined below) in Sweden.

The Issuer and the Guarantor are incorporated under the laws of Sweden and as such, any insolvency proceedings applicable to the Issuer or Guarantor including any and all of their assets (in Sweden and abroad) will, as a matter of Swedish law, be governed by Swedish insolvency law (*lex fori concursus*).

If the COMI of a debtor is in a Member State (other than Denmark), under Article 3(2) of the Council Regulation (EC) No. 1346/2000 on insolvency proceedings, (the "***EU Insolvency Regulation***"), the courts of another Member State (other than Denmark) may open "territorial insolvency proceedings" or, after the commencement of main proceedings, "secondary insolvency proceedings," in the event that such debtor possesses an "establishment" in the territory of such other Member State.

Further to the above, the Nordic Bankruptcy Convention of 7 November 1933 (the "***Nordic Bankruptcy Convention***") has been entered into by and applies between Denmark, Finland, Iceland, Norway and Sweden. The Nordic Bankruptcy Convention is implemented in Sweden through the Swedish Act on Bankruptcy Comprising Property In Denmark, Finland, Iceland or Norway (Sw. *lag (1934:67) med bestämmelser om konkurs som omfattar egendom i Danmark, Finland, Island eller Norge*) and the Swedish Act on Effects of Bankruptcy Having Occurred in Denmark, Finland, Iceland or Norway (Sw. *lag (1934:68) om verkan av konkurs, som inträffat i Danmark, Finland, Island eller Norge*). Both acts still apply as between Sweden and Iceland. As between Sweden and Denmark and Sweden and Norway, the Nordic Bankruptcy Convention is currently implemented by the Swedish Act on Bankruptcy Comprising Property in Another Nordic Country (Sw. *lag (1981:6) om konkurs som omfattar egendom i annat nordiskt land*) and the Swedish Act on Effects of Bankruptcy Having Occurred in Another Nordic Country (Sw. *lag (1981:7) om verkan av konkurs som inträffat i annat nordiskt land*). However, the EU Insolvency Regulation has replaced the convention as between Finland and Sweden. According to the Nordic Bankruptcy Convention a bankruptcy opened in any of the aforementioned countries comprises all assets and liabilities of a bankrupt debtor located in any of these countries, and the bankruptcy receiver is authorised to dispose of all the assets of the bankruptcy estate, regardless of such location.

Insolvency Proceedings

Pursuant to the Swedish Bankruptcy Act (Sw. *konkurslag (1987:627)*), if a Swedish company is unable to rightfully pay its debts as they fall due and such inability is not merely temporary, it is deemed insolvent and can be declared bankrupt following a bankruptcy petition filed with the competent district court (Sw. *tingsrätt*) by the debtor or by a creditor of the debtor.

In the event of a bankruptcy of a Swedish company the court will appoint a receiver in bankruptcy (Sw. *konkursförvaltare*) who will work in the interest of all creditors of the company with the objective of selling the company's assets and distribute the proceeds among the creditors.

The purpose of bankruptcy proceedings is to wind up the company in such a way that the company's creditors receive as high a proportion of their claims as possible. The receiver in bankruptcy is required to safeguard the assets and can decide to continue the business or to close it down, depending on what is best for all creditors. In general, the receiver in bankruptcy is required to sell the assets of the company as soon as possible and to distribute the proceeds in accordance with the mandatory priority rules as primarily set out in the Swedish rights of priority act, as amended (Sw. *Förmånsrättslagen (1970:979)*) (the "***Rights of Priority Act***"). In the interim, the receiver in bankruptcy will take over the management and control of the company and the company's directors and/or managing director will no longer be entitled to represent the company or dispose of the company's assets.

A declaration of bankruptcy does not automatically terminate existing contracts; instead, the receiver in bankruptcy may in its discretion choose to have the bankruptcy estate itself step into any such existing contracts. A clause in a contract which provides that the contract is terminated by reason of bankruptcy proceedings or similar is likely to be unenforceable (the bankruptcy estate shall always be given a right to fulfil the company's obligations according to a contract). If the bankruptcy estate steps into the contract and performance by the creditor is due, the creditor may demand that the bankruptcy estate performs its newly assumed obligations as well or, if a grace period has been granted, request that the bankruptcy estate, without unreasonable delay, provides acceptable security for its performance. If performance by the creditor is not due, the creditor may request security where this is necessary in order to protect it against loss. If the bankruptcy estate does not step into the contract within a reasonable time after the creditor's demand or if it does not comply with the creditor's request to provide security, the creditor may terminate the contract.

Enforcement Process

In case of enforcement outside of bankruptcy proceedings, in respect of real estate mortgages and business mortgages (Sw. *företagshypotek*) and (as relevant) assets in the possession of the relevant security provider, an enforcement process is initiated by the creditor obtaining an enforcement order from the Swedish Enforcement Authority (Sw. *Kronofogden*) or the courts. Upon obtaining an enforcement order against a debtor, a creditor may apply to the Swedish Enforcement Authority for enforcement of its claim. In respect of certain other types of assets, such as over shares, receivables, bank accounts, trademarks and contractual rights, enforcement can be carried out by the security holder itself. A provision granting the secured party or its agent such right of enforcement is typically included in any pledge agreement between the pledgor and the secured party or its agent. The secured party is typically entitled to enforce the security through a sale of the collateral. However, certain restrictions apply to the procedure for such a sale. In general, when enforcing the security, the secured party is under a duty of care in relation to the security provider and the security granted. The security provider should, if the circumstances are not exceptional, be given prior notice of the contemplated enforcement and also of the time and location of the sale. Furthermore, sufficient notice should be given to prospective purchasers in order to create reasonable preconditions for a market price being obtained in the sale. Where the secured party has been granted the right to enforce the security through a private sale, such sale must be made to a party unaffiliated with the secured party unless the market price of the security can be independently and objectively established and the security is sold at such price. Pledges over receivables and other claims are, if the receivable or claim has fallen due, normally enforced through the secured party collecting the payment as opposed to selling the receivable.

Enforcement of security in bankruptcy is also subject to certain restrictions. A holder of a real property mortgage, a business mortgage or security over specific assets in the possession of the relevant security provider may demand that the relevant assets are sold by the receiver in bankruptcy without undue delay, provided that the underlying claim is not disputed or has been confirmed in a non-appealable decision. This rule does however not apply to such assets as are necessary for the continuation of the debtor's business. The receiver in bankruptcy may thus postpone such sale if the receiver in bankruptcy determines that the bankruptcy estate would either incur a considerable loss or that the implementation of a public composition proceeding (Sw. *offentligt ackord*) would become substantially more difficult, provided that a postponement is not unreasonable to the secured party. A secured party holding a possessory pledge over moveable property (such as shares) may arrange for the sale of the moveable property at a public auction (but not sell the moveable property privately unless the receiver in bankruptcy consents). However, financial instruments and currency are exempt from the requirement for the receiver in bankruptcy's consent. The secured party may either sell such financial instruments or currency immediately or assume ownership (against reduction of the secured debt with the market value of such assets or, if the market value of the assets exceeds the outstanding debt, against repayment to the debtor of the surplus), provided that the realisation is done in a commercially viable manner. Should the security granted consist of rights over unlisted shares in a subsidiary of the debtor, the receiver in bankruptcy must still be given an opportunity to redeem the shares prior to the sale or deduction.

Priority of Certain Creditors

As a general principle, under Swedish insolvency law competing claims have equal right to payment in relation to the size of the amount claimed from the debtor's assets. However, some preferential and secured creditors, where such preference or security may arise as a consequence of law, have the benefit of payment before all other creditors (in the case of preferential creditors only) and all unsecured creditors out of the assets that secure the creditors' claims (in the case of secured creditors only). There are two types of preferential rights: specific and general preferential rights. Specific preferential rights apply to certain specific property and give the creditor a right to payment from such property. General preferential rights cover all property belonging to the debtor's estate in bankruptcy, which is not covered by specific preferential rights, and give the creditor a right to payment from such property. Claims that do not carry any of the above mentioned preferential rights or exceed the value of the security provided for such claim (to the extent of such excess), are non-preferential and are of equal standing as against each other (unless subordinated). A claim can be subordinated if, for instance, the creditor has entered into an agreement with the debtor stipulating such subordination.

Challengeable Transactions

In Swedish bankruptcy and, if certain conditions are met, company reorganisation proceedings, transactions can (in certain circumstances and subject to a time limit) be reversed and the assets being the subject of such transaction can then be returned to the bankruptcy estate or the company subject to company reorganisation. Broadly, these transactions include, among others, situations where the debtor has conveyed property fraudulently or preferentially to one creditor to the detriment of its other creditors before the initiation of the relevant insolvency proceedings, created a new security interest or provided a guarantee that was either not stipulated at the time when the secured obligation arose or not perfected without delay after such time and the delay is not considered to be ordinary, or paid a debt that is not due or that is considerable compared to the value of the debtor's assets or if the payment is made by using unusual means of payment. In the majority of situations, a claim for recovery can be made concerning actions that were made during three or six months preceding the commencement of the relevant Swedish insolvency proceedings. In certain situations, longer time limits apply and in others there are no time limits. These include, among others, (i) situations when the debtor was insolvent prior to, or became insolvent in connection with the claim arising or (ii) situations where the other party to a transaction is deemed to be a closely related party to the debtor such as a subsidiary or parent company. However, the obligations of a guarantor under a guarantee provided in respect of a creditor's claim which has been reduced by way of public composition will not be reduced correspondingly but will remain valid up to the original amount of such creditor's claim.

Limitations on Enforceability Due to the Swedish Reorganization Act

The Swedish Reorganization Act (Sw. *Lag (1996:764) om företagsrekonstruktion*) provides companies facing difficulties in meeting their payment obligations with an opportunity to resolve these difficulties without being declared bankrupt. A petition for company reorganisation may be presented to the court by the company or a creditor of the company but a reorganisation order may only be granted subject to the company's approval. Corporate reorganisation proceedings shall, as a main rule, terminate within three months from commencement but may under certain conditions be extended for up to one year.

An administrator (Sw. *rekonstruktör*) is appointed by the court and supervises the day-to-day activities and safeguards the interests of creditors as well as the company. However, the company remains in full possession of the business except that the consent of the administrator is required for important decisions such as paying a debt that has fallen due prior to the granting of a reorganisation order, granting security for a debt that arose prior to the granting of the reorganisation order, undertaking new obligations or transferring, pledging or granting rights in respect of assets of a substantial value for the company's business. However, the absence of such consent does not affect the validity of the transaction (but may jeopardize the reorganisation).

Upon the opening of corporate reorganisation proceedings, the administrator must notify the creditors of the reorganisation proceedings and will draw up a reorganisation plan specifying the proposed action to be taken to resolve the company's difficulties. A creditors' meeting will be held at which the creditors will be given the opportunity to express their opinions as to whether the reorganisation should continue. Upon the request of any of the creditors, the court shall appoint a creditors' committee of a maximum of three persons. The administrator shall, if possible, consult with the creditors' committee prior to taking any important decisions.

The corporate reorganisation proceedings do not have the effect of terminating contracts entered into by the company. However, the opening of corporate reorganisation proceedings entails limitations in the contracting party's right to terminate a contract due to the company's delay in payment or performance. Such limitations are similar to that which is stated above in respect of a bankruptcy estate's right to step into existing contracts. The limitations are not applicable where a creditor has security over, inter alia, financial instruments or receivables originating from a loan granted by a credit institution. During the reorganisation procedure, the company's business activities continue in the ordinary course of business. However, the procedure includes a suspension of payments to creditors and the company may not pay a debt that fell due prior to the granting of the reorganisation order without the consent of the administrator and such consent may only be granted should there be exceptional reasons for doing so and any petition for bankruptcy in respect of the company will be stayed. A moratorium also applies to execution in respect of a claim or enforcement of security during corporate reorganisation proceedings unless the security assets are in the physical possession of the secured creditor or any agent acting on behalf of such creditor, which is the case with a Swedish law share pledge over the shares in a Swedish limited liability company where the share certificates of such company has been delivered to the secured creditor or its agent and with a Swedish law pledge over a loan governed by a negotiable debt instrument (Sw. *löpande skuldebrev*) where such negotiable debt instrument has been delivered to the secured creditor or its agent.

The company may apply to the courts requesting public composition proceedings (Sw. *offentligt ackord*) which means that the amount of a creditor's claim may be reduced on a percentage basis. The proposal for a public composition must meet certain requirements such as that a sufficient proportion of the creditors which are allowed to vote, in respect of a sufficient proportion of the outstanding claims vote in favor of such public composition. Creditors with set-off rights and secured creditors will not participate in the composition unless they wholly or partly waive their set-off rights or priority rights. Should the security not cover a secured creditor's full claim, the remaining claim will, however, be part of a composition. A creditors' meeting is convened to vote on the proposed composition. The public composition is binding on all creditors that were entitled to participate, i.e. also creditors who have not attended the creditors' meeting will be bound.

Liquidation due to capital deficiency

Pursuant to the Swedish companies act (Sw. *aktiebolagslagen (2005:551)*), as amended (the "***Swedish Companies Act***"), whenever a company's board of directors has a reason to assume that, as a result of losses or reductions in the value of the company's assets or any other event, the company's equity is less than half the registered share capital, the company's board of directors shall prepare a special balance sheet (Sw. *kontrollbalansräkning*) and have the auditors examine it. The same obligation arises if the company in connection with enforcement pursuant to Chapter 4 of the Swedish Enforcement Code (Sw. *utsökningsbalken (1981:774)*) is found to lack seizeable assets.

If the special balance sheet shows that the equity of the company is less than half of the registered share capital, the board of directors shall, as soon as possible, issue notice to call a shareholders' meeting which shall consider whether the company shall go into liquidation (initial shareholders' meeting). The special balance sheet and an auditor's report with respect thereto shall be presented at the initial shareholders' meeting.

If the special balance sheet presented at the initial shareholders' meeting fails to show that, on the date of such meeting, the equity of the company amounts to the registered share capital and the initial shareholders' meeting has not resolved that the company shall go into liquidation, the shareholders' meeting shall, within eight months of the initial shareholders' meeting, reconsider the issue whether the company shall go into liquidation (second shareholders' meeting). Prior to the second shareholders' meeting, the board of directors shall prepare a new special balance sheet and cause such to be reviewed by the company's auditors. The new special balance sheet and an auditor's report thereon shall be presented at the second shareholders' meeting.

A shareholders' resolution on liquidation of the company shall be registered with the Swedish Companies Registration Office (Sw. *Bolagsverket*), which shall appoint a liquidator. Should the shareholders not resolve on such voluntary liquidation where required (which is where (i) a second shareholders' meeting is not held within the period of time stated above, or (ii) the new special balance sheet which was presented at the second shareholders' meeting was not reviewed by the company's auditor or fails to show that, on the date of such meeting, the equity of the company amounts to at least the registered share capital), the court may put the company into compulsory liquidation and appoint a liquidator. The liquidator takes over management and control of the company and shall sell the company's assets and settle the company's debts with the proceeds. The liquidator shall give notice to the company's unknown creditors and creditors that have not lodged their claims with the liquidator within six months following such notice will have forfeited their rights to their claims.

Limitations on the Value of a Guarantee

A Swedish limited liability company may not provide a guarantee for the obligations of a parent or sister company, unless they belong to the same group of companies and the parent company of that group is domiciled within the EEA. Furthermore, if a Swedish limited liability company provides any guarantee without receiving sufficient corporate benefit in return, such guarantee will, in whole or in part, be considered a distribution of assets, which will be lawful only (i) to the extent there is sufficient coverage for the restricted equity capital of the Swedish limited liability company after the distribution (i.e., at the time the guarantee is provided) and (ii) if considered prudent by the Swedish limited liability company to undertake such distribution after having taken into consideration the equity requirements imposed by the nature, scope and risks relating to the Swedish limited liability company's business or the Swedish limited liability company's need to strengthen its balance sheet, liquidity or financial position in general. Where the Swedish limited liability company is a parent company, the latter assessment is made also on a group level.

It should also be noted that laws relating to financial assistance in Sweden prohibit limited liability companies incorporated in Sweden from providing guarantees for obligations of any person where such obligations are being incurred for the purpose of acquiring shares in the company itself or in any superior member of the same Swedish group of companies.

The guarantee of the Guarantor is limited in accordance with the above restrictions relating to prohibited security, distribution of assets and financial assistance and are subject to limitation language limiting the liability of such entities thereunder to the extent required by the above restrictions.

Foreign Currency

Whereas Swedish courts may award judgments in currencies other than Swedish kronor, judgments will be enforced in Swedish kronor, generally at the rate of exchange prevailing at the date of enforcement rather than at the date of judgment.

Stamp Duty

No Swedish stamp duty will be payable on the granting of the Guarantee by the Guarantor.

Trust

Currently, Swedish law does not contain any provisions for trusts to be formed and trustees to be appointed. While Swedish law does not know the concept of trust, it is generally believed that a trustee that has been appointed under foreign law, provided that a trustee is capable of being appointed under the laws governing such appointment, will be recognised and acknowledged in Sweden and that such an appointed trustee may be able to claim and enforce or procure the enforcement of the rights of the beneficiaries under the trust, subject to the terms of the relevant documents.

Parallel Debt

The concept of parallel debt arrangements is not generally recognised under Swedish law and any agreement or document may not be enforceable to the extent it purports to effect such arrangements.

EU Insolvency Law

The Issuer and Guarantor are organised under the laws of Member States of the European Union.

Pursuant to Council Regulation (EC) No. 1346/2000 on insolvency proceedings, (the "***EU Insolvency Regulation***") the court which shall have jurisdiction to open insolvency proceedings in relation to the Issuer or any of its subsidiaries is the court of the Member State (other than Denmark) where the Issuer or any of its subsidiaries has its "center of main interests" (as that term is used in Article 3(1) of the EU Insolvency Regulation)("***COMI***"). The determination of where the Issuer or any of its subsidiaries has its "center of main interests" is a question of fact on which the courts of the different Member States may have differing and even conflicting views. To date, no final decisions have been made in cases that have been brought before the European Court of Justice in relation to questions of interpretation of the effects of the EU Insolvency Regulation throughout the European Union.

The term "center of main interests" is not a static concept and may change from time to time. Although there is a rebuttable presumption under Article 3(1) of the EU Insolvency Regulation that the Issuer or any of its subsidiaries has its "center of main interests" in the Member State in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the "center of main interests" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by their parties". In that respect, factors such as where board meetings are held, the location where the Issuer or any of its subsidiaries conducts the majority of its business and the location where the large majority of the Issuer's or any of its subsidiaries' creditors transact with the company may all be relevant in the determination of the place where the Issuer or any of its subsidiaries has its "center of main interests". The point at which the Issuer's or any of its subsidiaries' "center of main interests" is determined is at the time that the relevant insolvency proceedings are opened.

If the "center of main interests" of the Issuer or any of its subsidiaries is and will remain located in the state in which it has its registered office, main insolvency proceedings in respect of the Issuer or such subsidiary under the EU Insolvency Regulation may be commenced in such jurisdiction, and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation, with these proceedings being governed by the *lex fori concursus*, i.e. the insolvency laws of the jurisdiction where the court opening such main insolvency proceedings is located. Main insolvency proceedings opened in one Member State under the EU Insolvency Regulation are to be recognised in the other Member States (other than Denmark), although secondary proceedings may be opened in another Member State. If the "center of main interests" of a debtor is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open territorial proceedings in respect of such debtor if it has an "establishment" (within the meaning and as defined in Article 2(h) of the EU Insolvency Regulation) in the territory of such other Member State. An "establishment" is defined to mean a place of operations where the company carries on non-transitory economic activity with human means and goods. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other Member State. If the Issuer or any of its subsidiaries does not have an establishment in any other Member State, no court of any other Member State has jurisdiction to open proceedings in respect of the Issuer or such subsidiary under the EU Insolvency Regulation.

Where main proceedings have been opened in the Member State in which the company has its center of main interests, any proceedings opened subsequently in another Member State in which the company has an establishment (secondary proceedings) are limited to "winding-up proceedings" listed in Annex B of the EU Insolvency Regulation. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other Member State. Where main proceedings in the Member State in which the company has its center of main interests have not yet been opened, territorial insolvency proceedings can only be opened in another Member State where the company has an establishment where either: (a) insolvency proceedings cannot be opened in the Member State in which the company's center of main interests is situated under that Member State's law; or (b) the territorial insolvency proceedings are opened at the request of a creditor that is domiciled, habitually resident or has its registered office in the other Member State or whose claim arises from the operation of the establishment. Irrespective of whether the insolvency proceedings are main or secondary insolvency proceedings, such proceedings will always, subject to certain exemptions, be governed by the lex fori concursus, i.e., the local insolvency law of the court that has assumed jurisdiction for the insolvency proceedings of the debtor.

The courts of all Member States (other than Denmark) must recognise the judgment of the court opening main proceedings and give the same effect to the order in the other relevant Member States so long as no secondary proceedings have been opened there. The insolvency officeholder appointed by a court in a Member State that has jurisdiction to open main proceedings (because the company's center of main interests is there) may exercise the powers conferred on him by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State), subject to certain limitations, so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

In the event that any one or more of the Issuer or any of its subsidiaries experience financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer or any of its subsidiaries.

LISTING AND GENERAL INFORMATION

Listing

Application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange in accordance with the rules and regulations of such exchange. Notice of any optional redemption, change of control or any change in the rate of interest payable on the Notes will be published in a Luxembourg newspaper of general circulation (which is expected to be the *Luxemburger Wort*) or published on the Luxembourg Stock Exchange official website (*www.bourse.lu*).

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market so require, copies of the following documents may be inspected and obtained free of charge at the specified office of the listing agent in Luxembourg during normal business hours on any weekday:

- the Issuer's organisational documents;
- the most recent audited consolidated financial statements for fiscal years and any quarterly interim consolidated financial statements prepared by the Issuer;
- the Issuer's annual reports for the two most recent years;
- the Guarantor's organisational documents; and
- the Indenture (which includes the form of the Notes).

The Issuer will maintain a paying and transfer agent in Luxembourg for as long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so require. The Issuer reserves the right to vary such appointment and it will publish notice of such change of appointment in a newspaper of general circulation in a Luxembourg newspaper of general circulation (which is expected to be the *Luxemburger Wort*) or published on the Luxembourg Stock Exchange official website (*www.bourse.lu*).

So long as the Notes are listed on the Official List and admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so require, the Issuer will publish notices (including financial notices) in a leading newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxembourg Wort*) or on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Clearing Information

The Notes sold pursuant to Regulation S under the Securities Act have been accepted for clearance through the facilities of Clearstream and Euroclear under the common code 140963461. The ISIN number for the Notes sold pursuant to Regulation S is XS1409634612.

Legal Information

The Issuer is a public limited liability company incorporated under the laws of Sweden and registered with the Swedish Companies Registration Office under number 556810-8988. Its registered office is at Avd. 50090 HB3S, 405 31 Göteborg, Sweden.

The Issuer's articles of association are deposited with the Swedish Companies Registration Office, where such document may be examined and copies thereof obtained. The articles of association of the Issuer were adopted at the general meeting of the Issuer held on 24 April 2016.

The share capital of the Issuer consists of 100,000 shares, all of which are owned by Geely Sweden Holdings AB, fully paid with a par value of SEK 5 and with voting rights of one vote per share.

Offering Memorandum

Except as disclosed in this offering memorandum:

- there has been no material adverse change in the Issuer's financial condition since 31 March 2016, the date of its most recent consolidated financial statements; and

- neither the Issuer nor the Guarantor has been involved in any litigation, administrative proceeding or arbitration relating to claims or amounts which are material in the context of the issuance of the Notes, and, so far as either the Issuer or the Guarantor is aware, no such litigation, administrative proceeding or arbitration is pending or threatened.

Consents and Authorisations

We have obtained, or will obtain, all necessary consents, approvals and authorisations in the jurisdiction of our incorporation in connection with the issuance and performance of the Notes. The creation and issuance of the Notes have been authorised by a resolution of board of directors of the Issuer dated 24 April 2016.

General Information

1. We estimate the total fees, commissions, costs, expenses or similar amounts (including taxes) in connection with, or otherwise related to, the Offering to be approximately €10 million.
2. The Issuer assumes responsibility for the withholding of tax at source, if any.
3. The Principal Paying Agent is HSBC Bank plc.
4. The name of the Luxembourg Listing Agent is Banque Internationale à Luxembourg.
5. The Trustee for the Notes is HSBC Corporate Trustee Company (UK) Limited and its address is 8 Canada Square, Canary Wharf, London E14 5HQ, United Kingdom. The Trustee will be acting in its capacity as Trustee for the holders of the Notes and will provide such services to the holders of the Notes as described in the Indenture. Any change of the appointment of the Trustee will be published in a newspaper of general circulation in a Luxembourg newspaper of general circulation (which is expected to be the Luxemburger Wort) or published on the Luxembourg Stock Exchange official website (www.bourse.lu).
6. The Guarantor, Volvo Car Corporation (legal name, Volvo Personvagnar Aktiebolag), is a private limited liability company incorporated under the laws of Sweden and registered with the Swedish Companies Registration Office under number 556074-3089. Its registered office is at Avd. 50090 HB3S, 405 31 Göteborg, Sweden.

INDEX TO FINANCIAL INFORMATION

Review Report

Introduction

We have reviewed the Group interim financial statements for Volvo Car AB for the period January 1—March 31, 2016. The Board of Directors and the President are responsible for the preparation and presentation of these Group interim financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these Group interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Group interim financial statements are not, in all material respects, prepared for the Group in accordance with IAS 34.

Gothenburg, May 6, 2016

Deloitte AB

Jan Nilsson
Authorized Public Accountant

CONSOLIDATED INCOME STATEMENTS

MSEK	Q1 2016	Q1 2015	Full year 2015
Net revenue	41,757	33,651	164,043
Cost of sales	−32,318	−27,025	−128,238
Gross income	**9,439**	**6,626**	**35,805**
Research and development expenses	−2,413	−1,975	−8,803
Selling expenses	−2,683	−2,467	−10,951
Administrative expenses	−1,551	−1,592	−7,234
Other operating income	609	231	2,005
Other operating expenses	−348	−856	−4,432
Share of income in joint ventures and associates	92	22	230
Operating income	**3,145**	**−11**	**6,620**
Financial income	57	162	238
Financial expenses	−434	−331	−1,469
Income before tax	**2,768**	**−180**	**5,389**
Income tax	−699	−61	−913
Net income for the period	**2,069**	**−241**	**4,476**
Net income attributable to			
Owners of the parent company	1,833	−538	3,130
Non-controlling interests	236	297	1,346
	2,069	**−241**	**4,476**

CONSOLIDATED COMPREHENSIVE INCOME

MSEK	Q1 2016	Q1 2015	Full year 2015
Net income for the period	2,069	−241	4,476
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to income statement:			
Remeasurements of provisions for post-employment benefits	−460	−1,010	1,321
Items that may be reclassified subsequently to income statement:			
Translation difference on foreign operations	−86	552	−175
Translation difference of hedge instruments of net investments in foreign operations	−17	65	100
Change in cash flow hedge	1,025	−933	1,617
Other comprehensive income, net of income tax	**462**	**−1,326**	**2,863**
Total comprehensive income for the period	**2,531**	**−1,567**	**7,339**
Total comprehensive income attributable to			
Owners of the parent company	2,365	−2,043	6,005
Non-controlling interests	166	476	1,334
	2,531	**−1,567**	**7,339**

CONSOLIDATED BALANCE SHEETS

MSEK	Note	Mar 31, 2016	Dec 31, 2015
ASSETS			
Non-current assets			
Intangible assets		23,235	22,834
Property, plant and equipment		39,373	37,428
Assets held under operating leases		2,226	2,172
Investments in joint ventures and associates		638	701
Other long-term securities holdings		13	15
Deferred tax assets		3,802	3,841
Other non-current assets		1,837	1,326
Total non-current assets		**71,124**	**68,317**
Current assets			
Inventories		22,556	20,306
Accounts receivable	3	8,900	8,805
Receivables on parent company		54	54
Current tax assets		452	307
Other current assets		6,167	5,393
Marketable securities		1,798	3,512
Cash and cash equivalents		26,716	25,623
Total current assets		**66,643**	**64,000**
TOTAL ASSETS		**137,767**	**132,317**
EQUITY & LIABILITIES			
Equity			
Equity attributable to owners of the parent company		34,915	32,550
Non-controlling interests		2,251	2,085
Total equity		**37,166**	**34,635**
Non-current liabilities			
Provisions for post-employment benefits		5,274	4,701
Deferred tax liabilities		2,291	1,768
Other non-current provisions		5,936	5,909
Liabilities to credit institutions		14,976	15,168
Other non-current liabilities	3	2,948	2,927
Total non-current liabilities		**31,425**	**30,473**
Current liabilities			
Current provisions		12,689	12,456
Liabilities to credit institutions		6,032	6,246
Advance payments from customers		433	534
Accounts payable	3	27,795	26,282
Current tax liabilities		549	446
Other current liabilities	3	21,678	21,245
Total current liabilities		**69,176**	**67,209**
TOTAL EQUITY & LIABILITIES		**137,767**	**132,317**

CHANGES IN CONSOLIDATED EQUITY

MSEK	Mar 31, 2016	Dec 31, 2015
Opening balance	34,635	34,268
Net income for the period	2,069	4,476
Other comprehensive income, net of income tax	462	2,863
Total comprehensive income	2,531	7,339
Transaction with owners	—	−6,972
Closing balance	37,166	34,635
Attributable to		
Owners of the parent company	34,915	32,550
Non-controlling interests	2,251	2,085
Closing balance	37,166	34,635

CONSOLIDATED STATEMENTS OF CASH FLOWS

MSEK	Q1 2016	Q1 2015	Full year 2015
OPERATING ACTIVITIES			
Operating income	3,145	−11	6,620
Depreciation and amortisation of non-current assets	2,443	2,248	9,399
Interest and similar items received	57	47	141
Interest and similar items paid	−66	−77	−1,022
Other financial items	−76	−63	−176
Income tax paid	−371	−583	−1,645
Adjustments for items not affecting cash flow	−63	91	−235
	5,069	**1,652**	**13,082**
Movements in working capital			
Change in inventories	−1,992	−3,426	−1,742
Change in accounts receivable	−95	−68	−994
Change in accounts payable	1,514	3,862	7,658
Change in items relating to repurchase commitments	−70	211	29
Change in provisions	178	474	1,979
Change in other working capital assets/liabilities	−1,372	−78	2,564
Cash flow from movements in working capital	**−1,837**	**975**	**9,494**
Cash flow from operating activities	**3,232**	**2,627**	**22,576**
INVESTING ACTIVITIES			
Investments in shares and participations	155	33	−2,213
Investments in intangible assets	−1,176	−1,081	−4,715
Investments in property, plant and equipment	−2,534	−2,730	−8,677
Disposal of property, plant and equipment	—	163	263
Cash flow from investing activities	**−3,555**	**−3,615**	**−15,342**
Cash flow from operating and investing activities	**−323**	**−988**	**7,234**
FINANCING ACTIVITIES			
Proceeds from credit institutions	54	89	5,935
Repayment of liabilities to credit institutions	−135	−685	−6,626
Received shareholders' contribution	—	—	3,992
Investments in marketable securities, net	1,737	79	−2,488
Other	−141	494	632
Cash flow from financing activities	**1,515**	**−23**	**1,445**
Cash flow for the period	**1,192**	**−1,011**	**8,679**
Cash and cash equivalents at beginning of period	**25,623**	**17,002**	**17,002**
Exchange difference on cash and cash equivalents	−99	932	−58
Cash and cash equivalents at end of period	**26,716**	**16,923**	**25,623**

Financial summary

JANUARY—MARCH 2016

- During the first quarter, Volvo Car Group generated net revenue of MSEK 41,757 (2015 Q1: 33,651), an increase of 24.1 per cent. The increase is primarily driven by volume and a positive sales mix, mainly driven by the all-new XC90 and the XC60.
- For the first quarter, Volvo Cars retail sales increased by 11.9 per cent to 120,591units. The growth was driven by the strong performances in Volvo Cars' major markets. Double-digit growth was reached across Western Europe, China, the US and Sweden. The all-new XC90 was the main growth driver globally and recorded sales of 20,815 (2015 Q1: 0) units.
- Operating income (EBIT) increased to MSEK 3,145 (2015 Q1: −11), resulting in an operating margin of 7.5 (2015 Q1: 0.0) per cent. The increase is due to increased net revenue and sales mix, driven by the all-new XC90.

Significant events

JANUARY—MARCH 2016

Launch of S90 and V90

The S90 premium sedan was launched at the Detroit Motor Show in January. A month later, Volvo launched the V90, a premium large estate. Like the XC90, both cars are based on Volvo Cars' modular vehicle platform, the Scalable Product Architecture (SPA) and are equipped with in-house developed safety, infotainment and powertrain technologies. With the launch of S90 and V90, Volvo Cars has now completely renewed its top-of-the line 90 series.

New Board member appointed

As of January 1, 2016, Betsy Atkins has been appointed new member of the Board of Directors of Volvo Car AB. Ms. Atkins joined the board from Silicon Valley where she has been a leading entrepreneur building global technology companies in Internet Infrastructure, Big Data Analytics, Mobile Enablement and E-commerce.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No significant events has occurred after the reporting period.

NOTE 1—ACCOUNTING PRINCIPLES

The Board of Directors approved, through delegation, this Group interim report on May 6, 2016.

This interim report has been prepared in accordance with IAS 34—Interim Financial Reporting and the Swedish Annual Accounts Act. The Volvo Car Group applies International Financial Reporting Standards (IFRS) as endorsed by the European Union. The accounting principles adopted are consistent with those described in the Volvo Car Group Annual Report 2015 Note 1—Accounting Principles (available at www.volvocars.com). There are no new accounting principles that significantly affects the Volvo Car Group. Some of the disclosures required by IAS 34 may be given within the interim report, but outside of the interim financial statements.

As described in the annual report for 2015, the Volvo Car Group acquired an additional 20 per cent of the Chinese Industrial entities during 2015 resulting in a 50 per cent ownership. Due to the increased ownership in combination with contractual arrangements Volvo Car Group is after the transaction assessed to have control over the Chinese entities and hence they are consolidated into the Volvo Car Group. The incorporation of the Chinese entities in 2015 was a common control transaction. Common control transactions are not explicitly regulated under IFRS and therefore the company need to choose a principle which is considered to best reflect the transaction. Volvo Car Group has elected to apply predecessor accounting, meaning that the comparative information is presented in the report as if the incorporated entities had always been controlled by Volvo Car Group. As a consequence, the consolidated income statement for Q1 2015, as well as all other comparative information for Q1 2015 included in the report, includes the result of the acquired Chinese industrial entities for the period starting from January 1, 2015. For further details about this transaction see the annual report for 2015.

NOTE 2—FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation principles for financial instruments as described in the Volvo Car Group Annual Report 2015 Note 21—Financial risks and financial instruments, have been consistently applied throughout the reporting period.

In the Volvo Car Group's balance sheet, financial instruments reported at fair value through profit or loss consists of derivatives, marketable securities (excluding time deposits in banks). Fair value of financial instruments is established according to three levels, depending on the market information available. All financial instruments reported at fair value through profit or loss that Volvo Car Group holds as at March 31, 2016 belong to level 2. No transfers between the levels of the fair value hierarchy have occurred during the reporting period. Valuation of financial instruments at fair value is based on prevailing markets 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 the 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.

Derivatives with positive fair values amounted to MSEK 2,614 (1,558), whereof MSEK 941 (465) are included in Other non-current assets and MSEK 1,673 (1,093) are included in Other current assets. Derivatives with negative fair values amounted to MSEK 302 (496), whereof MSEK 45 (117) are included in Other non-current liabilities and MSEK 257 (379) are included in Other current liabilities. Marketable securities (excluding time deposits in banks) amounted to MSEK 3,463 (4,446), whereof MSEK 1,298 (3,512) are reported as Marketable securities and MSEK 2,165 (934) are reported as Cash and cash equivalents.

For financial liabilities valued at amortised cost, reported as current and non-current liabilities to credit institutions, the carrying amount totalled MSEK 21,008 (21,414). The carrying amount is a good estimate of the fair value since the interest rates in existing loan agreements on March 31, 2016 were estimated to be in par with credit market interest rates. The fair value therefore corresponds, in every significant respect, with the carrying amount. Fair value of financial instruments such as accounts payable and other non-interest bearing financial liabilities that are valued at amortised cost is regarded as coinciding with the carrying amount.

NOTE 3—RELATED PARTY TRANSACTIONS

During the first quarter 2016, Group companies entered into the following transactions with related parties that are not consolidated in the Group. The information in the table below includes all assets and liabilities to related parties. Besides from other non-current liabilities of MSEK 1,143 (941) all assets and liabilities are current.

	Sales of goods, services and other			Purchases of goods, services and other		
	Q1 2016	Q1 2015	Full year 2015	Q1 2016	Q1 2015	Full year 2015
Related companies[1]	355	131	1,032	−225	−203	−934
Associated companies and joint ventures[2]	443	438	1,588	−575	−484	−1,785

	Receivables from			Payables to		
	Q1 2016	Q1 2015	Full year 2015	Q1 2016	Q1 2015	Full year 2015
Related companies[1]	3,838	1,749	4,213	−4,273	−1,643	−4,377
Associated companies and joint ventures[2]	46	122	24	−116	−86	−149

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

(2) Associated companies and joint ventures 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.

INDEPENDENT AUDITOR'S REPORT

Volvo Car AB
Board of directors
C/o Volvo Personvagnar AB
Assar Gabrielssons väg
405 31 Göteborg

Corporate identity number 556810-8988

Report on the consolidated accounts

We have audited the consolidated accounts of Volvo Car AB and its subsidiaries, which comprise the statement of financial position as at December 31, 2015 and financial position as at December 31, 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the years then ended, and notes to the financial statements, including accounting policies.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as the Board of Directors and the Managing Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated accounts present fairly, in all material respects, the financial position of the group as of 31 December 2015 and 31 December 2014 and of its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Gothenburg, May 6, 2016

Deloitte AB

Jan Nilsson

Authorized Public Accountant

CONSOLIDATED INCOME STATEMENTS

MSEK	Note	2015	Restated 2014
Net revenue	3	164,043	137,590
Cost of sales	4	−128,238	−114,019
Gross income		**35,805**	**23,571**
Research and development expenses	4, 16	−8,803	−7,193
Selling expenses	4	−10,951	−8,708
Administrative expenses	4, 6	—7,234	—5,943
Other operating income	7	2,005	1,745
Other operating expenses	7	−4,432	−1,535
Share of income in joint ventures and associates	14	230	191
Operating income	5, 8, 9, 10, 11	**6,620**	**2,128**
Financial income	12	238	342
Financial expenses	13	−1,469	−1,315
Income before tax		5,389	1,155
Income tax	15	−913	−647
Net income		**4,476**	**508**
Net income attributable to			
Owners of the parent company		3,130	540
Non-controlling interest*		1,346	−32
		4,476	**508**

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

CONSOLIDATED COMPREHENSIVE INCOME

MSEK	Note	2015	Restated 2014
Net income for the year		4,476	508
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to income statement:			
Remeasurements of provisions for post-employment benefits		1,321	−1,641
Items that may be reclassified subsequently to income statement:			
Translation difference on foreign operations		−175	874
Translation difference of hedge instruments of net investments in foreign operations		100	−192
Change in cash flow hedge	23	1,617	−893
Other comprehensive income, net of income tax		**2,863**	**−1,852**
Total comprehensive income for the year		**7,339**	**−1,344**
Total comprehensive income attributable to			
Owners of the parent company		6,005	−1,412
Non-controlling interest		1,334	68
		7,339	**−1,344**

CONSOLIDATED BALANCE SHEETS

MSEK	Note	Dec 31, 2015	Restated Dec 31, 2014	Restated Jan 1, 2014
ASSETS				
Non-current assets				
Intangible assets	16	22,834	20,649	17,813
Property, plant and equipment	8, 17	37,428	36,122	28,464
Assets held under operating leases	8, 17	2,172	1,942	1,890
Investments in joint ventures and associates	14	701	612	645
Other long-term securities holdings		15	13	10
Deferred tax assets	15	3,841	3,107	2,599
Other non-current assets	18	1,326	11,656	1,077
Total non-current assets		**68,317**	**74,101**	**52,498**
Current assets				
Inventories	19	20,306	17,724	14,969
Accounts receivable	5, 20	8,859	7,674	4,954
Current tax assets		307	355	97
Other current assets	20	5,393	5,332	3,390
Marketable securities	22	3,512	1,047	88
Cash and cash equivalents	22	25,623	17,002	17,533
Total current assets		**64,000**	**49,134**	**41,031**
TOTAL ASSETS		**132,317**	**123,235**	**93,529**
EQUITY & LIABILITIES				
Equity	23			
Equity attributable to owners of the parent company		32,550	32,804	24,601
Non-controlling interest		2,085	1,464	562
Total equity		**34,635**	**34,268**	**25,163**
Non-current liabilities				
Provisions for post-employment benefits	24	4,701	6,186	3,641
Deferred tax liabilities	15	1,768	3,337	1,759
Other non-current provisions	25	5,909	5,857	5,465
Liabilities to credit institutions	26	15,168	17,345	12,593
Liabilities to parent company		—	1,143	1,663
Other non-current liabilities	26	2,927	1,601	1,212
Total non-current liabilities		**30,473**	**35,469**	**26,333**
Current liabilities				
Current provisions	25	12,456	10,484	8,274
Liabilities to credit institutions	26	6,246	1,560	1,976
Advance payments from customers		534	379	330
Trade payables		26,282	18,563	14,336
Current tax liabilities		446	627	658
Liabilities to parent company		—	1,651	746
Other current liabilities	27	21,245	20,234	15,713
Total current liabilities		**67,209**	**53,498**	**42,033**
TOTAL EQUITY & LIABILITIES		**132,317**	**123,235**	**93,529**

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 interest	Total
Balance at January 1, 2014 (as previously reported)	**—**	**6,509**	**3,199**	**-838**	**147**	**15,621**	**24,638**	**—**	**24,638**
Effect of business combinations under common control within the Geely group	—	—	—	—	—	477	477	562	1,039
Effect of previous equity accounting of acquired joint ventures	—	—	—	—	—	−514	−514	—	−514
Balance at January 1, 2014 (change of comparative figures)	**—**	**6,509**	**3,199**	**−838**	**147**	**15,584**	**24,601**	**562**	**25,163**
Net income for the year	**—**	**—**	**—**	**—**	**—**	**540**	**540**	**−32**	**508**
Other comprehensive income									
Remeasurements of provision for post-employment benefits	—	—	—	—	—	−2,172	−2,172	—	−2,172
Translation difference on foreign operations	—	—	—	774	—	—	774	100	874
Translation difference of hedge instruments of net investments in foreign operations	—	—	—	−246	—	—	−246	—	246
Change in cash flow hedge, recognised in other comprehensive income	—	—	—	—	−1,144	—	−1,144	—	−1,144
Tax attributable to items recognised in other comprehensive income	—	—	—	54	251	531	836	—	836
Other comprehensive income	**—**	**—**	**—**	**582**	**−893**	**−1,641**	**−1,952**	**100**	**−1,852**
Total comprehensive income	**—**	**—**	**—**	**582**	**−893**	**−1,101**	**−1,412**	**68**	**−1,344**
Transactions with owners									
Group Contributions[3]	—	—	8,808	—	—	—	8,808	—	8,808
Unconditional shareholders' contribution	—	—	802	—	—	—	802	753	1,555
Effect of previous equity accounting of acquired joint venture	—	—	—	—	—	−49	−49	—	−49
Effect of business combinations under common control within the Geely group			—	—	—	81	81	81	162
Other changes	—	—	—	—	—	−27	−27	—	−27
Transactions with owners	**—**	**—**	**9,610**	**—**	**—**	**5**	**9,615**	**834**	**10,449**
Balance at December 31, 2014	**—**	**6,509**	**12,809**	**−256**	**−746**	**14,488**	**32,804**	**1,464**	**34,268**
Net income for the year	**—**	**—**	**—**	**—**	**—**	**3,130**	**3,130**	**1,346**	**4,476**
Other comprehensive income									
Remeasurements of provision for post-employment benefits	—	—	—	—	—	1,705	1,705	—	1,705
Translation difference on foreign operations	—	—	—	−163	—	—	−163	−12	−175
Translation difference of hedge instruments of net investments in foreign operations	—	—	—	128	—	—	128	—	128
Change in cash flow hedge, recognised in other comprehensive income	—	—	—	—	2,073	—	2,073	—	2,073
Tax attributable to items recognised in other comprehensive income	—	—	—	−28	−456	−384	−868	—	−868
Other comprehensive income	**—**	**—**	**—**	**−63**	**1,617**	**1,321**	**2,875**	**−12**	**2,863**
Total comprehensive income	**—**	**—**	**—**	**−63**	**1,617**	**4,451**	**6,005**	**1,334**	**7,339**
Transactions with owners									
Group Contributions[3]	—	—	−8,767	—	—	—	−8,767	—	−8,767
Unconditional shareholders' contribution	—	—	3,992	—	—	—	3,992	—	3,992
Capital transaction under common control	—	—	—	—	—	−1,484	−1,484	−713	−2,197
Transactions with owners	**—**	**—**	**−4,775**	**—**	**—**	**−1,484**	**−6,259**	**−713**	**−6,972**
Balance at December 31, 2015	**—**	**6,509**	**8,034**	**−319**	**871**	**17,455**	**32,550**	**2,085**	**34,635**

(1) Share capital amounts to SEK 100,000.

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

(3) Group contribution before tax amounted to MSEK −11,240 (11,293)

CONSOLIDATED STATEMENT OF CASH FLOWS

MSEK	Note	2015	Restated 2014
OPERATING ACTIVITIES			
Operating income		6,620	2,128
Depreciation and amortisation of non-current assets	10	9,399	7,363
Interest and similar items received		141	149
Interest and similar items paid		−1,022	−875
Other financial items		−176	−40
Income tax paid		−1,645	−1,293
Adjustments for items not affecting cash flow	30	−235	−552
		13,082	**6,880**
Movements in working capital			
Change in inventories		−1,742	−2,272
Change in accounts receivable		−994	−2,720
Change in accounts payable		7,658	4,227
Change in items relating to repurchase commitments		29	−193
Change in provisions		1,979	2,507
Change in other working capital assets/liabilities		2,564	410
Cash flow from movements in working capital		9,494	1,959
Cash flow from operating activities		**22,576**	**8,839**
INVESTING ACTIVITIES			
Investments in shares and participations	14, 31, 32	−2,213	275
Investments in intangible assets		−4,715	−5,234
Investments in property, plant and equipment		−8,677	−8,646
Disposal of property, plant and equipment		263	—
Cash flow from investing activities		**−15,342**	**−13,605**
Cash flow from operating and investing activities		7,234	−4,766
FINANCING ACTIVITIES			
Proceeds from credit institutions	26	5,935	7,270
Repayment of liabilities to credit institutions	26	−6,626	−5,101
Received shareholders' contribution	23	3,992	1,555
Investments in marketable securities, net[1]	22	−2,488	−978
Other	30	632	895
Cash flow from financing activities		**1,445**	**3,641**
Cash flow for the year		8,679	−1,125
Cash and cash equivalents at beginning of year	22	**17,002**	**17,533**
Exchange difference on cash and cash equivalents		−58	594
Cash and cash equivalents at end of year		**25,623**	**17,002**

(1) Investments in marketable securities, net, has been reclassified from investing activities to financing activities, along with comparative figures for 2014. These investments are an integrated part of the cash management program in the group, included in the groups financing activities. This reclassification has no impact on the net cash for the year.

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

The Board of Directors approved, through delegation, these consolidated financial statements on May 6, 2016.

Basis of preparation

The financial statements of Volvo Car AB and its subsidiaries (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. The 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 new accounting standards the application follows the rules in each particular standard. For information on new standards, see the section 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 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. 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 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, which is also the time when goodwill is calculated. 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

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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

On June 25 2015, Volvo Car Group 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 gained the power to control these entities. Those entities are therefore classified as subsidiaries within Volvo Car Group and thus fully consolidated.

These acquisitions are common control transactions. Common control transactions are not explicitly regulated under IFRS and therefore the company needs to apply a principle which 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. See further in Note 32—Business combinations under common control, and Note 34—Restatement.

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 postacquisition 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 or made payments on behalf of the associate or joint venture.

All amounts are in MSEK unless otherwise stated.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

Foreign currency

Translation of foreign group entities

The primary economic environment is the one in which the 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 AB's presentation currency is SEK.

In preparing the consolidated financial statements, items in the income statements of foreign subsidiaries (except for subsidiaries in hyperinflationary economies) are translated to SEK using monthly average exchange rates. 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 qualifying cash flow hedges and 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

		Average rate		Close rate	
Country	**Currency**	**2015**	**2014**	**2015**	**2014**
China	CNY	1.34	1.11	1.29	1.26
Euro zone	EUR	9.35	9.08	9.17	9.48
Great Britain	GBP	12.85	11.24	12.43	12.11
United States	USD	8.39	6.81	8.40	7.79
Russia	RUB	0.14	0.18	0.11	0.14

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 new regional organization implemented during 2015 are not considered to constitute reporting segments. The main purpose of the regions is to clarify the responsibility for the regional market earnings as a whole, and mainly from a sales perspective with an increased focus on sales with more direct involvement from Group Management. All 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 33—Segment reporting.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

Accounting principles

Revenue recognition

Volvo Car Group's recognised net revenue mainly consists of sales of goods and services. Net 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 has 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.

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. Principles related to repurchase obligations are further explained in the section Revenue recognition above.

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 arised on a straight-line basis over the lease contract period.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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-related 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.

Group contributions and unconditional shareholders' contributions

Distributed group contributions to 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.

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

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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.

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, other than research and development expenses (see paragraph below), are recognised at acquisition cost, less accumulated amortisation 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 an R&D 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 intangi- ble 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

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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 R&D expenses. These R&D expenses are considered to have a future benefit for the Volvo Car Group and are therefore not classified differently from other R&D spending. 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 use-ful 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 cashflows 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

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

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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 (whereof frames 50 years)	14.5–50 years
Land improvements	30 years
Machinery	8–30 years
Equipment	3–20 years

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 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 one cash-generating unit (CGU).

When an indication 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.

Classification of financial assets and liabilities

The Group classifies its financial assets and liabilites in the following categories:

- Financial assets & liabilities carried at fair value through profit and loss.
- Other financial liabilities, loans & receivables.
- Held to maturity investments. Currently there are no such assets within Volvo Car Group.
- Available-for-sale assets. Currently there are no such assets within Volvo Car Group.

Classification takes place at initial recognition.

Financial assets in the consolidated balance sheet encompass interest-bearing investments (marketable securities), trade 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, trade payables and derivative liabilities.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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 is recognised.

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.

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.

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 liabilities are initially recognised at fair value.

Financial assets and liabilites 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 and marketable securities.

A financial asset is assigned to this category if it is held for trading. Derivative instruments with a positive market value are assigned to this category. Changes in fair value of these instruments are recognised in the income statement, or in consolidated comprehensive income if the purpose of the instrument is to hedge future cash flows. Based on the purpose of the contract, changes in fair value are reported either under operating income/expense or as financial income/expense. Derivatives with positive fair values (unrealised gains) are recognised as other current, or non-current assets.

Derivative instruments with a negative fair value are also assigned to this category. Changes in the fair values of these instruments are recognised in the income statement, or in consolidated comprehensive income if the purpose of the instrument is to hedge future cash flows. Based on the purpose of the contract, changes in fair value are reported either under operating income/expense or as financial income/expense. 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, 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.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

Other financial liabilities, loans & receivables

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

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, for example accounts receivable and loan receivables, are assigned to this category. Cash and cash equivalents are also assigned to this category. Loans and receivables are carried at amortised cost, except for accounts receivable that have a short duration and are therefore valued at nominal value without discounting to net present value. The nominal value for these short term items will reflect the fair value.

Other financial liabilites, loans & receivables are 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.

Hedge accounting

In applying hedge accounting, derivatives are initially recognised at fair value at trade date and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. 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.

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 of fixed-rate debt (loans or issued bonds) 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 in accordance with policy. 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 liability 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

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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. As of December 31, 2015, the Group has not entered into a fair value hedge.

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 under other comprehensive income. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is 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. A cash flow hedge is a hedge held to reduce the risk of an impact on the income statement from foreign exchange changes in cash flow relating to a future transaction. 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. Amounts that have been recognised in the other reserves in equity are recognised in the income statement in the same period as the payment flows reach the income statement. 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. Furthermore, 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.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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 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. Those 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 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 other 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 current 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.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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 has been 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 Volvo Car Corporation. Consequently Volvo Car Corporation has during the year issued warrants. This incentive program has been considered as a cash-settled program. During the duration of the program the participants at certain predetermined periods 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 exist 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 pretax 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 policy and disclosures

New accounting policies for 2015

There are no new accounting principles and interpretations that came into effect as of January 1, 2015 that significantly effect the Volvo Car Group's financial statements.

New accounting policies for 2016 and later

When preparing the consolidated financial statements as of December 31, 2015, a number of standards, interpretations and amendments have been published, but have not yet become effective.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

IFRS 9—Financial instruments

IFRS 9 is divided into three parts: Classification and Measurement, Impairment and Hedge Accounting, and will replace the current IAS 39. IFRS 9 establishes three primary measurement categories for financial assets: amortised cost, fair value through Other comprehensive income and fair value through the profit and loss statement. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. 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 the income statement. 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. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

IFRS 15—Revenue from contracts with customers

IFRS 15 represents a new framework for recognising revenue with additional disclosure requirements. The framework establish principles about the nature, amount, timing and uncertainty of revenue and cash flow arising from an entity's contracts with customers. 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 will replace current IAS 11 Construction contracts and IAS 18 Revenue. The Volvo Car Group is assessing the impact of the IFRS 15 and monitors any statements from the IASB and FASB Joint transition resource group for revenue recognition. The mandatory effective date is January 1, 2018, with earlier application permitted.

IFRS 9 and IFRS 15 have not been adopted by the EU when this Annual Report was published. Other new or revised accounting standards are not considered to have a material impact on the Volvo Car Group's financial statements.

Subsequent to 31 December 2015, IFRS 16 Leases was published. It replaces current leasing accounting standard, IAS 17 Leases. The new standard provides guidance for lessee accounting. IFRS 16 gives guidance on how to bring lease commitments, previously treated off balance, onto the balance sheet. Volvo Car Group is yet to assess the impact of IFRS 16.

There are no other IFRS standards or interpretations not yet effective that would be 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. The estimates are based on historical experience and assumptions that are deemed reasonable and realistic in the circumstances. The results of these estimations and assessments are then 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.

NOTE 2—CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Residual value guarantees and repurchase agreements

In the course of its operations, Volvo Car Group is exposed to residual value risks partly through sales combined with repurchase agreements and partly through sales to external rental companies 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 remains with the Group. In cases where significant risks pertaining to vehicles remain with Volvo Car Group, which may be the the case when the sale of vehicles is combined with a repurchase agreement (the right 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.

When the Group has entered into a repurchase agreement in relation to a vehicle sale, there may be a question of judgement regarding whether or not significant risks and rewards of ownership have been transferred to the customer. If the previous assessment of retained risk by Volvo Car Group is proven to be incorrect and it is instead determined that significant risks are retained by the Group, revenue in the coming period will decline and instead be distributed over several reporting periods. 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, 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 negative 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 con sideration 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 noncurrent assets

The Volvo Car Group has substantial values reported in the balance sheet as intangible as well as tangible non-current assets. Tangible assets as well as 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

NOTE 2—CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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 conduction 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. Every change in these assumptions affects the calculated value of the post-employee benefits obligations. The discount rate, which is the most critical assumption, is based on market return on high-quality corporate and government bonds that are denominated in the currency in which the benefits will be paid and with maturities corresponding to the related pension liability. 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.

Warranty

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. 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 Volvo Car Group are involved in legal proceedings covering 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

All amounts are in MSEK unless otherwise stated.

NOTE 2—CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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. Refer to 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.

NOTE 3—NET REVENUE

The Net revenue allocated to geographical regions:	2015	2014
China	29,060	26,515
US	25,839	14,205
Sweden	22,997	19,746
Western Europe[(1)]	60,141	53,761
of which Germany	*10,824*	*9,141*
of which United Kingdom	*12,200*	*9,736*
Other markets	26,006	23,363
of which Russia	*2,557*	*4,398*
of which Japan	*3,897*	*3,312*
Total	**164,043**	**137,590**

(1) Norway, Denmark, Finland, Netherlands, Belgium, France, Spain, Italy, Germany, Switzerland, Austria, Ireland, UK, Greece and Portugal.

For each significant category of revenue, see additional information in the Board of Directors report.

NOTE 4—EXPENSES BY NATURE

	2015	2014
Material cost incl. freight and distribution	−105,775	−94,105
Warranty expenditure	−2,812	−2,166
Personnel	−21,537	−19,753
Amortisation/depreciation	−9,399	−7,363
Other	−15,703	−11,910
Total	**−155,226**	**−135,297**

Capitalised product development costs has reduced the amounts presented as personnel and other.

NOTE 5—RELATED PARTIES

During the year, Group companies entered into the following trading transactions with related parties that are not consolidated in the Volvo Car Group:

	Sales of goods, services and other		Purchases of goods, services and other	
	2015	2014	2015	2 014
Related companies[1]	1,032	728	−934	−499
Joint ventures and associated companies[2]	1,588	1,699	−1,785	−1,252

	Receivables from		Payables to	
	2015	2014	2015	2014
Related companies[1]	4,213	1,950	−4,377	−502
Joint ventures and associated companies[2]	24	30	−149	−71

(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.

Significant related party transactions

On June 25, Volvo Car Group took a further step in executing its strategy to expand in the Chinese market by acquiring an additional 20 per cent in the Chinese 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 from the parent company Shanghai Geely Zhaoyuan International Investment Co., Ltd.

After the acquisition, Volvo Car Group now holds 50 per cent in these joint venture companies. In the consolidated financial statements, these joint venture companies are now classified as subsidiaries and fully consolidated with a minority interest of 50 per cent. See Note 32—Business combinations under common control for further information.

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 of MSEK 104 (36).

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 Cars is working closely with Geely through its wholly owned subsidiary China—Euro Vehicle Technolgoy AB (CEVT), which is a Gothenburg-based subsidiary of Ningbo Geely Automotive Research & Development Co., Ltd regarding for example the next-generation C-segment vehicle platform called CMA. 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 of MSEK 188 (407), other income of MSEK 324 (170) and capitalised intangible assets of MSEK 493 (435).

During 2015, Volvo Car Corporation has received an unconditional shareholders' contribution from Shanghai Geely Zhaoyuan International Investment Co., Ltd. Further group contributions to Geely Sweden Holdings AB in the amount of MSEK −11,240 (11,293) before tax, has been decided

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.

All amounts are in MSEK unless otherwise stated.

NOTE 6—AUDIT FEES

	2015	2014
Deloitte		
Audit fees	−27	−25
Audit-related fees	−2	−4
Tax services	−1	−1
Other services	−14	−8
Total	**−44**	**−38**

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.

NOTE 7—OTHER OPERATING INCOME AND EXPENSES

	2015	2014
Other operating income		
Licences	699	613
Sold services	770	566
Other	536	566
Total	**2,005**	**1,745**

	2015	2014
Other operating expenses		
Amortisation and depreciation of intangible and tangible assets	−31	−25
Foreign exchange loss	−2,592	−486
Royalty	−465	−264
Restructuring costs	−3	−111
Property tax	−116	−106
Other	−1,225	−543
Total	**−4,432**	**−1,535**

For further information, see Note 5—Related parties. For information regarding the treatment of ineffective hedge contracts, see Note 21—Financial risks and financial instruments.

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—Other non-current liabilities. The repurchase obligation is considered to be a financial liability and is presented as

All amounts are in MSEK unless otherwise stated.

NOTE 8—LEASING (Continued)

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	2015	2014
No later than 1 year	777	473
Later than 1 year and no later than 5 years	533	357
Later than 5 years	—	—
Total	**1,310**	**830**

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	2015	2014
Minimum lease payments	−1,101	−1,055
Contingent rents	−70	−62
Less subleases	15	30
Total	**−1,156**	**−1,087**

Operating lease commitments per Dec 31, 2015	Minimum lease payments	Less subleases	Total	Present value of operating lease commitments less subleases
No later than 1 year	946	14	932	912
Later than 1 year and no later than 5 years	1,880	60	1,820	1,620
Later than 5 years	1,692	181	1,511	1,068
Total	**4,518**	**255**	**4,263**	**3,600**

All amounts are in MSEK unless otherwise stated.

NOTE 8—LEASING (Continued)

Finance lease contracts

Volvo Car Group holds finance lease contracts for production equipment and 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, 2014	87	1,675
Reclassification	—	−1,673
Additions	—	7
Effect of foreign currency exchange differences	7	—
Balance at December 31, 2014	**94**	**9**
Effect of foreign currency exchange differences	−3	—
Balance at December 31, 2015	**91**	**9**
Accumulated depreciation		
Balance at January 1, 2014	−48	−1,546
Reclassification	—	1,544
Depreciation expense	−9	—
Effect of foreign currency exchange differences	−3	—
Balance at December 31, 2014	**−60**	**−2**
Depreciation expense	−8	—
Effect of foreign currency exchange differences	2	—
Balance at December 31, 2015	**−66**	**−2**
Net balance at December 31, 2014	**34**	**7**
Net balance at December 31, 2015	**25**	**7**

Gross finance lease liabilities—minimum lease payments	Dec 31, 2015	Dec 31, 2014
No later than 1 year	10	10
Later than 1 year and no later than 5 years	63	95
Later than 5 years	3	4
Total	**76**	**109**
Future finance charges on finance leases	−2	−3
Present value of finance lease liabilities	**74**	**106**

The present value of finance lease liabilities is as follows:

Gross finance lease liabilities—minimum lease payments	Dec 31, 2015	Dec 31, 2014
No later than 1 year	10	9
Later than 1 year and no later than 5 years	61	93
Later than 5 years	3	4
Total	**74**	**106**

All amounts are in MSEK unless otherwise stated.

NOTE 8—LEASING (Continued)

The finance lease liabilities are included in the financial statement as:	Dec 31, 2015	Dec 31, 2014
Other non-current liabilities (Note 26), non current	65	98
Other non-current liabilities (Note 26), current portion of liabilites to credit institutions	9	8
Total	**74**	**106**

NOTE 9—EMPLOYEES AND REMUNERATION

Average number of employees by region:	2015	Of whom women	2014	Of whom women
Sweden	17,496	24%	16,022	22%
Nordic countries other than Sweden	318	29%	333	29%
Belgium	4,668	13%	4,685	14%
Europe other than the Nordic countries and Belgium	843	39%	1,056	39%
North and South America	391	25%	414	23%
China	3,873	35%	2,867	18%
Asia other than China	343	33%	627	35%
Other countries	187	35%	97	35%
Total	**28,119**	**24%**	**26,101**	**21%**

Number of Board members and senior executives[1]	Dec 31, 2015	Of whom women	Dec 31, 2014	Of whom women
	Board members (Chief Executive Officers and senior executives)		Board members (Chief Executive Officers and senior executives)	
Parent company	10	30%	4	(0)%
	85	14%	84	20%
Subsidiaries	(209)	(22)%	(217)	(20)%
	95	**16%**	**88**	**20%**
Total	**(209)**	**(22)%**	**(217)**	**(20)%**

Salaries and other remunerations, total	2015		2014	
	Wages and salaries, other remunerations	Social security expenses (of which pension expenses)	Wages and salaries, other remunerations	Social security expenses (of which pension expenses)
Parent company	—	—(—)	—	—(—)
Subsidiaries	13,479	5,507	12,041	4,686
		(2,662)		(2,073)
	13,479	**5,507**	**12,041**	**4,686**
Total		**(2,662)**		**(2,073)**

NOTE 9—EMPLOYEES AND REMUNERATION (Continued)

Salaries and other remuneration to the Board(2), CEO, Executive management team (EMT)(3) and other employees	2015 Wages and salaries, other remunerations (of which variable salaries)	2015 Social security expenses (of which pension expenses)	2014 Wages and salaries, other remunerations (of which variable salaries)	2014 Social security expenses (of which pension expenses)
Board, Chief Executive	260	105	214	96
Officers and EMT	(82)	(29)	(54)	(29)
Other	13,219	5,402	11,827	4,590
Employees		(2,633)		(2,044)
	13,479	**5,507**	**12,041**	**4,686**
Total	**(82)**	**(2 662)**	**(54)**	**(2,073)**

(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 13 (11) members. For further information regarding EMT, see Board of Directors' report.

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 Board of Directors are determined at the Annual General Meeting.

At the Annual General Meeting 2015 it was decided that Board members elected at the meeting who are employed or otherwise remunerated by Volvo Car Group or the Geely Holding Group shall not be entitled to any remuneration. The other board members 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. The remuneration paid to the individual Board members during 2015 is specified below:

TSEK	2015
Li Shufu, Chairman	—
Li Donghui	—
Carl-Peter Forster	—
Peter Zhang	—
Winnie Fok	706
Mikael Ohlsson	821
Lone Fønss Schrøder	763
Thomas Johnstone	687
Hans-Olov Olsson (until October 2015)	2,419
Herbert Demel (until March 2015)	163
Total	**5,559**

Terms of employment and remuneration to the CEO

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

NOTE 9—EMPLOYEES AND REMUNERATION (Continued)

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 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, STVP, LTVP and other benefits such as company car and insurance. In order to retain critical competences and deliveries within Volvo Car Group, some of the members of EMT has an additional variable salary. This variable salary is based on fulfilment of the member of EMT's yearly individual objectives and can vary from the target of 25 per cent up to maximum 50 per cent of the annual salary.

The notice period for a member of EMT is maximum 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 2015, 1 (0) one member of EMT left the Volvo Car Group. Remunerations paid during notice period amounted in 2015 to MSEK 2 (0), excluding social expenses.

Members of EMT employed in Sweden are covered by the ITP plan and, where applicable, a supplementary pension plan—Volvo Management Pensionplan (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 72 (69).

Incentive programmes

Volvo Car Group has three global incentive programmes. Short Term Variable Pay (STVP) and Volvo Bonus are short term incentive programmes where the STVP-program includes EMT and other senior managers and the Volvo Bonus-program 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 programmes are subject to the Board of Directors' annual approval.

Short term variable pay and Volvo Bonus

The purpose of the short term incentive programmes are 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 in order to reach the long term corporate objectives. The qualifier for all short term plans is that the profit target (EBIT) is reached. For maximum pay-out there are also a number of other financial thresholds that should be reached. The short term incentives are based on a fixed target amount or as a percent of annual base salary, depending on in which Group company you are employed. The remuneration is paid in cash. The cost for the STVP and Volvo Bonus programmes amounted to MSEK 428 (693) including social security cost, of which MSEK 32 (28) 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-programme is based on calculated market value of Volvo Car Group during three years.

NOTE 9—EMPLOYEES AND REMUNERATION (Continued)

As Volvo Car Group is not listed, no official market values 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. 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. The LTVP will be calculated based on 30% 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 synthetic value of the company on January 1, three years later. The program is capped to a maximum of 200% 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-programme amounted to MSEK 236 (166) including social security cost, of which MSEK 42 (27) relates to EMT. The total liability amounted to MSEK 275 (276) as of December 31, 2015.

Share-based incentive program

The Group's subsidiary Volvo Car Corporation has during the year issued 1,359 warrants with the right to subscribe for shares in the Company, which the Investor has 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 are 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 per warrant has been determined to SEK 47 406.
- The duration for the warrants have been determined to 6 years.
- The volatility has been determined as 30%.
- Assessed risk free interest rate has been determined to 0.52%.

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.

NOTE 9—EMPLOYEES AND REMUNERATION (Continued)

As the participants have been offered to purchase the warrants at fair market value based on all material conditions of 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 year	0	0
Issued during the year	1,359	64,425
Used/redeemed	—	—
Overdue	—	—
Change in valuation	—	—
At the end of the year	**1,359**	**64,425**

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	782
Total	**1,359**

Other long-term benefits

Apart from the compensation accounted for under Incentive programmes, Group management do not have any other long-term benefit.

NOTE 10—DEPRECIATION AND AMORTISATION

Operating income includes depreciation and amortisation as specified below:	2015	2014
Software	−264	−268
Capitalised product development cost	−2,263	−1,374
Other intangible assets	−1,245	−1,135
Buildings and land improvements	−535	−513
subsidiary Machinery & equipment Volvo Car Corporation has during the year	−4,755	−3,812
Assets under operating leases	−337	−261
Total	**−9,399**	**−7,363**

Depreciation and amortisation according to plan by function:	2015	2014
Cost of sales[(1)]	−5,340	−4,101
Research and development expenses	−3,619	−2,776
Selling expenses	−113	−80
Administrative expenses	−296	−380
Other income and expense	−31	−25
Total	**−9,399**	**−7,363**

(1) Of which impairment loss MSEK—(2).

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 2015, the government grants received amounted to MSEK 200 (121) and the government grants realised in the income statement amounted to MSEK 188 (135). Non-monetary government grants have been received in China 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

	2015	2014
Net foreign exchange gain on financing activities	97	194
Interest income on bank deposits	141	148
Total	**238**	**342**

NOTE 13—FINANCIAL EXPENSES

	2015	2014
Interest effect from the measurement of repurchase obligations	−170	−186
Interest expenses related to provision for post-employment benefits	−165	−127
Expenses for credit facilities	−100	−108
Interest expenses to related companies	−53	−123
Other interest expenses	−900	−589
Other financial expenses	−81	−182
Total	**−1,469**	**−1,315**

NOTE 14—INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	2015	2014
Share of income in joint ventures	212	144
Share of income in associates	18	47
Total	**230**	**191**

Share of income in joint ventures and associates is specified below:	2015	2014
V2 Plug-In Hybrid Vehicle Partnership HB(1)	212	144
Volvofinans Bank AB(2)	28	27
Other companies	−10	20
Total	**230**	**191**

Investments in joint ventures and associates	Dec 31, 2015	Dec 31, 2014
At beginning of the year/acquired acquisition value	612	645
Share of net income	230	191
Investment in VCFS Germany GmbH(4)	0	—
Investment in VH Systems AB(3)	—	18
Capital contribution VH Systems AB	—	18
Capital repayment V2 Plug-In Hybrid Vehicle Partnership HB(1)	−115	−176
Dividends	−26	−22
Reclassification from previous year(1)	—	−62
Total	**701**	**612**

NOTE 14—INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (Continued)

Volvo Car Group's carrying amount on investments in joint ventures and associates:	Corp. ID no.	Country of incorporation	% interest held	Dec 31, 2015	Dec 31, 2014
Joint ventures					
Volvo Trademark Holding AB	556567-0428	Sweden	50	5	5
V2 Plug-In Hybrid Vehicle Partnership HB[(1)]	969741-9175	Sweden	50	230	134
VH Systems AB[(3)]	556820-9455	Sweden	50	37	36
VCFS Germany GmbH[(4)]	HRB 85091	Germany	50	0	—
Associated companies					
First Rent a Car AB	556434-7820	Sweden	45	55	66
VCC Tjänstebilar KB	969673-1950	Sweden	37	2	2
VCC Försäljnings KB	969712-0153	Sweden	37	1	1
Volvohandelns PV-Försäljnings KB	916839-7009	Sweden	37	13	11
Volvohandelns PV-Försäljnings AB	556430-4748	Sweden	36	10	10
Volvo Event Management Corporation	444517742	Belgium	33	1	1
Göteborgs Tekniska College AB	556570-6768	Sweden	26	3	4
Volvofinans Bank AB[(2)]	556069-0967	Sweden	10	344	342
Carrying amount, participation in joint ventures and associates				**701**	**612**

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 these 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 Cars PHEV Holding AB and 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 2015, V2 Plug-In Hybrid Vehicle Partnership HB provided a repayment of MSEK 115 (176) to Volvo Cars PHEV Holding AB.

(2) Volvo Car Group holds 10 per cent of the equity shares of Volvofinans Bank AB and due to significant volume transactions and board representation, Volvo Car Group exercises significant influence on the operations which qualifies for the use of the equity method. In December 2015, Volvo Cars made an agreement with the Sixth AP Fund to acquire an additional 40 per cent of the shares in Volvofinans Bank AB, thus increasing its ownership from 10 to 50 per cent. The transaction will be carried out as soon as the required regulatory approvals have been obtained after which Volvo Car Group will have a 50 per cent shareholding in Volvofinans Bank AB and thereby have joint control with Volverkinvest AB. The investment will therefore con- tinuously be reported in accordance with the equity method.

(3) VH System AB is joint venture between Volvo Cars subsidiary Volvo Car Sverige AB and Volvohandlarföreningen Ekonomiska förening. The purpose is to formalise a future strategy for the commonly owned Dealer Management Systems developed and maintained by the Volvo Car Sverige AB's subsidiary Volvo Car Retail Solutions AB. VH System AB is reported in accordance with the equity method since none of the holding companies has the decision-making power over the operation. In September 2014, VH System AB received an unconditional shareholder's contribution of MSEK 18 from Volvo Car Sverige AB.

(4) In July 2015, the joint venture company VCFS Germany GmbH was established between Volvo Car Corporation and Santander Consumer Bank AG. The purpose of the company is to provide financial services in the German market and improve dealer and customer satisfaction. VCFS Germany GmbH is reported in accordance with the equity method since none of the holding companies has the decision-making power over the operation.

NOTE 14—INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (Continued)

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

	V2 Plug-In Hybrid Vehicle Partnership HB(1)		Volvofinans Bank AB(2)(6)	
Summarised balance sheets	**2015**	**2014**	**2015**	**2014**
Percentage voting/ownership	50	50	10	10
Non-current assets	350	423	26,881	24,873
Cash and cash equivalents	120	44	1,613	1,785
Other current assets	219	43	2,579	2,641
Total assets	**689**	**510**	**31,073**	**29,299**
Equity(5)	612	454	3,520	3,427
Non-current liabilities(5)	52	49	25,793	24,148
Current liabilities	25	7	1,760	1,724
Total equity and liabilities	**689**	**510**	**31,073**	**29,299**

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

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

	V2 Plug-In Hybrid Vehicle Partnership HB(1)		Volvofinans Bank AB(2)	
Summarised income statements	**2015**	**2014**	**2015**	**2014**
Net sales	465	256	3,747	3,887
Profit/loss from continuing operations(7)	382	170	351	1,007
Profit (loss) for the year	**382**	**170**	**351**	**1,007**
Other comprehensive income for the year	**—**	**—**	**—**	**—**
Total comprehensive income for the year	**382**	**170**	**351**	**1,007**
Dividends received from the associates during the year	—	—	26	22

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

Reconciliation of the summarised financial information presented to the carrying amount of its interest in joint venture.

	V2 Plug-In Hybrid Vehicle Partnership HB(1)	
Reconciliation of summarised financial information	**2015**	**2014**
Net asset of the joint venture	612	454
Proportion of the Group's ownership in the joint venture	50%	50%
Adjustments for differences in accounting principles	−76	−93
Carrying amount of the Group's interest in the joint venture	**230**	**134**

All amounts are in MSEK unless otherwise stated.

NOTE 15—TAXES

Income tax recognised in income statement	2015	2014
Current income tax for the year	−1,558	−800
Current income tax for previous years	8	−31
Deferred taxes	598	300
Other taxes	39	−116
Total	**−913**	**−647**

Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate	2015	2014
Income before tax for the year	5,389	1,155
Tax according to applicable Swedish tax rate, 22%	−1,185	−254
Operating income/costs, non-taxable	−156	−36
Other taxes, non-taxable	39	−115
Effect of different tax rates	344	−84
Tax effect on deferred tax due to change of tax rate	−24	−3
Utilisation of previously unrecognised tax losses	0	−78
Revaluation of previously non-valued losses and other temporary differences	42	−72
Other	27	−5
Total	**−913**	**−647**

Income tax recognised in other comprehensive income	2015	2014
Deferred tax		
Tax effects on cash flow hedge reserve	456	−251
Tax effect of remeasurement of provisions for post employment benefits	384	−531
Tax effects on translation difference, hedge instruments of net investments in foreign operations	28	−54
Total	**868**	**−836**

Income tax recognised directly in equity	2015	2014
Deferred tax		
Tax effects on group contributions	−2,473	2,485
Total	**−2,473**	**2,485**

Specification of deferred tax assets	Dec 31, 2015	Dec 31, 2014
Goodwill arising from the purchase of the net assets of a business	48	102
Provision for employee benefits	1,070	1,361
Unutilised tax loss carry-forwards	5,625	3,094
Reserve for unrealised income in inventory	73	117
Provision for warranty	253	305
Other temporary differences	345	261
Total deferred tax assets	**7,414**	**5,240**
Netting of assets/liabilities	−3,573	−2,133
Total deferred tax assets, net	**3,841**	**3,107**

NOTE 15—TAXES (Continued)

Specification of deferred tax liabilities	Dec 31, 2015	Dec 31, 2014
Fixed assets	5,480	5,728
Other temporary differences	−139	−258
Total deferred tax liabilities	5,341	5,470
Netting of assets/liabilities	−3,573	−2,133
Total deferred tax liabillities, net	**1,768**	**3,337**

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 USA. Of the total MSEK 5,625 (3,094) recognised deferred tax assets related to tax loss carry-forwards, MSEK 4,553 (2,228) relates to Sweden with indefinite periods of utilisation. MSEK 926 (697) relates to USA where tax loss carry-forwards are expected to be utilised before expiration date. The assessement 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 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 main part of losses carried forward is related to jurisdictions where temporary differences exceed losses carried forward and where periods of utilisation are indefinite.

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, 2015	Dec 31, 2014
Net book value of deferred taxes at January 1	−230	841
Deferred tax income/expense recognised through income statement	598	300
Change in deferred taxes recognised in other comprehensive income	−868	−836
Change in deferred taxes recognised directly in equity	2,473	−2,485
Exchange rate impact	100	278
Net book value of deferred taxes at December 31	**2,073**	**−230**

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. As of December 31, 2015, the recognised tax loss carry-forwards amounted to MSEK 23,625 (12,557). The tax value of these tax loss carry-forwards is reported as

NOTE 15—TAXES (Continued)

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, 2015	Dec 31, 2014
Due date		
2016	—	—
2017	—	—
2018	—	358
2019	322	—
2020	—	—
2021–	23,304	12,199
Total	**23,626**	**12,557**

Significant tax loss carry forwards are related to countries with long or indefinite periods of utilisation. Of the total unutilised tax loss carry forwards, MSEK 0 (MSEK 0), relates to unutilised tax losses for which no deferred tax asset is recognised in the statement of financial position and it expires 2021.

NOTE 16—INTANGIBLE ASSETS

	Capitalised product development cost[(1)]	Software	Trademark and goodwill[(2)]	Other intangible assets[(3)]	Total
Acquisition cost					
Balance at January 1, 2014	9,966	3,845	3,598	8,854	26,263
Additions	4,748	370	26	541	5,685
Acquired through business combinations	—	13	—	561	574
Divestments and disposals	—	−302	—	6	−296
Effect of foreign currency exchange differences	—	−7	—	−13	−20
Balance at December 31, 2014	**14,714**	**3,919**	**3,624**	**9,949**	**32,206**
Additions	4,494	300	—	530	5,324
Acquired through business combinations	—	—	507	—	507
Divestments and disposals	—	−856	—	—	−856
Reclassifications	—	−289	—	289	—
Effect of foreign currency exchange differences	—	7	—	31	38
Balance at December 31, 2015	**19,208**	**3,081**	**4,131**	**10,799**	**37,219**
Accumulated amortisation and impairment					
Balance at January 1, 2014	−2,154	−2,461	—	−4,377	−8,992
Acquired through business combinations	—	−2	—	−65	−67
Amortisation expense	−1,374	−268	—	−1,135	−2,777
Divestments and disposals	—	305	—	−8	297
Effect of foreign currency exchange differences	—	−6	—	−12	−18
Balance at December 31, 2014	**−3.528**	**−2.432**	**—**	**−5,597**	**−11,557**
Amortisation expense	−2,263	−264	—	−1,245	−3,772
Divestments and disposals	—	839	—	−4	835
Reclassifications	—	61	—	−61	0
Effect of foreign currency exchange differences	—	104	—	5	109
Balance at December 31, 2015	**−5,791**	**−1,692**	**—**	**−6,902**	**−14,385**
Net balance at December 31, 2014	**11,186**	**1,487**	**3,624**	**4,352**	**20,649**
Net balance at December 31, 2015	**13,417**	**1,389**	**4,131**	**3,897**	**22,834**

(1) Volvo Car Group has capitalised borrowing costs related to product development of MSEK 85 (192). A capitalisation rate of 3.9% (4.6%) was used to determine the amount of borrowing costs eligible for capitalisation.

(2) Of the total Net balance at December 31 2015, Goodwill amounts to MSEK 509 (26).

(3) Other intangible assets refers to licences, dealer network, patents 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 2016–2020 and volume programs for 2021–2024 are used as a basis for the calculation. The available future volume programs are considered in the calculation for increased

NOTE 16—INTANGIBLE ASSETS (Continued)

precision. 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 and volume programs are 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.

A discount rate of 9.9 (10.8) per cent after tax, has been used. In 2015, 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. 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, 2014	12,816	62,867	2,220	2,162	80,065
Acquired through business combinations	1,216	3,964	−111	0	5,069
Additions	1,398	5,288	2,904	1,106	10,696
Divestments and disposals	−117	−2,002	601	−970	−2,488
Reclassifications	70	702	−772	—	—
Effect of foreign currency exchange differences	105	436	−35	−4	502
Balance at December 31, 2014	**15,488**	**71,255**	**4,807**	**2,294**	**93,844**
Additions	442	3,105	3,917	1,436	8,900
Divestments and disposals	−319	−3,061	0	−1,212	−4,592
Reclassifications	10	4,537	−4,547	—	0
Effect of foreign currency exchange differences	−17	−201	−53	0	−271
Balance at December 31, 2015	**15,604**	**75,635**	**4,124**	**2,518**	**97,881**
Accumulated depreciation and impairment					
Balance at January 1, 2014	−6,606	−45,644	—	−272	−52,522
Acquired through business combinations	−340	−1,917	—	—	−2,257
Depreciation expense	−513	−3,812	—	−261	−4,586
Divestments and disposals	102	1,998	—	188	2,288
Effect of foreign currency exchange differences	159	1,145	—	−7	1,297
Balance at December 31, 2014	**−7,198**	**−48,230**	**—**	**−352**	**−55,780**
Depreciation expense	−535	−4,755	—	−337	−5,627
Divestments and disposals	181	2,305	—	343	2,829
Effect of foreign currency exchange differences	61	236	—	—	297
Balance at December 31, 2015	**−7,491**	**−50,444**	**—**	**−346**	**−58,281**
Net balance at December 31, 2014	**8,290**	**23,025**	**4,807**	**1,942**	**38,064**
Net balance at December 31, 2015	**8,113**	**25,191**	**4,124**	**2,172**	**39,600**

(1) Buildings and land includes finance leases of MSEK 25 (34) and Machinery and equipment includes finance leases of MSEK 7 (7). For further information regarding finance leases, see Note 8—Leasing.

(2) Depreciation expense include impairment loss of MSEK – (2). 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) Machinery and equipment includes capitalised borrowing costs of MSEK 68 (94).

NOTE 18—OTHER NON-CURRENT ASSETS

	Dec 31, 2015	Dec 31, 2014
Receivables from related companies and group companies	—	10,799
Restricted cash	99	424
Endowment insurance for pensions	289	191
Rental deposition	44	32
Derivative assets, non-current	465	—
Other non-current assets	429	210
Total	**1,326**	**11,656**

Change in other non-current assets during the year	2015	2014
Balance at January 1	11,656	1,077
Group contribution	−10,574	10,574
Change in restricted cash	−325	−506
Change in endowment insurance for pensions	98	191
Change in derivative assets	465	—
Other changes	6	320
Balance at December 31	**1,326**	**11,656**

For further information see Note 21—Financial risks and financial instruments.

NOTE 19—INVENTORIES

	Dec 31, 2015	Dec 31, 2014
Raw materials and consumables	149	149
Products in progress	3,737	3,392
Current assets held under operating lease	4,478	3,640
Finished goods and goods in resale	11,942	10,543
Total	**20,306**	**17,724**
Of which value adjustment reserve:	−358	−221

The cost of inventories recognised as an expense and included in cost of sales amounted to MSEK 124,668 (118,755).

The cost of inventories recognised as an expense includes MSEK 46 (1) in respect of write-downs of inventory to net realisable value. Current assets held under operating lease consists of 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, 2015	Dec 31, 2014
Accounts receivable from non-group companies	4,646	5,724
Accounts receivable from related companies	4,213	1,950
VAT receivables	1,607	1,116
Prepaid expenses and accrued income	1,815	2,202
Other financial receivables	1,128	694
Other receivables[(1)]	843	1,320
Total	**14,252**	**13,006**

(1) Whereof receivables from related companies MSEK 53 (719).

Aging analysis of accounts receivable and receivables from related companies	Not due	1–30 days overdue	30–90 days overdue	>90 days overdue	Total
2015					
Accounts receivable gross	7,918	130	249	633	8,930
Provision doubtful accounts receivable	−4	0	−11	−56	−71
Accounts receivable net	**7,914**	**130**	**238**	**577**	**8,859**
2014					
Accounts receivable gross	6,304	487	144	799	7,734
Provision doubtful accounts receivable	−2	−7	−18	−33	−60
Accounts receivable net	**6,302**	**480**	**126**	**766**	**7,674**

Accounts receivable amounting to MSEK 8,859 (7,674) includes provision for doubtful accounts receivable of MSEK 71 (60). 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, 2015, the total credit loss reserves for account receivables amounted to 0.79 (0.78) 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.

Change in provision for doubtful accounts receivable is as follows:	2015	2014
Balance at January 1	60	72
Additions	21	29
Reversals	−5	−29
Write-offs	−6	−11
Translation difference	1	−1
Balance at December 31	**71**	**60**

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, interest rate risk, credit risk, commodity price risk, refinancing risk and liquidity risk.

Volvo Car Group treasury function is responsible for management and control of the financial risks, ensures that appropriate financing is in place through loans and committed credit facilities and manages the Group's liquidity. The management of financial risks is governed by Volvo Car Group 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.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

During the year, the Group treasury policy has been reviewed and amended. The time horizon for FX hedge activities has increased from twenty-four months to forty-eight months starting January 1, 2015.

Currency risk

The currency exposure arises from the production in various countries, procurement and the mix of sales currencies. Relative changes in the currency rates has a direct impact on the Volvo Car Group's operating income, 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 loans and investments (translation risk)
- assets and liabilities of foreign subsidiaries (translation risk)

Transaction exposure risk

The currency transaction exposure risk is the risk that profitability is negatively affected by changes in exchange rates. The sales to different markets in combination with purchases in different currencies determine the transaction exposure.

Sales to markets other than Sweden generate transaction exposure. For the majority of the sales Volvo Cars invoices to national sales companies are in local currencies. The total currency inflow and outflow was distributed according to below table:

	Inflow		Outflow	
	2015	2014	2015	2014
CNY	24%	31%	17%	16%
EUR	24%	24%	61%	62%
GBP	9%	9%	4%	3%
JPY	3%	3%	6%	6%
USD	20%	13%	6%	5%
Other	20%	20%	6%	8%

Transaction exposure risk management

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 flow 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 Director's decision.

Maturities of cash flow hedges (forwards and call options), nominal amounts in millions, local currency

Maturity	EUR	GBP	USD	CNY	NOK	AUD	CHF	CAD	PLN
0–6 months	825	−376	−1,037	−3,430	−815	−57	−74	−34	−64
7–12 months	215	−233	−1,064	−3,942	−375	—	−12	−9	−6
>12 months	196	−62	−1,736	−6,070	−50	—	—	—	—
Total	**1,236**	**−671**	**−3,837**	**−13,442**	**−1,240**	**−57**	**−86**	**−43**	**−70**

The average duration of the portfolio was 15 (8) months. The fair value of the outstanding derivatives as at December 31, 2015 amounted to MSEK 1,133 (−802).

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

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 dependent on the cash flow forecast, market volatility and correlations. The CFaR at year end for the cash flows in one year, excluding hedges and the Chinese industrial entities was approximately SEK 8 billion. The CFaR at year end for the Chinese industrial entities was MCNY 682. We do not hedge the Chinese industrial entities transaction exposure because of two reasons. Firstly, the only transaction exposure inherent to China is derived through the material cost base and is relatively small in the global perspective. Secondly, because of the complex regulation for financial derivatives.

A steering model with a benchmark level of CFaR is decided and a stipulated mandate to deviate from that benchmark is given to Group Treasury. The hedging strategy is proposed by Group Treasury and approved by the CEO/CFO. The hedging strategy is expressed as a strategic hedge level in terms of currency exposure expressed as CFaR. Group Treasury is given a tactical mandate to deviate from the strategic hedge level in terms of timing. The hedging strategy shall be revised at least quarterly.

Forward contracts and options are used to reduce the currency risk in expected future cash flows from sales and purchase in foreign currencies excluding the Chinese industrial entities. At year end 54 and 36 (23 and 10) per cent of the forecasted nominal cash flows in foreign currencies the coming twelve and twenty-four months respectively were hedged, measured in CFaR this is equivalent to 68 and 50 (36 and 18) per cent. CFaR has a higher percentage hedge than the nominal cash flow because it leverages the correlation between currencies. For the longer hedge period twenty-five to forty-eight months, 3 (0) per cent of the forecasted nominal cash flow is secured or 5 (0) per cent expressed in CFaR.

Hedge accounting—cash flow hedge

Hedge accounting is applied for cash flow hedging of currency risk and for net investment in foreign operations. Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting and net investment in foreign operations 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 forward foreign exchange contracts as of December 31, 2015 are recognised in the income statement in the periods when the hedged forecast transaction affects the income statement.

Based on cash flow hedging portfolio, a one per cent change in the Swedish krona (SEK) against major currencies has a net impact of MSEK 437 (170) on other comprehensive income.

The cash flow hedge reserve, included in other reserves, in shareholders' equity as at December 31, 2015 amounts to MSEK 1,118 (−955) before tax. The fluctuation from December 31, 2014 to December 31, 2015 within the hedge reserve that has had an impact on other comprehensive income in 2015 is MSEK 2,073 (−1,144) before tax. The balance of MSEK 1,118 represents the fair value of derivatives used for cash flow hedging per December 31, 2015, along with time value in options and ineffective contracts, the latter two items recorded in the income statement, which builds up the total fair value of MSEK 1,133 (−802).

The ineffectiveness in the cash flow hedges that has affected net income amounts to MSEK −183 (181), of which MSEK −2 relates to fair value of ineffective contracts in the existing portfolio per December 31,

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

2015. The ineffectiveness 2014 and 2015 were mainly related to cash flow hedges in ruble due to the uncertainty in the political and economic situation in Russia.

Fair value of derivatives for cash flow hedging	2015	2014
Hedge reserve	1,118	−955
Recognised in other comprehensive income	**1,118**	**−955**
Time value in options	17	−28
Ineffective contracts	−2	181
Recognised in other operating income and expenses	**15**	**153**
Total fair value	**1,133**	**−802**

Translation exposure risk

Translation risk in Volvo Car Group relates to the translation of net assets in foreign subsidiaries. This exposure can generate a positive or negative impact on other comprehensive income.

	CNY	EUR	GBP	AUD	USD	Other	Total
Investments in foreign operations (MSEK)	5,846	4,553	275	439	−902	1,314	11,524
Translation exposure	**5,846**	**4,553**	**275**	**439**	**−902**	**1,314**	**11,524**

A one per cent change in the Swedish krona against major currencies has a net impact of approximately MSEK 115.

Translation risk of assets and liabilities in foreign currencies related to the operations, as accounts receivable, trade payables and guarantee provisions, will generate an impact on the income statement in other operating income. All translation of assets and liabilities to credit institutions and intercompany loans and deposits are reflected in the financial income and expenses.

Translation exposure risk management

The translation risk is primarily covered by matching the currency composition of debt with the composition of assets.

The translation risk management is managed on the following levels:

- Exposure related to the translation effects on financial asset and liabilities is managed via natural hedging or via financial derivatives.
- Exposure related to translation effects on operational items in the balance sheets is managed via financial derivatives and liquidity management.

Part of the investments in operations in the Euro zone is used for hedge accounting. 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 −175 (874). This effect does not impact the income statement but is recognised in other comprehensive income.

Hedge accounting—hedge of net investments

Volvo Car Group designates MEUR 420 of the MEUR 845 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.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

The currency risk arising from the part of the external debt of MEUR 845 not used to hedge the net investments in EUR is managed by currency swaps. Currency gains or losses from the currency swaps are recognised in the income statement and offset the currency gains or losses from the residual part of the loan.

The translation effect arising from the external debt of MUSD 800 is naturally hedged by the translation effect on intercompany receivables in USD, the residual part of the loan is hedged by currency swaps, effects are recognised in the income statement.

The hedge reserve for net investment in foreign operations as at December 31, 2015 amounts to MSEK −186 (−314) before tax. No ineffectiveness has affected net income for 2015 and 2014.

Fair value of financial instruments for hedging of net investments of foreign operations	2015	2014
Hedge reserve	−186	−314
Recognised in other comprehensive income	**−186**	**−314**
Total fair value	**−186**	**−314**

Capital Structure

Volvo Car Group 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; currently Volvo Car Group has no external rating. The equity ratio as per December 31, 2015 is 26.2 (27.8) per cent. Volvo Car Group defines capital as shareholders' equity. As at December 31, 2015, shareholders equity amounted to MSEK 34,635 (34,268).

Funding and liquidity risk management

Long term funding

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.

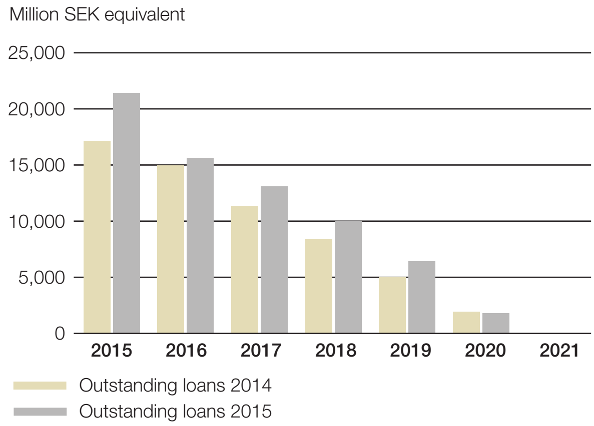
The outstanding amount of liabilities to credit institutions, excluding finance lease contracts and capitalised transactions costs in Volvo Car Group as per year end 2015 was MSEK 21,440 (18,913). Remaining credit duration of the outstanding facilities was 1.7 (3.3) years.

Outstanding loans are shown below.

Funding	Currency	Nominal amount in respective currency (million)	MSEK
Bank loan	EUR	845	7,755
Bank loan	USD	800	6,717
Bank loan	CNY	3,898	5,042
Bank loan	SEK	1,500	1,500
Other			426
Total funding			**21,440**

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

Outstanding loans



Loan Repayment Structure	2015	2016	2017	2018	2019	2020	2021
2014	1,782	2,442	2,902	3,583	3,457	3,065	1,682
2015	3,153	6,216	2,109	3,090	5,091	3,122	1,812

In relation to all external loans there are information undertakings and covenants according to Loan Market Association (LMA) 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.

During the year, a loan with Swedish Export Credit Corporation of MSEK 1,000 was refinanced with the same credit institution. The amount was increased to MSEK 1,500 and the maturity extended to 2019.

As a result of the acquisitions of the Chinese industrial entities, Volvo Car Group obtained funding responsibility for the acquired entities, for further information about the acquisition see Note 32—Business combinations under common control. The total outstanding amount of liabilities to credit institutions within the acquired entities as of 31 December 2015 was MCNY 3,898.

Liquidity risk management

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 free cash available corresponding to 10 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.

During the year the revolving credit facility with a group of twelve leading global and regional banks of MEUR 660 signed in 2014 was extended one year under the existing option within the agreement. An additional option to extend one year exists. The facility remains undrawn.

As at December 31, 2015, Volvo Car Group had committed credit facilities and cash and marketable securities available of MSEK 35,190 (24,306), approximately 21 (18) 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 at year end, 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.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

Dec 31, 2015	Less than 3 months	3 months to 1 year	1–5 years	Over 5 years
Assets				
Derivative assets	—	—	464	—
Other non-current assets	—	—	582	280
Total non-current financial assets	**—**	**—**	**1,046**	**280**
Accounts receivable	4,217	429	—	—
Derivative assets	391	702	—	—
Other current assets(1)	689	16	—	—
Marketable securities	2,656	856	—	—
Cash and cash equivalents	25,472	151	—	—
Total current financial assets	**33,425**	**2,154**	**—**	**—**
Total financial assets	**33,425**	**2,154**	**1,046**	**280**
Liabilities				
Liabilities to credit institutions(2)	—	—	15,202	1,815
Derivative liabilities	—	—	117	—
Other non-current liabilities(1)	—	—	2,196	80
Total non-current financial liabilities	**—**	**—**	**17,515**	**1,895**
Liabilities to credit institutions(2)	1,195	5,926	—	—
Trade payables	25,682	600	—	—
Derivative liabilities	190	189	—	—
Other current liabilities(1)	1,319	5,333	—	—
Total current financial liabilities	**28,386**	**12,048**	**—**	**—**
Total financial liabilities	**28,386**	**12,048**	**17,515**	**1,895**

(1) Pre-payments, statutory receivables and liabilities are excluded as this table only includes financial assets and liabilities.

(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.

As at December 31, 2015, 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 outstanding loans was less than six months. The average cost of borrowing was 5.3 (5.1) per cent. A 100 basis points change in market interests would have an impact of MSEK 201 (173) on interest expenses.

According to the policy, the interest rate risk in Volvo Car Group's net cash position has a benchmark duration of six months. The policy allows a deviation of −6/+3 months from the benchmark. At year end the duration was 2 (5) months.

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. In 2015, Volvo

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

Car Group had cost for raw materials of approximately SEK 11 (8.5) billion. Purchases of steel and resin accounted for the largest cost.

Commodity price risk is primarily managed through contracts with the suppliers using clauses or similar constructions and fixed prices with suppliers. A one per centchange in the prices of commodities has an impact on operating income of approximately MSEK 111 (85).

Volvo Car Group manages the changes in prices for electricity by using forward contracts. The hedging is managed by Vattenfall Power Management AB on discretionary account with certain risk limits decided by Volvo Car Group.

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

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 coun terparties used for investments and derivative transactions have credit rating A or better from one of the wellestablished credit rating institutions and ISDA agreements is required for counterparties with which derivative contracts are entered according to Volvo Car Group treasury policy. Limits are established according to counterparty credit rating and limit usage is monitored for the Volvo Car Group treasury counterparties and deposits are diversified between relationship banks. Subsidiaries' bank balances are diversified in order to limit credit risk.

The maximum amount exposed to financial credit risk is the total of cash and cash equivalents MSEK 25,623 (17,002), investments in marketable securities MSEK 3,512 (1,047) and positive market value of outstanding derivative assets MSEK 1,557 (665). 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, 2015					
Derivative assets	1,557	—	1,557	−489	1,068
Derivative liabilities	496	—	496	−489	7
December 31, 2014					
Derivative assets	665	—	665	−625	40
Derivative liabilities	1,176	—	1,176	−625	551

Operational credit risk

The operational credit risk arise from trade 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 followup 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 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

note. For quantifica tion of credit risk in accounts receivable refer to Note 20—Accounts receivable and other current assets.

Financial Instruments—Classification

Financial instruments are divided into three levels depending on the market information available.

- Level 1: Level 1 inputs are quoted prices (unadjusted) in active mar kets 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, 2015 belong to level 2. 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 markets 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 con tracts is calculated by discounting the difference between the con tracted 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 of the 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.

All amounts are in MSEK unless otherwise stated.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

The table below presents Volvo Car Group's financial assets and liabilities that are measured at fair value.

December 31, 2015	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows	—	1,464	—	1,464
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	78	—	78
Electricity derivatives	—	15	—	15
Marketable securities	—	3,512	—	3,512
Total assets	**—**	**5,069**	**—**	**5,069**
Derivative instruments for hedging of currency risk in future commercial cash flows	—	331	—	331
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	85	—	85
Electricity derivatives	—	80	—	80
Total liabilities	**—**	**496**	**—**	**496**
December 31, 2014				
Derivative instruments for hedging of currency risk in future commercial cash flows	—	320	—	320
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	339	—	339
Electricity derivatives	—	6	—	6
Marketable securities	—	1,047	—	1,047
Total assets	**—**	**1,712**	**—**	**1,712**
Derivative instruments for hedging of currency risk in future commercial cash flows	—	1,122	—	1,122
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	24	—	24
Electricity derivatives	—	30	—	30
Total liabilities	**—**	**1,176**	**—**	**1,176**

All amounts are in MSEK unless otherwise stated.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

	Financial instruments at fair value through the income statement						
Financial assets and liabilities by category	**Instruments held for trading**	**Derivatives used in hedge accounting**	**Financial liabilities**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Total**	**Fair value**
December 31, 2015							
Other non-current assets	—	—	—	862	—	862	862
Accounts receivable	—	—	—	8,859	—	8,859	8,859
Derivative assets	120	1,437	—	—	—	1,557	1,557
Other current assets(1)	—	—	—	705	—	705	705
Marketable securities	3,512	—	—	—	—	3,512	3,512
Cash and cash equivalents	—	—	—	25,623	—	25,623	25,623
Total financial assets	**3,632**	**1,437**	**—**	**36,049**	**—**	**41,118**	**41,118**
Liabilities to credit institutions	—	—	—	—	21,414	21,414	21,414
Other non-current liabilities(1)	—	—	65	—	2,211	2,276	2,276
Trade payables	—	—	—	—	26,282	26,282	26,282
Derivative liabilities	177	319	—	—	—	496	496
Other current liabilities(1)	—	—	—	—	6,652	6,652	6,652
Total financial liabilities	**177**	**319**	**65**	**—**	**56,559**	**57,120**	**57,120**
December 31, 2014							
Other non-current assets	—	—	—	11,656	—	11,656	11,656
Accounts receivable	—	—	—	7,674	—	7,674	7,674
Derivative assets	583	82	—	—	—	665	665
Other current assets(1)	—	—	—	1,177	—	1,177	1,177
Marketable securities	1,047	—	—	—	—	1,047	1,047
Cash and cash equivalents	—	—	—	17,002	—	17,002	17,002
Total financial assets	**1,630**	**82**	**—**	**37,509**	**—**	**39,221**	**39,221**
Liabilities to credit institutions	—	—	—	—	18,905	18,905	18,905
Liabilities to parent company	—	—	—	—	2,794	2,794	2,794
Other non-current liabilities(1)	—	—	—	—	1,244	1,244	1,244
Trade payables	—	—	—	—	18,563	18,563	18,563
Derivative liabilities	138	1,038	—	—	—	1,176	1,176
Other current liabilities(1)	—	—	—	—	6,437	6,437	6,437
Total financial liabilities	**138**	**1,038**	**—**	**—**	**47,943**	**49,119**	**49,119**

(1) Pre-payments, statutory receivables and liabilities are excluded, as this table only includes financial assets and liabilities.

The carrying amount essentially equals the fair value for all current items. For liabilities to credit institutions, the carrying amount is a good estimate of the fair value. The interest rates in existing loan agreements were on December 31, 2015 estimated to be in par with credit market interest rates, and the fair value therefore corresponds, in every significant respect, with the carrying amount.

All amounts are in MSEK unless otherwise stated.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

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. Trade payables are for the most part due within 60 days.

Nominal amounts and fair values of derivative instruments	Dec 31, 2015		Dec 31, 2014	
	Nominal amount	Fair value	Nominal amount	Fair value
Derivative instruments for hedging of currency risk related to financial assets and liabilities				
Foreign exchange swaps				
—receivable position(1)	6,714	78	13,087	340
—payable position(2)	7,935	−85	2,251	−25
Forward contracts				
—receivable position(1)	—	—	115	0
—payable position(2)	25	0	—	—
Subtotal	**14,674**	**−7**	**15,453**	**315**
Derivative instruments for hedging of currency risk in future commercial cash flows				
Foreign exchange swaps				
—receivable position(1)	16,036	429	1,154	131
—payable position(2)	5,594	−71	5,111	−385
Forward contracts				
—receivable position(1)	27,654	1,001	1,681	187
—payable position(2)	15,747	−249	7,472	−456
Currency options				
—receivable position(1)	2,313	34	67	1
—payable position(2)	1,716	−11	7,949	−280
Subtotal	**69,060**	**1,133**	**23,434**	**−802**
Electricity derivatives				
—receivable position(1)	46	15	−46	6
—payable position(2)	291	−80	326	−30
Subtotal	**337**	**−65**	**280**	**−24**
Total	**84,071**	**1,061**	**39,167**	**−511**

(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.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

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	2015 Gains/ losses	2015 Interest income	2015 Interest expenses	2014 Gains/ losses	2014 Interest income	2014 Interest expenses
Recognised in operating income						
Financial assets and liabilities at fair value through the income statement						
Derivative instruments for hedging of currency risk in future commercial cash-flows rerouted from the hedge reserve	−2,338	—	—	−676	—	—
Electricity derivatives	−41	—	—	28	—	—
Other financial liabilities, loans & receivables					—	—
Accounts receivable/trade payables(1)	−526	—	—	−99	—	—
Effect on operating income	**−2,905**	**—**	**—**	**−747**	**—**	**—**
Recognised in financial items						
Financial assets and liabilities at fair value through the income statement						
Derivative instruments for hedging of currency risk related to financial assets and liabilities	161	—	—	1,289	—	—
Marketable securities	−30	6	—	−11	6	—
Other financial liabilities, loans & receivables						
Cash and cash equivalents(1)	—	132	—	—	—	—
Financial liabilities at amortised cost including currency effects(1)	−338	—	−1,039	−1,253	142	−901
Effect on financial items	**−207**	**138**	**−1,039**	**25**	**148**	**−901**

(1) The total income and expenses from items that are not measured at fair value through the income statement amounts to MSEK 132 (142) and MSEK −1,903 (−2,253) respectively.

NOTE 22—MARKETABLE SECURITIES AND CASH AND CASH EQUIVALENTS

Marketable securities	Dec 31, 2015	Dec 31, 2014
Commercial papers	3,512	597
Time deposits in banks	—	450
Total	**3,512**	**1,047**

NOTE 22—MARKETABLE SECURITIES AND CASH AND CASH EQUIVALENTS (Continued)

Marketable securities comprise of interest-bearing investments with a term of more than three months from acquisition date.

Cash and cash equivalents	Dec 31, 2015	Dec 31, 2014
Cash in banks	15,961	14,060
Time deposits in banks	8,728	2,467
Commercial papers(1)	934	475
Total	**25,623**	**17,002**

(1) Commercial papers which matures within three months of the date of acquisition

Cash and Cash equivalents includes MSEK 825 (863) where limitations exist, mainly liquid funds 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 of Volvo Car AB consists of 100,000 shares fully paid with a par value of 1 SEK and with voting rights of one vote per share.

The share premium relates to the business combination, through contribution in kind.

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 Swedish kronor (SEK).

The other reserve consist 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 preceding 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.

Non-controlling interest refers to the share of equity that belongs to Zheijiang 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%. At year end 2015, non-controlling interests amounted to MSEK 2,085 (1.464).

NOTE 23—EQUITY (Continued)

Total equity consists of the equity attributable to the owners of the parent company and non-controlling interest. At year end 2015, the Volvo Car Group's total equity amounted to MSEK 34,635 (34,268).

Change in other reserves	2015	2014
Balance at January 1	−746	147
Change in fair value of currency risk derivatives during the year	1,118	−955
Currency risk contracts recognised in the income statement[1]	955	−189
Tax attributable to items recognised in other comprehensive income	−456	251
Balance at December 31	**871**	**−746**

(1) Included in the income statement under other operating income/expenses.

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 2015, 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 125 to Alecta in 2016. The Group's share of the total saving premiums for ITP2 in Alecta as at December 31, 2015 amounted to 0.19% (0.23%) and the Group's share of the total number of active policy holders amounted to 1.30% (1.22%).

All amounts are in MSEK unless otherwise stated.

NOTE 24—POST EMPLOYMENT BENEFITS (Continued)

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 2015, Alecta's surplus in the form of the collective funding ratio amounted to 153 (144) 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 benefit have been recorded in the balance sheet as follows:

	Dec 31, 2015	Dec 31, 2014
Post-employment surplus in the form of the collective benefits funding	4,701	6,186
Other provisions (note 25)	288	191
Closing balance	**4,989**	**6,377**

The tables below show the Groups 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

NOTE 24—POST EMPLOYMENT BENEFITS (Continued)

totals MSEK 4,989 (6,377), which sum includes endowment insurances and similar undertakings totalling MSEK 288 (191) in respect of defined premium pension plans in Sweden.

Financial year ending on	Total Dec 31, 2015	of which Sweden Dec 31, 2015	of which Belgium Dec 31, 2015	Total Dec 31, 2014	of which Sweden Dec 31, 2014	of which Belgium Dec 31, 2014
Amounts recognised in the statement of financial position						
Defined benefit obligation	17,145	10,126	3,132	18,271	11,018	3,185
Fair value of plan assets	12,444	7,316	2,085	12,085	6,930	2,067
Funded status	**4,701**	**2,810**	**1,047**	**6,186**	**4,088**	**1,118**
Net liability (asset)	**4,701**	**2,810**	**1,047**	**6,186**	**4,088**	**1,118**
Principal actuarial assumptions						
Weighted average assumptions to determine benefit obligations						
Discount rate	3.08%	3.30%	2.14%	2.58%	2.60%	1.90%
Rate of salary increase	3.12%	3.00%	3.00%	3.18%	3.00%	3.17%
Rate of price inflation	1.79%	1.50%	2.00%	1.78%	1.50%	2.00%
Rate of pension increases	1.73%	1.50%	N/A	1.72%	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.

All amounts are in MSEK unless otherwise stated.

NOTE 24—POST EMPLOYMENT BENEFITS (Continued)

The actuarial assumptions are annually reviewed by Volvo Car Group and modified when deemed appropriate to do so.

	Total	of which Sweden	of which Belgium	Total	of which Sweden	of which Belgium
Financial year ending on	**Dec 31, 2015**	**Dec 31, 2015**	**Dec 31, 2015**	**Dec 31, 2014**	**Dec 31, 2014**	**Dec 31, 2014**
Change in defined benefit obligation						
Defined benefit obligation at end of prior year	18,271	11,018	3,185	13,912	8,566	2,346
Service cost	628	421	172	540	341	141
Interest expense	473	283	64	545	338	76
Cash flows	−552	−243	−104	−426	−230	−105
Remeasurements	−1,627	−1,353	−80	3,147	2,003	556
Effect of changes in foreign exchange rates	−48	—	−105	553	—	171
Defined benefit obligation at end of year	**17,145**	**10,126**	**3,132**	**18,271**	**11,018**	**3,185**
Change in fair value of plan assets						
Fair value of plan assets at end of prior year	12,085	6,930	2,067	10,302	6,384	1,592
Interest income	326	180	42	440	274	57
Cash flows	−29	−2	59	−103	−179	56
Remeasurements	72	208	−14	1,014	451	247
Effect of changes in foreign exchange rates	−10	—	−69	432	—	115
Fair value of plan assets at end of year	**12,444**	**7,316**	**2,085**	**12,085**	**6,930**	**2,067**
Components of defined pension cost						
Service cost	628	421	172	540	341	141
Net interest cost	147	103	22	104	65	18
Remeasurements of Other long term benefits	7	—	6	−12	—	−22
Administrative expenses and taxes	28	—	20	8	—	—
Total pension cost for defined benefit plans	**810**	**524**	**220**	**640**	**406**	**137**
Pension cost for defined contribution plans	1,854	1,614	192	1,536	1,334	139
Total pension cost recognised in P&L	**2,664**	**2,138**	**412**	**2,176**	**1,740**	**276**
Remeasurements (recognised in other comprehensive income)	−1,709	−1,561	−75	2,162	1,552	348
Effect of changes in demographic assumptions	−13	—	14	39	23	−6
Effect of changes in financial assumptions	−1,937	−1,662	−107	3,303	2,252	470
Effect of experience adjustments	316	309	7	−183	−272	115
(Return) on plan assets (excluding interest income)	−75	−208	11	−997	−451	−231
Total defined benefit cost recognised in P&L and OCI	**−899**	**−1,037**	**145**	**2,802**	**1,958**	**485**
Net defined benefit liability (asset) reconciliation						
Net defined benefit liability (asset)	6,186	4,088	1,118	3,610	2,181	754
Defined benefit cost included in the income statement	810	524	220	640	406	137
Total remeasurements included in OCI	−1,709	−1,561	−75	2,162	1,552	348
Cash flows	−548	−241	−180	−348	−51	−178
Employer contributions	−209	2	−148	−47	178	−143
Employer direct benefit payments	−339	−243	−32	−301	−229	−35
Effect of changes in foreign exchange rates	−38	—	−36	122	—	57
Net defined benefit liability (asset) as of end of year	**4,701**	**2,810**	**1,047**	**6,186**	**4,088**	**1,118**
Defined benefit obligation						
Defined benefit obligation by participant status						
Actives	9,553	5,526	2,608	10,764	5,900	2,675
Vested deferreds	3,524	1,905	249	3,282	2,246	226
Retirees	4,068	2,695	275	4,225	2,872	284
Total	**17,145**	**10,126**	**3,132**	**18,271**	**11,018**	**3,185**

NOTE 24—POST EMPLOYMENT BENEFITS (Continued)

Plan assets

Fair value of plan assets	2015	2014	Of which with a quoted market price 2015	Of which with a quoted market price 2014
Cash and cash equivalents	226	334	23	43
Equity instruments	2,244	2,054	1,303	1,365
Debt instruments	2,814	3,510	1,187	1,404
Real estate	156	64	24	—
Investment funds	5,306	4,690	323	213
Other	1,698	1,433	690	489
Total	**12,444**	**12,085**	**3,550**	**3,514**

Responsibility for the management of the pension plans and retirement assets is the resonsibility of the Company and Volvo Personvagnar's pension fund. The pension fund is managed by a capital preservation strategy and the risk exposure is adjusted accordingly. The investments are 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 fund, 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 set up a new, wholly-owned subsidiary VCG Investment Management AB ("VCGIM") to manage the Group's pension fund assets. Volvo Cars new shared-services approach to Group pension fund management aims to strengthen the control over of 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.

The in-house management of group pension assets on a global basis, will 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 with a reduction in dependence on marketable securities beta.

The actual return on plan assets amounts to MSEK 399 (1,454).

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.

All amounts are in MSEK unless otherwise stated.

NOTE 24—POST EMPLOYMENT BENEFITS (Continued)

Below is the sensitivity analysis for the main financial assumption and the potential impact on the present value of the defined benefit obligation on the major plans.

Sensitivity analysis on defined benefit obligation	Sweden	Belgium
Discount rate +0,5%	−1,004	−178
Discount rate −0,5%	1,120	197

The weighted average duration of the obligation is 20.9 years for Sweden and 11.9 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, 2015	**5 026**	**3 301**	**5 235**	**2 780**	**16 342**
Provided for during year	4,403	4,947	13,837	11,152	34,369
Utilised during year	−4,123	−4,742	−11,939	−11,476	−32,280
Reversal of unutilised amounts	−111	7	−77	−65	−246
Translational differences and other	−11	74	71	46	180
Balance at December 31, 2015	**5,184**	**3,587**	**7,157**	**2,437**	**18,365**
Of which current	2,242	1,228	7,157	1,829	12,456
Of which non-current	2,942	2,359	0	608	5,909

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 programmes 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—OTHER NON-CURRENT LIABILITIES

	Dec 31, 2015	Dec 31, 2014
Liabilities to credit institutions and finance lease contracts		
Total liabilities to credit institutions	15,103	17,247
Liabilities related to finance lease contracts	65	98
Total	**15,168**	**17,345**
Current portion of liabilities to credit institutions	6,246	1,560

Liabilities to credit institutions

In 2015, the shares of Volvo Car Corporation were pledged for the liabilities to credit institutions of MSEK 14,469 (14,110). 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 borrowing facilities:	Dec 31, 2015	Dec 31, 2014
Floating rate		
Expiring within one year	850	—
Expiring after one year but within five years	6,055	8,454
Total	**6,905**	**8,454**

	Dec 31, 2015	Dec 31, 2014
Other non-current liabilities		
Liabilities related to repurchase agreements	797	733
Deferred leasing revenue	533	357
Derivative liabilities	117	—
Other liabilities	1,480	511
Total	**2,927**	**1,601**

NOTE 27—OTHER CURRENT LIABILITIES

	Dec 31, 2015	Dec 31, 2014
Accrued expenses and prepaid income	7,309	8,377
Liabilities related to repurchase agreements	5,237	4,235
Personnel related liabilities	3,937	3,178
VAT liabilities	2,454	1,504
Hedging instruments	379	1,176
Deferred leasing revenue	777	473
Other liabilities	1,152	1,291
Total	**21,245**	**20,234**

NOTE 28—PLEDGED ASSETS

	Dec 31, 2015	Dec 31, 2014
Shares in subsidiaries	25,687	19,488
Restricted cash	99	424
Inventory	318	277
Total	**26,104**	**20,189**

NOTE 29—CONTINGENT LIABILITIES

	Dec 31, 2015	Dec 31, 2014
Investment commitments in contractual manufacturer	—	182
Guarantees to insurance company FPG	127	123
Legal claims(1)	42	166
Tax claims(1)(2)	108	252
Other contingent liabilities(3)	135	53
Total	**412**	**776**

(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 36 (0)

(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

	2015	2014
Adjustments for items not affecting cash flow consist of:		
Capital gains/losses on sale of tangible and intangible assets	126	54
Share of income in joint ventures and associates	−230	−191
Interest effect from the measurement of repurchase obligations	−170	−186
Other non-cash items	39	−229
Total	**−235**	**−552**

"Other" under cash flow from financing activities is attributable to realised result from financial instruments.

NOTE 31—BUSINESS COMBINATIONS

Polestar—2015

On July 8, 2015, Volvo Car Group acquired 100 per cent of Polestar Performance AB, the Swedish high performance car company and Polestar Holding AB, which is the owner of the Polestar trademark. Polestar will now be used as the model name for special high performance Volvo cars.

Purchase price	
Purchase consideration	536
Total cost of the combination	**536**
Acquired assets and liabilities at fair value	
Intangible assets	24
Current receivables	19
Cash and cash equivalents	76
Deferred tax liabilities	−5
Current liabilities	−61
Total fair value of net assets acquired	**53**
Goodwill	**483**
Cash effect on business combination	
Cash paid for acquisitions during the year	236
Less acquired cash and cash equivalents	−76
Change in cash and cash equivalents due to acquisition	160

Goodwill arises since the acquisition is considered to strengthen Volvo Cars' existing car model portfolio with a special high performance car brand. The goodwill amount is also related to estimated synergies in the form of cost reductions and increased income over time when the Polestar operations are included in the Volvo Car Group.

Acquisition-related costs for 2015 amounted to MSEK 2 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 acquired receivables (which principally comprised accounts receivables) is MSEK 19. The gross contractual amount is MSEK 19 of which all is collectible.

The acquired business contributed net revenues of MSEK 0 and net loss of MSEK 19 to the Group for the period from 1 July to 31 December 2015.

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.

Other minor acquisitions

In January 2015, Volvo Car Group acquired assets in DSV Solutions NV in Ghent, to a value of MSEK 38, to further strengthen the value chain and provide efficiency benefits.

In October, 2015, Volvo Car Group acquired 100 per cent of VCG Investment Management AB, which handles Volvo Car's pension fund management to a value of MSEK 3.

Johnson Controls—2014

In July 2014, Volvo Car Group acquired the assembly business for headliner and tunnel consoles from Johnson Controls Inc. The acquisition was performed in order to strengthen the value chain and provide efficiency benefits in the Torslanda and Ghent plants respectively. The paid consideration amounted to MSEK 50 and the acquired net assets amounted to MSEK 27, resulting in a goodwill of MSEK 23.

NOTE 32—BUSINESS COMBINATIONS UNDER COMMON CONTROL

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 ventures Daqing Volvo Car Manufacturing Co., Ltd, Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd and Shanghai Volvo Car Research and Develop ment Co., Ltd. Additionally, the Chinese entity Daqing Volvo Car Manufacturing Co., Ltd has acquired 100 per cent of the shares in three other companies from Shanghai Geely Zhaoyuan International Invest ment Co., Ltd, 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 now holds 50 per cent of Volvo Cars' Chinese industrial entities and has gained the power to control these entities through shareholder agreements. Volvo Car Group obtained the full funding responsibility for the acquired entities. The entities are as a result classified as subsidiaries and are thus fully consolidated into Volvo Car Group. Zhejiang Geely Holding Group Co., Ltd is the minority shareholder of the remaining 50 per cent of the shares. The incorporation of the Chinese entities is an important step towards the long term objectives of capturing growth and sourcing potential in China whilst simplifying the legal structure.

The acquisition of the Chinese entities is considered to be a common control transaction. Volvo Car Group has chosen to apply predecessor accounting, which assumes that the entities had always been combined. The acquired entities are therefore included in the consolidated financial statements for the full year and for the comparative year. Assets and liabilities are recognised upon consolidation at their carrying value in the consolidated financial statements of the ultimate parent entity Shanghai Geely Zhaoyuan International Investment Co., Ltd. Any difference between the cost of the acquisition (i.e. the fair value of the consideration paid), and the amounts at which the assets and liabilities are recorded is recognised directly in equity within retained earnings.

Purchase price	
Cash consideration	2,197
Carrying value of investments in joint ventures held before the business combination	563
Total cost of the combination	**2,760**
Acquired assets and liabilities at carrying value	
Intangible assets	966
Tangible assets	7,506
Deferred tax assets	721
Other non-current assets (restricted cash)	130
Inventories	3,141
Current receivables	2,782
Cash and cash equivalents	4,161
Non-controlling interest	−1,534
Other non-current liabilities	−2,280
Current liabilities	−14,020
Total carrying value of net assets acquired	**1,573**
Excess of consideration paid recognised in equity attributable to owners of the parent	**1,187**
Cash effect on business combination	
Cash paid for acquisitions during the year	2,197
Received shareholders' contribution	−3,992
Less acquired cash and cash equivalents	−4,161
Change in cash and cash equivalents due to acquisitions	**−5,956**

Acquisition-related costs for 2015 amounted to MSEK 2 (0) and have been reported as administration costs in the income statement. For the Chinese entities there are restrictions on the Volvo Car Group's

NOTE 32—BUSINESS COMBINATIONS UNDER COMMON CONTROL (Continued)

ability to access or use cash from these entities outside China, for more information on cash that is not available outside China or with other limitations, see Note 22—Marketable securities and cash and cash equivalents. There were no contingent liabilities assumed or collateral pledged arising from the acquisition.

The acquired business contributed net revenue of MSEK 22,747 (7,631) and net income of MSEK 2,765 (−21) to the group for the period from 1 January to 31 December 2015. The net effect in net income due to the consolidation of the Chinese industrial entities amounts to 2,731 MSEK (−326 MSEK) for the group (including non-controlling interests). The net effect is defined as the difference between the net income contributed in 2015 (the restated 2014 result), and the result that would have been included in the net income if the previous accounting according to the equity method with 30% ownership in the former structure was still applied, i.e. without the acquisition of the Volvo Car (Asia Pacific) Investment Holding group.

The total cost of combination and carrying values have been determined provisionally, thus, the purchase price accounting may be subject to adjustment during a twelve months period.

NOTE 33—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 thirteen members, led by the CEO and overseen by the Board of Director's. 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, refer to Note 3—Net revenue. The geographic spread of non-current assets is disclosed below

	Sweden	China	Rest of the World
31 Dec 2015			
Non-Current Assets	Ca 76%	Ca 13%	Ca 11%
31 Dec 2014			
Non-Current Assets	Ca 74%	Ca 10%	Ca 16%

NOTE 34—RESTATEMENT

As described in Note 32—Business combinations under common control, Volvo Car Group has chosen to apply predecessor accounting for the common control acquisition of the Chinese entities. According to this accounting principle it is assumed that the entities have always been combined, and the net effect is recorded directly in equity in the opening period.

The below tables summarises the effects in the financial statements, line by line, in the consolidated income statements and balance sheets, in the restated opening balance per 2014-01-01 and the restated closing balance per 2014-12-31, compared to the previously reported financial statements in the annual report for 2014. The opening balance for the restatement is 2014-01-01, and the accumulated effect as of 2013-12-31 has been recorded in equity as of 2014-01-01.

All amounts are in MSEK unless otherwise stated.

NOTE 34—RESTATEMENT (Continued)

The change in shareholders' equity as an effect of the consolidation of the Chinese entities and the application of predecessor accounting to the opening and closing balances are described in a separate table below.

Equity effects

Closing Balance 2013-12-31	**24,638**
Effect of business combinations under common control within the Geely group	1,039
Effect of previous equity accounting of acquired joint ventures	−514
Restated Opening Balance 2014-01-01	**25,163**
Closing Balance 2014-12-31	**32,702**
Effect in opening balance 2014-01-01	525
Change in Net income due to Chinese entities	−326
Change in translation difference on foreign operations due to Chinese entities . EMT takes all significant operating decisions and	193
Change in unconditional shareholders' contribution due to Chinese entities	1,061
Effect of previous equity accounting of acquired joint venture	−49
Effect of business combinations under common control within the Geely group	162
Restated Closing Balance 2014-12-31	**34,268**

All amounts are in MSEK unless otherwise stated.

NOTE 34—RESTATEMENT (Continued)

Consolidated balance sheet	Closing Balance Dec 31, 2013	Effects of acquisition	Restated Jan 1, 2014	Closing Balance Dec 31, 2014	Effects of acquisition	Restated Closing Balance Dec 31, 2014
ASSETS						
Non-current assets						
Intangible assets	17,271	542	17,813	20,098	551	20,649
Property, plant and equipment	25,653	2,811	28,464	29,275	6,847	36,122
Assets held under operating leases	1,890	—	1,890	1,942	—	1,942
Investments in joint ventures and associates	1,159	−514	645	1,541	−929	612
Other long-term securities holdings	10	—	10	13	—	13
Deferred tax assets	2,165	434	2,599	2,535	572	3,107
Other non-current assets	1,077	—	1,077	11,647	9	11,656
Total non-current assets	**49,225**	**3,273**	**52,498**	**67,051**	**7,050**	**74,101**
Current assets						
Inventories	14,416	553	14,969	14,368	3,356	17,724
Accounts receivable	5,618	−664	4,954	8,004	−330	7,674
Current tax assets	97	—	97	355	—	355
Other current assets	2,781	609	3,390	4,484	848	5,332
Marketable securities	88	—	88	1,047	—	1,047
Cash and cash equivalents	15,372	2,161	17,533	14,165	2,837	17,002
Total current assets	**38,372**	**2,659**	**41,031**	**42,423**	**6,711**	**49,134**
TOTAL ASSETS	**87,597**	**5,932**	**93,529**	**109,474**	**13,761**	**123,235**
EQUITY & LIABILITIES						
Equity						
Equity attributable to owners of the parent company	24,638	−37	24,601	32,702	102	32,804
Non-controlling interest	—	562	562	—	1,464	1,464
Total equity	**24,638**	**525**	**25,163**	**32,702**	**1,566**	**34,268**
Non-current liabilities						
Provisions for post-employment benefits	3,641	—	3,641	6,377	−191	6,186
Deferred tax liabilities	1,759	—	1,759	3,337	—	3,337
Other non-current provisions	5,463	2	5,465	5,592	265	5,857
Liabilities to credit institutions	12,033	560	12,593	15,208	2,137	17,345
Liabilities to parent company	—	1,663	1,663	—	1,143	1,143
Other non-current liabilities	1,212	—	1,212	1,600	1	1,601
Total non-current liabilities	**24,108**	**2,225**	**26,333**	**32,114**	**3,355**	**35,469**
Current liabilities						
Current provisions	8,169	105	8,274	9,319	1,165	10,484
Liabilities to credit institutions	820	1,156	1,976	932	628	1,560
Advance payments from customers	317	13	330	299	80	379
Trade payables	13,632	704	14,336	14,434	4,129	18,563
Current tax liabilities	658	—	658	598	29	627
Liabilities to parent company	—	746	746	—	1,651	1,651
Other current liabilities	15,255	458	15,713	19,076	1,158	20,234
Total current liabilities	**38,851**	**3,182**	**42,033**	**44,658**	**8,840**	**53,498**
TOTAL EQUITY AND LIABILITIES	**87,597**	**5,932**	**93,529**	**109,474**	**13,761**	**123,235**

NOTE 34—RESTATEMENT (Continued)

Consolidated income statement January–December 2014	2014	Effect of acquisition	Restated 2014
Net revenue	129,959	7,631	137,590
Cost of sales	−107,955	−6,064	−114,019
Gross income	**22,004**	**1,567**	**23,571**
Research and development expenses	−7,179	−14	−7,193
Selling expenses	−8,073	−635	−8,708
Administrative expenses	−5,431	−512	−5,943
Other operating income	2,519	−774	1,745
Other operating expenses	−1,692	157	−1,535
Share of income in joint ventures and associates	104	87	191
Operating income	**2,252**	**−124**	**2,128**
Financial income	325	17	342
Financial expenses	−1,087	−228	−1,315
Income before tax	**1,490**	**−335**	**1,155**
Income tax	−656	9	−647
Net income	**834**	**−326**	**508**
Net income attributable to			
Owners of the parent company	834	−294	540
Non-controlling interest	—	−32	−32
	834	**−326**	**508**

Consolidated comprehensive income, MSEK	2014	Effect of acquisition	Restated 2014
Net income for the year	834	−326	508
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to income statement:			
Remeasurements of provisions for post-employment benefits	−1,641	—	−1,641
Items that may be reclassified subsequently to income statement:			
Translation difference on foreign operations	681	193	874
Translation difference of hedge instruments of net investments in foreign operations	−192	—	−192
Change in cash flow hedge	−893	—	−893
Other comprehensive income, net of income tax	**−2045**	**193**	**−1,852**
Total comprehensive income for the year	**−1,211**	**−133**	**−1,344**
Total comprehensive income attributable to			
Owners of the parent company	−1,211	−201	−1,412
Non-controlling interests	—	68	68
	−1,211	**−133**	**−1,344**

NOTE 35—SIGNIFICANT AND SUBSEQUENT EVENTS

Significant Events

Incorporation of Chinese industrial entities

On June 25, Volvo Cars gained control over the Chinese industrial entities and consolidated them into Volvo Car Group. The former legal structure in China has evolved since Geely's acquisition of Volvo Cars in 2010 and the new incorporation marks another milestone in Volvo Car Group's transformation journey. In recent years, Volvo Cars has established its manufacturing footprint and strengthened its dealer network in China. The incorporation of the Chinese industrial entities is an important step towards the long term objectives of capturing growth and sourcing potential in China whilst simplifying the legal structure.

As the acquisition of additional shares in the Chinese industrial entities was a common control transaction Volvo Car Group has elected to apply predecessor accounting, meaning that the comparative information is presented in the consolidated financial statements as if the incorporated entities had always been controlled by Volvo Car Group. Therefore, the comparative information is restated to show the new Volvo Car structure including the acquired Chinese industrial entities. Further descriptions and information can be found in the following notes to the consolidated financial statements; 2—Accounting principles, 32—Business combinations under common control, and Note 34—Restatement.

Change in organisational structure

In December, in order to simplify the organisational structure, Geely Sweden AB was merged into Volvo Car Corporation (legal name Volvo Personvagnar AB) and Geely Sweden Automotive AB became the new parent of Volvo Car Group and changed name to Volvo Car AB. The change of parent company has had no significant effects on the consolidated financial statements.

Acquisition of assets in DSV

In January 2015, Volvo Car Group acquired assets in DSV Solutions NV in Ghent, to a value of MSEK 38, to further strengthen the value chain and provide efficiency benefits. DSV Solutions NV has been providing logistic services to Volvo Cars in Ghent and the services provided consisted of storing and sequencing 200,000 parts per day and delivering the same amount of parts to the Ghent plant.

Acquisition of Polestar

In July 2015, Volvo Cars acquired 100 per cent of Polestar Performance AB, the Swedish high performance car company, and Polestar Holding AB, which is the owner of the Polestar trademarks. Polestar is used as the model name for special high performance Volvo cars. Volvo Cars and Polestar share a long history. They have been working in motor sport since 1996 and in recent years signed a cooperation agreement to jointly develop Polestar versions of Volvo cars.

Volvo Cars sells its Floby component plant

In July 2015, Volvo Cars announced that its component plant in Floby, Sweden will be sold to Amtek Group, a global manufacturer of automotive components. The Floby plant produces brake discs, wheel hubs and connecting rods for passenger cars and commercial vehicles. The plant employs 441 people, all of whom will retain their positions under new ownership. The transaction was completed on December 30th. Investments in manufacturing Volvo Car Group to build its first plant in the US In September 2015, the first steps towards construction of the new car manufacturing facility in Berkeley County, South Carolina, US were taken. The new plant will produce the next-generation cars, based on Volvo Cars' new Scalable Product Architecture (SPA). The new facility will initially have a capacity of up to 100,000 cars per year. The first South Carolina-built Volvo cars are expected to roll off the assembly line in late 2018.

NOTE 35—SIGNIFICANT AND SUBSEQUENT EVENTS (Continued)

Investments in manufacturing

Volvo Car Group to build its first plant in the US In September 2015, the first steps towards construction of the new car manufacturing facility in Berkeley County, South Carolina, US were taken. The new plant will produce the next-generation cars, based on Volvo Cars' new Scalable Product Architecture (SPA). The new facility will initially have a capacity of up to 100,000 cars per year. The first South Carolina-built Volvo cars are expected to roll off the assembly line in late 2018.

Start of production of all-new XC90 in Torslanda

In January 2015, Volvo Car Group started the production of the all-new XC90 in the Torslanda plant in Gothenburg. The new Volvo XC90 is the first model based on Volvo Cars' in-house developed Scalable Product Architecture (SPA) which will be the base for a series of upcoming Volvo models.

Maastricht operations moved to Ghent

In January 2015, the logistic centre in Maastricht, the Netherlands, was moved to the Ghent plant in Belgium following a strategic decision taken in July 2014 to change the set-up of the Maastricht operations. All employees were offered the opportunity to join Volvo Cars' operations in Ghent. At the same time the customer service operation in Maastricht was outsourced, with all employees offered the option to remain in the company.

New Senior Management structure

In March 2015, significant changes to the structure of Volvo Cars' senior management were announced as part of its drive to position the company for the next stage of its global transformation. The Americas region now encompasses North America and South America, and is led by Lex Kerssemakers, the former Senior Vice President Product Strategy and Vehicle Line Management. The Asia Pacific region includes China, Volvo Cars' largest individual sales country, and embraces other fast growing Asian regional markets. It is led by Lars Danielson, the former Senior Vice President Volvo Cars China Operations. The EMEA region is run by Anders Gustafsson, formerly President of Volvo Cars Sweden. Volvo Cars has also appointed Klas Bendrik as Senior Vice President Chief Information Officer. In October, Björn Annwall was appointed Senior Vice President of Marketing, Sales and Service.

Third shift in the Torslanda plant started

In May 2015, supporting the capacity increase to up to 300,000 cars per year, the third shift in the Torslanda plant started, creating nearly 1,500 new jobs. The introduction of the additional night shift comes as Volvo Cars now has started production of the new XC90.

Change of Board Members

Tom Johnstone was appointed as a member of the Board of Directors effective January 1, 2015. Mr Johnstone joined the Board of Directors of Volvo Car Corporation leaving the position as CEO at AB SKF. Dr Herbert H Demmel left the Board of Directors in March and Hans Olov Olsson left in October. Hans-Olov Olsson held the position as Vice-Chairman of the Board since the acquisition by Geely in 2010 and was the President and CEO of Volvo Car Corporation between 2000 and 2005. Mikael Olsson, member of the Board since 2013, has replaced Hans-Olov Olsson as Vice-Chairman. In December 2015, all members of the Board of Volvo Car Corporation shifted to being members of the Board of the new parent company Volvo Car AB.

All new Volvo S90 pre-launch

In December 2015, Volvo Cars pre-launched the all new S90 in Gothenburg and it was publically unveiled at the NAIAS in Detroit in January 2016. With the S90, Volvo Cars introduces a range of new technical

NOTE 35—SIGNIFICANT AND SUBSEQUENT EVENTS (Continued)

solutions, from safety to cloud-based apps and services. The launch of the S90 clearly moves Volvo Cars into the premium sedan segment.

Insurance Captive

Volvo Cars has started its own insurance company, Volvo Car Insurance AB, in December. Volvo Car Insurance AB, insures part of the groups' risks in relation to Property Damage & Business Interruption, General & Products Liability and Transport. The Volvo Cars' owned insurance company (captive) provides opportunities to reduce costs and enhance risk management while increasing control over the Volvo Cars' insurance programs.

Volvo Cars to acquire additional shares in Volvofinans

In December 2015, Volvo Cars made an agreement with the Sixth AP Fund to acquire an additional 40 per cent of the shares in Volvofinans Bank AB, thus increasing its ownership from 10 to 50 per cent. The transaction will be carried out as soon as the required regulatory approvals have been obtained. In Sweden, Volvofinans Bank AB is one of the leading banks within vehicle financing services.

Subsequent Events

New Board member appointed

As of January 1, 2016, Betsy Atkins has been appointed new member of the Board of Directors of Volvo Car AB. Ms. Atkins joined the board from Silicon Valley where she has been a leading entrepreneur building global technology companies in Internet Infrastructure, Big Data Analytics, Mobile Enablement and E-commerce.

Launch of S90 and V90

The S90 premium sedan was launched at the Detroit Motor Show in January. A month later, Volvo launched the V90, a premium large estate. Like the XC90, both cars are based on Volvo Cars' modular vehicle platform, the Scalable Product Architecture (SPA) and are equipped with in-house developed safety, infotainment and powertrain technologies. With the launch of S90 and V90, Volvo Cars has now completely renewed its top-of-the line 90 series.

INDEPENDENT AUDITOR'S REPORT

Volvo Personvagnar AB
Board of directors
Assar Gabrielssons väg
405 31 Göteborg

Corporate identity number 556074-3089

Report on the consolidated accounts

We have audited the consolidated accounts of Geely Sweden AB and its subsidiaries, which comprise the statement of financial position as at December 31, 2014 and financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the years then ended, and notes to the financial statements, including accounting policies.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated accounts present fairly, in all material respects, the financial position of the group as of 31 December 2014 and 31 December 2013 and of its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Gothenburg May 6, 2016

Deloitte AB

Jan Nilsson

Authorized Public Accountant

CONSOLIDATED INCOME STATEMENTS

MSEK	Note	2014	2013
Net revenue	3	129,959	122,245
Cost of sales	4	−107,955	−101,934
Gross income		**22,004**	**20,311**
Research and development expenses	4, 16	−6,613	−5,864
Selling expenses	4	−8,073	−7,919
Administrative expenses	4, 6	−5,431	−5,129
Other operating income	7	1,953	1,509
Other operating expenses	7	−1,692	−1,168
Share of income in joint ventures and associates	14	104	179
Operating income	5, 8, 9, 10, 11	**2,252**	**1,919**
Financial income	12	325	87
Financial expenses	13	−1,087	−874
Income before tax		**1,490**	**1,132**
Income tax	15	−656	−172
Net income		**834**	**960**
Net income attributable to			
Owners of the parent company		834	960
		834	**960**

CONSOLIDATED COMPREHENSIVE INCOME

MSEK	Note	2014	2013
Net income for the year		834	960
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to income statement:			
Remeasurements of provisions for post-employment benefits		−1,641	1,735
Items that may be reclassified subsequently to income statement:			
Translation difference on foreign operations		681	−160
Translation difference of hedge instruments of net investments in foreign operations		−192	−100
Change in cash flow hedge	23	−893	9
Other comprehensive income, net of income tax		**−2,045**	**1,484**
Total comprehensive income for the year		**−1,211**	**2,444**
Total comprehensive income attributable to			
Owners of the parent company		−1,211	2,444
		−1,211	**2,444**

CONSOLIDATED BALANCE SHEETS

MSEK	Note	Dec 31, 2014	Dec 31, 2013
ASSETS			
Non-current assets			
Intangible assets	16	20,098	17,271
Property, plant and equipment	8, 17	29,275	25,653
Assets held under operating leases	8, 17	1,942	1,890
Investments in joint ventures and associates	14	1,541	1,159
Other long-term securities holdings		13	10
Deferred tax assets	15	2,535	2,165
Other non-current assets	18	11,647	1,077
Total non-current assets		**67,051**	**49,225**
Current assets			
Inventories	19	14,368	14,416
Accounts receivable	5, 20	8,004	5,618
Current tax assets		355	97
Other current assets	20	4,484	2,781
Marketable securities	22	1,047	88
Cash and cash equivalents	22	14,165	15,372
Total current assets		**42,423**	**38,372**
TOTAL ASSETS		**109,474**	**87,597**
EQUITY & LIABILITIES			
Equity	23		
Equity attributable to owners of the parent company		32,702	24,638
Total equity		**32,702**	**24,638**
Non-current liabilities			
Provisions for post-employment benefits	24	6,377	3,641
Deferred tax liabilities	15	3,337	1,759
Other non-current provisions	25	5,592	5,463
Liabilities to credit institutions	26	15,208	12,033
Other non-current liabilities	26	1,600	1,212
Total non-current liabilities		**32,114**	**24,108**
Current liabilities			
Current provisions	25	9,319	8,169
Liabilities to credit institutions		932	820
Advance payments from customers		299	317
Trade payables		14,434	13,632
Current tax liabilities		598	658
Other current liabilities	27	19,076	15,255
Total current liabilities		**44,658**	**38,851**
TOTAL EQUITY & LIABILITIES		**109,474**	**87,597**

CHANGES IN CONSOLIDATED EQUITY

MSEK	Share capital	Share premium	Other contributed capital	Currency translation reserve	Other reserves[1]	Retained earnings	Total
Balance at January 1, 2013	**1,000**	**5,509**	**2,906**	**−578**	**138**	**12,926**	**21,901**
Net income for the year	**—**	**—**	**—**	**—**	**—**	**960**	**960**
Other comprehensive income							
Remeasurements of provision for post-employment benefits	—	—	—	—	—	2,190	2,190
Translation difference on foreign operations	—	—	—	−160	—	—	−160
Translation difference of hedge instruments of net investments in foreign operations	—	—	—	−128	—	—	−128
Change in cash flow hedge, recognised in other comprehensive income	—	—	—	—	12	—	12
Tax attributable to items recognised in other comprehensive income	—	—		28	−3	−455	−430
Other comprehensive income	**—**	**—**	**—**	**−260**	**9**	**1,735**	**1,484**
Total comprehensive income	**—**	**—**	**—**	**−260**	**9**	**2,695**	**2,444**
Transactions with owners							
Unconditional shareholders' contribution	—	—	293	—	—	—	293
Transactions with owners	**—**	**—**	**293**	**—**	**—**	**—**	**293**
Balance at December 31, 2013	**1,000**	**5,509**	**3,199**	**−838**	**147**	**15,621**	**24,638**
Net income for the year	**—**	**—**	**—**	**—**	**—**	**834**	**834**
Other comprehensive income							
Remeasurements of provision for post-employment benefits	—	—	—	—	—	−2,177	−2,177
Translation difference on foreign operations	—	—	—	681	—	—	681
Translation difference of hedge instruments of net investments in foreign operations	—	—	—	−246	—	—	−246
Change in cash flow hedge, recognised in other comprehensive income	—	—	—	—	−1,144	—	−1,144
Tax attributable to items recognised in other comprehensive income	—	—	—	54	251	531	836
Other comprehensive income	**—**	**—**	**—**	**489**	**−893**	**−1,641**	**−2,045**
Total comprehensive income	**—**	**—**	**—**	**489**	**−893**	**−807**	**−1,211**
Transactions with owners							
Group contribution[2]	—	—	8,808	—	—	—	8,808
Unconditional shareholders' contribution	—	—	—	—	—	—	494
Other changes	—	—	—	—	—	−27	−27
Transactions with owners	**—**	**—**	**9,302**	**—**	**—**	**−27**	**9,275**
Balance at December 31, 2014	**1,000**	**5,509**	**12,501**	**−349**	**−746**	**14,787**	**32,702**

(1) For specification of other reserves, see Note 23—Equity.

(2) Group contribution before tax amounted to MSEK 11,293.

CONSOLIDATED STATEMENT OF CASH FLOWS

MSEK	Note	2014	2013
OPERATING ACTIVITIES			
Operating income		2,252	1,919
Depreciation and amortisation of non-current assets	10	6,931	7,138
Interest and similar items received		131	87
Interest and similar items paid		−647	−433
Other financial items		−39	−80
Income tax paid		−1,473	−573
Adjustments for items not affecting cash flow	30	−363	−281
		6,792	**7,777**
Movements in working capital			
Change in inventories		531	−349
Change in accounts receivable		−2,386	−883
Change in accounts payable		802	1,006
Change in items relating to repurchase commitments		−192	−47
Change in provisions		1,374	767
Change in other working capital assets/liabilities		−575	590
Cash flow from movements in working capital		**−446**	**1,084**
Cash flow from operating activities		**6,346**	**8,861**
INVESTING ACTIVITIES			
Investments in joint ventures and associates	14	−537	−520
Investments in intangible assets		−4,887	−4,188
Disposal of intangible assets		—	500
Investments in property, plant and equipment		−5,250	−4,714
Disposal of property, plant and equipment		—	66
Investments in marketable securities	22	−978	−88
Other		197	104
Cash flow from investing activities		**−11,455**	**−8,840**
Cash flow from operating and investing activities		**−5,109**	**21**
FINANCING ACTIVITIES			
Proceeds from credit institutions	26	2,435	5,336
Repayment of liabilities to credit institutions	26	−676	−45
Received shareholders' contribution	23	494	293
Other	30	894	181
Cash flow from financing activities		**3,147**	**5,765**
Cash flow for the year		**−1,962**	**5,786**
Cash and cash equivalents at beginning of year	22	**15,372**	**9,607**
Exchange difference on cash and cash equivalents		755	−21
Cash and cash equivalents at end of year		**14,165**	**15,372**

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

The Board of Directors approved, through delegation, these consolidated financial statements on May 6, 2016.

Basis of preparation

The financial statements of Geely Sweden AB and its subsidiaries (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. The 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.

The parent company applies the same accounting principles as the consolidated Volvo Car Group, except in the cases specified in the section entitled notes to the parent company's financial statements. As required by IAS 1, Volvo Car Group companies apply uniform accounting rules, irrespective of national legislation, as defined in the Volvo Car 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 new accounting standards the application follows the rules in each particular standard. For information on new standards, see the section on new and amended standards adopted by the Volvo Car Group.

Basis of consolidation

The consolidated accounts have been prepared based on the principles set forth in IFRS 10—Consolidated financial statements. Volvo Car Group includes Geely Sweden AB and its subsidiary Volvo Car Corporation AB. Volvo Car Group also includes all of Volvo Car Corporation AB's subsidiaries, which means the companies in which Volvo Car Corporation directly or indirectly owns more than 50 per cent of the voting rights of the shares or in any other way holds power to control. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. IFRS 3—Business combinations, is applied on acquisitions.

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.

Subsidiaries

The group applies the acquisition method to account for business combinations. The value of the acquired net assets is determined by measuring acquired assets and liabilities and contingent liabilities at fair value on the date of acquisition. In business combinations where the cost of acquisition exceeds the fair value of the acquired identifiable net assets, the difference is accounted for as goodwill. If the acquisition cost is less than the final fair value of the net assets and the acquisition is determined to be a bargain purchase, the difference is recognised directly as income in the income statement. Acquisition related costs are expensed as incurred. Intercompany transactions, balances and unrealised gains or losses on transactions between group companies are eliminated.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

Joint ventures and associated 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. 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 postacquisition 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 or made payments on behalf of the associate or joint venture.

Foreign currency

Translation of foreign group entities

Volvo Car Group's functional currency is the Swedish krona (SEK). The functional currency of each Volvo Car Group company is determined based on the primary economic environment in which it operates. Volvo Car Group's and Geely Sweden AB's presentation currency is SEK. When preparing the consolidated financial statements, balance sheet and income statements for all group entities whose functional currency is not SEK, the currencies are translated into Volvo Car Group's presentation currency using the procedures below, except for subsidiaries in hyperinflationary economies. Currently none of the entities within Volvo Car Group operates in a hyperinflationary economy.

- Assets and liabilities are translated at the exchange rates at the respective year end closing rate.
- Income and expenses are translated at the monthly exchange rates reported in the income statement and statement of other comprehensive income.
- All translation differences that arise when translating the financial statements of subsidiaries outside Sweden are recognised as a separate item under other comprehensive income in the statement of other comprehensive income, without affecting income, until the disposal of the subsidiary.

Transactions and balance sheet items in foreign currency

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the day of the transaction. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate at the respective year end (closing rate). Exchange rate differences arising from translation of currencies are reported in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and net investment hedges. Operationally derived exchange gains and losses are shown under other operating income and other operating expenses

All amounts are in MSEK unless otherwise stated.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

respectively. Financially derived exchange gains and losses are shown as financial income and financial expenses. The main exchange rates applied are shown in the table below:

Exchange rates

		Average rate		Close rate	
Country	Currency	2014	2013	2014	2013
China	CNY	1.11	1.06	1.26	1.07
Euro zone	EUR	9.08	8.65	9.48	8.89
Great Britain	GBP	11.24	10.19	12.11	10.64
United States	USD	6.81	6.53	7.79	6.46
Russia	RUB	0.18	0.21	0.14	0.20

Accounting principles

Revenue recognition

Volvo Car Group's recognised net revenue mainly consists of sales of goods and services. Net 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 has 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. 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 obligations or residual value guarantees, and for which significant risks remain with Volvo Car Group, are carried as operating leases. Operating leases where in previous annual reports presented among tangible assets, as assets under operating lease in the balance sheet. As of December 31 2014, contracts with a term of 12 months or less have been reclassified and are now presented as part of inventory. Assets related to contracts with a term exceeding 12 months will continue to be presented among tangible assets as assets under operating lease. Refer to Note 17—Tangible assets and Note 19—Inventories for further details regarding the reclassification of repurchase agreements. 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

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

the commitment termination is evaluated continuously. Principles related to repurchase obligations are further explained in the section Revenue recognition.

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 arised on a straight-line basis over the lease contract period.

An arrangement that is not in the legal form of a lease is accounted for as a lease if it is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the 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 that arise between the tax-related 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 asset 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.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

Group contributions

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.

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.

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, dealer network and investments in IT systems and software. Intangible assets such as trademarks and dealer networks are normally identified and measured at fair value in connection with business combinations. Both acquired and internally generated intangible assets, other than research and development expenses, are recognised at acquisition cost, less accumulated amortisation 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 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. Research costs during the concept phase are charged to the income statement as they arise. Development costs for new products, production systems and software are capitalised at manufacturing cost beginning on the date when it is probable that the development expenditure will generate future economic benefits. Development costs are capitalised to the extent that attributable costs can be measured reliably and both technical feasibility and successful marketing are assured. If the conditions for capitalisation are not met, the costs are recognised in the Income statement as expenses in the period they occur. Capitalised development costs comprise all expenditures that can be directly attributed to the development phase and that serves to prepare the asset for use, including development related overhead and borrowing cost.

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

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 economic 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. 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 and the useful life cannot be assessed why no amortisation is made. Dealer network is estimated to have a useful life based on the fact that it has been proven historically to have had a stable basis of dealers.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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

Amortisation is included in cost of sales, 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 substantial period 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. The 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 economic 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 (whereof frames 50 years)	14.5–50 years
Land improvements	30 years
Machinery	8–30 years
Equipment	3–20 years

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 or 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 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. For these assets as well as assets with an indefinite useful life, the asset's recoverable amounts are 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 one cash-generating unit (CGU). When an indication is confirmed, an impairment loss is recognised to the extent that the carrying amount exceeds its recoverable amount. Previously recognised impairment loss is reversed 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

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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.

Classification of financial assets and liabilities

The Group classifies its financial assets in the following categories; financial assets at fair value through profit and loss, loans and receivables, financial liabilities at fair values through profit and loss and other financial liabilities. Classification takes place at initial recognition. Exceptions from these principles apply to financial instruments included in hedge accounting, which are described further in the section Hedge accounting.

Financial assets in the consolidated balance sheet encompass interest-bearing receivables, trade receivables, other financial assets, derivative assets and cash and cash equivalents. Derivative instruments include forwards, options and swaps used primarily to cover risks relating to exchange rate, exposure to interest rate risks and price fluctuations on electricity. Financial liabilities in the consolidated balance sheet mostly consist of trade payables, loans and derivative liabilities.

Recognition and measurement 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. Receivables are recognised in the balance sheet when Volvo Car Group has a contractual right to receive payment and liabilities are recognised when the counterparty has performed and there is a contractual obligation to pay. Financial assets and liabilities are reported on settlement date, with the exception of derivative instruments, which are reported on the trade date.

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

Loans and receivables are subsequently measured at amortised cost. Accounts receivable are recognised at the amount expected to be received, i.e. after deduction of bad debts allowance. A bad debt allowance has 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. 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.

Borrowings are initially recognised at fair value net of transaction-costs incurred. After initial recognition, borrowings are valued at amortised cost using the effective interest method.

Financial assets carried at fair value through the income statement

A financial asset is assigned to this category if it is held for trading. Derivative instruments with a positive market value are assigned to this category, unless they are included in hedge accounting. 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 or as financial income/expense. Derivatives with positive fair values (unrealised gains) are recognised as other current assets.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, for example accounts receivable and loan receivables, are assigned to this category. Cash and cash equivalents are also assigned to this category. Loans and receivables are carried at amortised cost except for accounts receivable that have a short duration and are therefore valued at nominal value without discounting to net present value. The nominal value for these short term items will reflect the fair value.

Financial liabilities at fair value through the income statement

Derivative instruments with a negative fair value are assigned to this category, unless they are included in hedge accounting. Changes in the fair values 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 or as financial income/expense. Derivatives with negative fair values (unrealised losses) are recognised as other current liabilities.

Other financial liabilities

This category includes financial liabilities such as trade payables as well as borrowings and repurchase commitments.

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. Further, it is necessary for the hedge to protect the risk as effectively as intended, that the effectiveness of the measure can be demonstrated at all times to be sufficiently high through effectiveness testing, and that hedging documentation has been prepared. Volvo Car Group apply hedge accounting for derivate instruments related to hedging of currency risk in future commercial cash flows. Volvo Car Group also applies hedge accounting of net investments in foreign operations. Hedge accounting is applied for derivative instruments that were acquired for the purpose of hedging expected future commercial cash flows in foreign currencies against currency rate risks. A cash flow hedge is a hedge held to reduce the risk of an impact on the income statement from foreign exchange changes in cash flow relating to a future transaction. In cash flow hedge accounting, the derivative is recognised in the balance sheet at fair value, and changes in the fair value is recognised under other comprehensive income and accumulated in the hedge reserve in equity. Amounts that have been recognised in the hedge reserve in equity are recognised in the income statement in the same period as the payment flows reach the income statement. 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 other comprehensive income to the income statement and are included in operating income. 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 under other comprehensive income. 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 on page 47. See also Note 21—Financial risks and financial instruments for more information regarding financial instruments.

Derecognition of financial assets and liabilities

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

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

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 is recognised. 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. 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 or cancelled or has expired. For further information regarding financial instruments refer to Note 21—Financial risks and financial instruments.

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. Furtermore, 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.

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 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.

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 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 annually 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 and 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.

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other 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.

Provisions

Provisions are recognised in the balance sheet when a legal or constructive obligation exist 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 policy and disclosures

New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on January 1, 2014 but have had no material impact on the group:

IFRS 10—Consolidated financial statements

IFRS 10 is based on existing principles by identifying the concept of control as the determining factor for assessment of whether a company should be included in the consolidated financial statements. The

NOTE 1—ACCOUNTING PRINCIPLES (Continued)

standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11—Joint arrangements

IFRS 11 provides guidance for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. Joint arrangements are divided into two categories—joint operations and joint ventures. In joint operations each joint venture accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint arrangement. In joint ventures, each joint venture shall account for its interest using the equity method.

IFRS 12—Disclosure of interests in other entities

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and structured entities. The new standard has resulted in extended disclosures for the Volvo Car Group.

New standards and interpretations not yet adopted by the Group

When preparing the consolidated financial statements as of December 31, 2014, a number of standards, interpretations and amendments have been published, but have not yet become effective. None of these are expected to have a significant effect on the consolidated financial statements of the Group except those stated below. The following is a preliminary assessment of the effect that the implementation of these standards and interpretations could have on Volvo Car Group's financial statements.

IFRS 9—Financial instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces the guidance in IAS 39. IFRS 9 establishes three primary measurement categories for financial assets: amortised cost, fair value through Other comprehensive income and fair value through the income statement. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. 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 the income statement. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. Instead It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

IFRS 15—Revenue from contracts with customers

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows 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 good or service. The standard replaces IAS 18—Revenue and IAS 11—Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Other changes in standards and interpretations that enter into force on January 1, 2015 or subsequently are not expected to have any 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. The estimates are based on historical experience and assumptions that are deemed reasonable and realistic in the circumstances. The results of these estimations and assessments are then 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 risks

In the course of its operations, Volvo Car Group is exposed to residual value risks through sales combined with repurchase agreements and sales to external rental company 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 remains with the Group. In cases where significant risks pertaining to vehicles remain with Volvo Car Group, the vehicles are generally 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. 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 in cases where no significant risks remain with the Group. A provision is made for the residual value risk related to the guarantee 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 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 negative impact on the prices of new and used vehicles. A decline in prices of the vehicles may negatively affect the consolidated income. When the Group has entered into a residual value guarantee in relation to a vehicle sale, there may be a question of judgement regarding whether or not significant risks and rewards of ownership have been transferred to the customer. If the previous assessment of retained risk by Volvo Car Group is proven to be incorrect and it is instead determined that significant risks are retained by the Group, revenue in the coming period will decline and instead be distributed over several reporting periods. Refer to Note 1—Accounting principles for a description of Volvo Car Group's revenue recognition policy relating to operating lease contracts.

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 account of forecast operating results and the impact on earnings of the reversal of taxable temporary differences. The measurement of deferred tax assets is subject to uncertainty and the actual result may diverge from these judgements due for example to future changes in business climate and altered tax laws. 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.

NOTE 2—CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Impairment, amortisation and depreciation of non-current assets

The Volvo Car Group has substantial values reported in the balance sheet regarding non-current assets. Property, plant and equipment and intangible assets 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 the estimated useful life is incorrect, or circumstances change such that the estimated economic useful life has to be revised, an impairment loss or additional depreciation expense could result in future periods.

The carrying amounts of non-current 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 the long-term planning, which is approved by Management and which is valid at the date of conduction 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.

Inventories

Inventories are measured at the lower of cost 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.

Post-employment benefits

The value of pension obligations for defined benefit obligations is determined through actuarial calculations based on assumptions about the discount rate, future salary increases, inflation, mortality rates and demographic conditions. Every change in these assumptions affects the calculated value of the post-employee benefits obligations. The discount rate, which is the most critical assumption, is based on market return on high-quality corporate and government bonds that are denominated in which the benefits will be paid and with maturities corresponding to the related pension liability. A lower discount rate increases the present value of post-employee benefits obligations and their cost while a higher discount rate has the reverse effect. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in pension and other post-employment benefit obligations. Refer to Note 24—Post employment benefits for the presentation of carrying values and further information on pension provisions.

Warranty

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

All amounts are in MSEK unless otherwise stated.

NOTE 2—CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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. 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 Volvo Car Group are involved in legal proceedings covering a range of different matters, which are pending 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. Refer to Note 29—Contingent liabilities for disclosure of values related to legal claims.

Tax processes

Volvo Car Group is also, 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.

NOTE 3—NET REVENUE

The Net revenue allocated to geographical regions:	**2014**	**2013**
China	18,884	18,793
US	14,205	14,132
Sweden	19,746	17,866
Western Europe(1)	53,761	47,192
of which Germany	*9,141*	*7,470*
of which United Kingdom	*9,736*	*6,931*
Other markets	23,363	24,262
of which Russia	*4,398*	*4,526*
of which Japan	*3,312*	*4,595*
Total	**129,959**	**122,245**

(1) Norway, Denmark, Finland, Netherlands, Belgium, France, Spain, Italy, Germany, Switzerland, Austria, Ireland, UK, Greece and Portugal.

For each significant category of revenue, see additional information in the Board of Directors report.

NOTE 4—EXPENSES BY NATURE

	2014	2013
Material cost incl. freight and distribution	−89,546	−85,013
Warranty expenditure	−2,032	−1,808
Personnel	−18,622	−18,557
Amortisation/depreciation	−6,906	−6,947
Other	−10,966	−8,521
Total	**−128,072**	**−120,846**

Capitalised product development costs has reduced the amounts presented as personnel and other. During the year the group has reclassified lease agreements with maturity less than one year from assets held under operating leases to inventory. As a result, MSEK 716 (769) has been reclassified from depreciation to material cost incl. freight and distribution.

NOTE 5—RELATED PARTIES

During the year, Group companies entered into the following trading transactions with related parties that are not consolidated in the Volvo Car Group:

	Sales of goods, services and other		Purchases of goods, services and other	
	2014	2013	2014	2013
Related companies[1]	3,872	945	−670	−350
Associated companies and Swedish joint ventures	1,699	2,641	−1,252	−1,533

	Receivables from		Payables to	
	2014	2013	2014	2013
Related companies[1]	3,263	1,098	755	562
Associated companies and Swedish joint ventures	30	65	71	72

(1) Balances and transactions with Zhejiang Geely Holding Group., Ltd and its subsidiaries, companies that are not part of the Volvo Car Group, are classified as balances and transactions with related companies. For joint ventures and associated companies see Note 14—Investments in joint ventures and associates.

Significant related party transactions

Since 2012, Volvo Car Group has an agreement with a subsidiary of Shanghai Geely Zhaoyuan International Investment Co., Ltd for licensing of certain intellectual property rights from Volvo Car Group, to enable production of Volvo cars in the Chengdu and Daqing plants.

During 2014, Volvo Car Group has entered into an agreement with Zhongjia Automobile Manufacturing (Chengdu) Co., Ltd related to its usage of certain Volvo Car Group owned vendor tools, which has resulted in an income of MSEK 13.

In January 2014, the joint venture company Shanghai Volvo Car Research and Development Co., Ltd was established in China. The purpose of the new joint venture is to engage in services supporting the development, production and sales of Volvo cars in China.

In April 2014, the joint venture company Daqing Volvo Car Manufacturing Co., Ltd bought the shares in Kaixuan Automobile Parts Manufacturing (Daqing) Co., Ltd, which owns production facilities in Daqing, from Zhejiang Geely Holding Group Co., Ltd and Shanghai Geely Zhaoyuan International Investment Co., Ltd. Furthermore, Daqing Volvo Car Manufacturing Co., Ltd has incorporated the

NOTE 5—RELATED PARTIES (Continued)

company Daqing Fengwo Car Distribution Co., Ltd as a wholly owned subsidiary. For further information see Note 14—Investments in joint ventures and associates.

In May 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 of MSEK 36.

In June 2014, Volvo Car Group received an entry fee from Zhongjia Automobile Manufacturing (Shanghai) Co., Ltd of MSEK 106, relating to an extension of the technology license for production of Volvo cars in the Chengdu plant. Furthermore, in December, 2014 Volvo Car Group received an another entry fee of MSEK 157 and a royalty of MSEK 36 from Daqing Volvo Car Manufacturing Co., Ltd, relating to the technology licenses to produce Volvo cars in the Daqing plant.

In December 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. The agreement has resulted in an income related to sale of licenses of MSEK 407, other income of MSEK 170 and capitalised intangible assets of MSEK 435.

During 2014, Volvo Car Group has also received technology fees and trademark licences fees of MSEK 450 whereof MSEK 433 from Zhongjia Automobile Manufacturing (Shanghai) Co., Ltd and MSEK 17 from Daqing Volvo Car Manufacturing Co., Ltd.

Licenses and royalties are classified as other operating income in the income statement.

During 2014, Volvo Car Group has sold tools and components to Daqing Volvo Car Manufacturing Co., Ltd for the production of the XC90 Classic of MSEK 513, whereof MSEK 506 is reflected in net revenue and MSEK 7 is reflected in other operating income.

Furthermore during 2014, Geely Sweden AB has received an unconditional shareholders' contribution from Shanghai Geely Zhaoyuan International Investment Co., Ltd. The shareholders' contribution was initially received by Geely Sweden Holdings AB from Shanghai Geely Zhaoyuan International Investment Co., Ltd and was then given to Geely Sweden Automotive AB and thereafter to Geely Sweden AB.

Volvo Car Group does not engage in any transactions with Board members or senior executives except remuneration for services. For further information about remunerations, see Note 9—Employees and remuneration.

NOTE 6—AUDIT FEES

	2014	2013
Deloitte		
Audit fees	−24	−22
Audit-related fees	−4	−3
Tax services	−1	−1
Other services	−8	−9
Total	**−37**	**−35**

Audit fees involve audit 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.

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**.

All amounts are in MSEK unless otherwise stated.

NOTE 7—OTHER OPERATING INCOME AND EXPENSES

	2014	2013
Other operating income		
Licences	896	323
Royalty	530	—
Foreign exchange gain	—	775
Other	527	411
Total	**1,953**	**1,509**

	2014	2013
Other operating expenses		
Foreign exchange loss	−639	—
Royalty	−264	−351
Restructuring costs	−111	−60
Property tax	−73	−65
Other	−605	−692
Total	**−1,692**	**−1,168**

For furter information, see note 5—Related parties. For information regarding the treatment of ineffective hedge contracts, see note 21—Financial risks and financial instruments.

NOTE 8—LEASING

Volvo Car Group as lessor

Operational lease contracts are recognised as non-current assets in assets held under operating leases 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—Other 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	2014	2013
No later than 1 year	473	549
Later than 1 year and no later than 5 years	357	420
Later than 5 years	—	—
Total	**830**	**969**

All amounts are in MSEK unless otherwise stated.

NOTE 8—LEASING (Continued)

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	2014	2013
Minimum lease payments	−1,020	−934
Contingent rents	−62	−47
Less subleases	71	15
Total	**−1,011**	**−966**

Operating lease commitments per Dec 31, 2014	Minimum lease payments	Less subleases	Total	Present value of operating lease commitments less subleases
No later than 1 year	914	32	882	863
Later than 1 year and no later than 5 years	1,915	122	1,793	1,586
Later than 5 years	2,710	295	2,415	1,667
Total	**5,539**	**449**	**5,090**	**4,116**

All amounts are in MSEK unless otherwise stated.

NOTE 8—LEASING (Continued)

Finance lease contracts

Volvo Car Group holds finance lease contracts for production equipment and 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, 2013[1]	92	2
Divestments and disposals	−2	—
Effect of foreign currency exchange differences	−3	—
Balance at December 31, 2013	**87**	**2**
Additions	—	7
Effect of foreign currency exchange differences	7	—
Balance at December 31, 2014	**94**	**9**
Accumulated depreciation		
Balance at January 1, 2013[1]	−41	—2
Divestments and disposals[1]	−7	—
Balance at December 31, 2013	**−48**	**−2**
Depreciation expense	−9	—
Effect of foreign currency exchange differences	−3	—
Balance at December 31, 2014	**−60**	**−2**
Net balance at December 31, 2013[1]	**39**	**—**
Net balance at December 31, 2014	**34**	**7**

Gross finance lease liabilities—minimum lease payments	Dec 31, 2014	Dec 31, 2013
No later than 1 year	10	33
Later than 1 year and no later than 5 years	95	122
Later than 5 years	4	6
Total	**109**	**161**
Future finance charges on finance leases	**−3**	**−22**
Present value of finance lease liabilities	**106**	**139**

The present value of finance lease liabilities is as follows:

Gross finance lease liabilities—minimum lease payments	Dec 31, 2014	Dec 31, 2013
No later than 1 year	9	25
Later than 1 year and no later than 5 years	93	109
Later than 5 years	4	5
Total	**106**	**139**

NOTE 8—LEASING (Continued)

The finance lease liabilities are included in the financial statement as:	Dec 31, 2014	Dec 31, 2013
Other non-current liabilities (Note 26)	98	114
Other current liabilities (Note 27)	8	25
Total	**106**	**139**

(1) The net book value for 2013 has been adjusted by MSEK −130 since an purchase on instalment previously was classified as a finance lease.

NOTE 9—EMPLOYEES AND REMUNERATION

Average number of employees by region:	2014	Of whom women	2013	Of whom women
Sweden	16,022	22%	15,786	23%
Nordic countries other than Sweden	333	29%	342	29%
Belgium	4,685	14%	4,171	12%
Europe other than the Nordic countries and Belgium	1,056	39%	991	39%
North and South America	414	23%	421	23%
China	905	33%	753	33%
Asia other than China	627	35%	679	35%
Other countries	97	35%	99	35%
Total	**24,139**	**24%**	**23,242**	**22%**

Number of Board members and senior executives(1)	Dec 31, 2014 Board members (Chief Executive Officers and senior executives)	Of whom women	Dec 31, 2013 Board members (Chief Executive Officers and senior executives)	Of whom women
Parent company	4	0%	4	0%
	82	18%	98	18%
Subsidiaries	(210)	(20)%	(218)	(20)%
	86	**17%**	**102**	**17%**
Total	**(210)**	**(20)%**	**(218)**	**(20)%**

Salaries and other remunerations, total	2014 Wages and salaries, other remunerations	2014 Social security expenses (of which pension expenses)	2013 Wages and salaries, other remunerations	2013 Social security expenses (of which pension expenses)
Parent company	3	1 (—)	6	2 (—)
Subsidiaries	11,750	5,193	11,087	4,808
		(2,092)		(2,194)
		5,194		**4,810**
Total	**11,753**	**(2,092)**	**11,093**	**(2,194)**

NOTE 9—EMPLOYEES AND REMUNERATION (Continued)

Salaries and other remuneration to the Board(2), CEO, Executive management team (EMT)(3) and other employees	2014 Wages and salaries, other remunerations (of which variable salaries)	2014 Social security expenses (of which pension expenses)	2013 Wages and salaries, other remunerations (of which variable salaries)	2013 Social security expenses (of which pension expenses)
Board, Chief Executive Officers and EMT	211 (54)	96 (29)	194 (34)	108 (33)
Other employees	11,542	5,098 (2,063)	10,899	4,702 (2,161)
Total	**11,753 (54)**	**5,194 (2,092)**	**11,093 (34)**	**4,810 (2,194)**

(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 CFO in Volvo Car Corporation and key management personnel other than board members. For further information regarding EMT, see Board of Directors' report.

Volvo Car Group's outstanding post-employment benefits obligations to the Board members, Chief Executive Officers and EMT amount to MSEK 74 (113).

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

During 2014, no members of EMT, left the Volvo Car Group compared with 2013, when 3 members left. Remunerations during the notice period and severance pay amounted to MSEK 0 (21), excluding social expenses.

Incentive programmes

Volvo Car Group has two global incentive programmes; a short term incentive programme (STI) including all employees and a long term incentive programme for EMT and senior executives (LTI). The design and payout of the programmes are subject to the Board of Directors' annual approval.

Short term incentive program

The purpose of the STI-programme 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 in order to reach the long term targets. The qualifier for all STI plans is that the profit target (EBIT) is reached. The short term incentive has a defined ceiling in relation to base salary and earned remuneration is paid in cash. The cost for the STI-programme amounted to MSEK 618 (678) including social security cost, of which MSEK 28 (27) relates to the Executive management team.

Long term incentive program

The purpose of the LTI-programme is to attract, motivate and retain key competence within Volvo Car Group. The LTI-programme 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 LTI program is based on a synthetic share price derived from variables known to determine the value of an automotive OEM. The calculated market value is based on the ROIC and volume growth in the Business plan five years ahead. The Business plan is adopted annually by the board. The variable compensation is cash based and set to 30% of the annual base salary. The cost for the LTI-programme amounted to MSEK 152 (113) including

NOTE 9—EMPLOYEES AND REMUNERATION (Continued)

social security cost, of which MSEK 27 (19) relates to the Executive management team. The total liability amounted to MSEK 255 (197) as of December 31, 2014.

Other long-term benefits

Apart from the compensation accounted for under Incentive programmes, the Executive management team do not have any other long-term benefits.

NOTE 10—DEPRECIATION AND AMORTISATION

Operating income includes depreciation and amortisation as specified below:	2014	2013
Software	−261	−265
Capitalised product development cost	−1,374	−1,165
Other intangible assets	−1,084	−1,263
Buildings and land improvements	−457	−471
Machinery & equipment	−3,494	−3,772
Assets under operating leases	−261	−202
Total	**−6,931**	**−7,138**

Depreciation and amortisation according to plan by function:	2014	2013
Cost of sales[(1)]	−3,716	−3,938
Research and development expenses	−2,747	−2,570
Selling expenses	−80	−96
Administrative expenses	−363	−343
Other income and expense	−25	−191
Total	**−6,931**	**−7,138**

(1) Of which impairment loss MSEK 2 (7).

During the year the group has reclassified lease agreements with maturity less than one year from assets held under operating leases to inventory. Depreciation has as a result of the reclassification decreased by MSEK 716 (769).

NOTE 11—GOVERNMENT GRANTS

Volvo Car Group receives grants mainly from the Swedish Government. Grants are also received in Belgium and from the EU. In 2014, the government grants received amounted to MSEK 87 (81) and the government grants realised in the income statement amounted to MSEK 105 (76).

NOTE 12—FINANCIAL INCOME

	2014	2013
Net foreign exchange gain on financing activities	194	—
Interest income on bank deposits	131	87
Total	**325**	**87**

All amounts are in MSEK unless otherwise stated.

NOTE 13—FINANCIAL EXPENSES

	2014	2013
Interest effect from the measurement of repurchase obligations	−186	−197
Interest expenses related to provision for post-employment benefits	−126	−189
Expenses for credit facilities	−107	−46
Net foreign exchange loss on financing activities	—	−82
Other interest expenses	−485	−333
Other financial expenses	−183	−27
Total	**−1,087**	**−874**

NOTE 14—INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	2014	2013
Share of income in joint ventures	58	109
Share of income in associates	46	70
Total	**104**	**179**

Share of income in joint ventures and associates is specified below:	2014	2013
V2 Plug-In Hybrid Vehicle Partnership HB(1)	144	114
Daqing Volvo Car Manufacturing Co., Ltd(2)	−104	—
Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd(3)	18	−5
Volvofinans Bank AB(5)	27	39
Other companies	19	31
Total	**104**	**179**

	Dec 31, 2014	Dec 31, 2013
At beginning of the year/acquired acquisition value	1,159	550
Share of net income	104	179
Investment in Daqing Volvo Car Manufacturing Co., Ltd(2)	452	133
Investment in Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd(3)	—	387
Investment in Shanghai Volvo Car Research and Development Co., Ltd(4)	49	—
Investment in VH Systems AB(6)	18	—
Capital contribution VH Systems AB	18	—
Capital repayment V2 Plug-In Hybrid Vehicle Partnership HB(1)	−176	−85
Dividends	−22	−5
Reclassification from previous year(1)	−61	—
Total	**1,541**	**1,159**

NOTE 14—INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (Continued)

Volvo Car Group's carrying amount on investments in joint ventures and associates:	Corp. ID no.	Country of incorporation	% interest held	Dec 31, 2014	Dec 31, 2013
Joint ventures					
Volvo Trademark Holding AB	556567-0428	Sweden	50	5	5
V2 Plug-In Hybrid Vehicle Partnership HB(1)	969741-9175	Sweden	50	133	226
VH Systems AB(6)	556820-9455	Sweden	50	36	—
Daqing Volvo Car Manufacturing Co., Ltd(2)	100000400012348	China	30	481	133
Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd(3)	100000400012356	China	30	400	381
Shanghai Volvo Car Research and Development Co., Ltd(4)	310000400729199	China	30	49	—
Associated companies					
First Rent a Car AB	556434-7820	Sweden	45	66	52
VCC Tjänstebilar KB	969673-1950	Sweden	37	2	2
VCC Försäljnings KB	969712-0153	Sweden	37	1	1
Volvohandelns PV-Försäljnings KB	916839-7009	Sweden	37	11	10
Volvohandelns PV-Försäljnings AB	556430-4748	Sweden	36	10	9
Volvo Event Management Corporation	444517742	Belgium	33	1	1
Göteborgs Tekniska College AB	556570-6768	Sweden	26	4	2
Volvofinans Bank AB(5)	556069-0967	Sweden	10	342	337
Carrying amount, participation in joint ventures and associates				**1,541**	**1,159**

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 these 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 Cars PHEV Holding AB and 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 2014, V2 Plug-In Hybrid Vehicle Partnership HB provided a repayment of MSEK 176 (99) to Volvo Cars PHEV Holding AB. Prior year, V2 Plug-In Hybrid Vehicle Partnership HB received a shareholders' contribution of MSEK 14 from Volvo Cars PHEV Holding AB.

(2)(3)(4) Daqing Volvo Car Manufacturing Co., Ltd, Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd and Shanghai Volvo Car Research and Development Co., Ltd are classified as joint ventures and reported in accordance with the equity method since the shareholders, Volvo Cars (China) Investment Co., Ltd, Shanghai Geely Zhaoyuan International Investment Co., Ltd and Zhejiang Geely Holding Group Co., Ltd have joint control over these China operation companies according to IFRS 11—Joint arrangements.

(2) The principal activity of the Daqing Volvo Car Manufacturing Co., Ltd is car manufacturing for the Chinese market. During 2014 Daqing Volvo Car Manufacturing Co., Ltd acquired Kaixuan Automobile Parts Manufacturing (Daqing) Co., Ltd from Zhejiang Geely Holding Group Co., Ltd and Shanghai Geely Zhaoyuan International Investment Co., Ltd and incorporated the newly established Daqing Fengwo Car Distribution Co., Ltd as wholly owned subsidiaries. In 2014, the Daqing Volvo Car Manufacturing Co., Ltd received a shareholder contribution of MSEK 452 (133).

(3) The principal activity of the Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd is to produce engines for Volvo's Chinese produced cars. Prior year, the Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd received a shareholder contribution of MSEK 387.

(4) In January 2014, Shanghai Volvo Car Research and Development Co., Ltd was established and thereby became the third joint venture company with the same set-up as Daqing Volvo Car Manufacturing Co., Ltd and Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. The purpose of the new joint venture is to engage in services supporting the production and sales of Volvo cars in China. In 2014, Shanghai Volvo Car Research and Development Co., Ltd received a shareholder contribution of MSEK 49.

NOTE 14—INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(5) Volvo Car Group holds 10 per cent of the equity shares of Volvofinans Bank AB and due to significant volume transactions and board representation, Volvo Car Group exercises significant influence on the operations which qualifies for the use of the equity method.

(6) In July 2014, the joint venture company VH System AB was established between Volvo Cars subsidiary Volvo Car Sverige AB and Volvohandlarföreningen Ekonomiska förening. The purpose is to formalise a future strategy for the commonly owned Dealer Management Systems developed and maintained by the Volvo Car Sverige AB's subsidiary Volvo Car Retail Solutions AB. VH System AB is reported in accordance with the equity method since none of the holding companies has the decision-making power over the operation. In September 2014, VH System AB received an unconditional shareholder's contribution of MSEK 18 from Volvo Car Sverige AB.

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

Summarised balance sheets	V2 Plug-In Hybrid Vehicle Partnership HB(1)		Daqing Volvo Car Manufacturing Co., Ltd(2)(9)		Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd(3)		Volvofinans Bank AB(5)(10)	
	2014	2013	2014	2013	2014	2013	2014	2013
Percentage voting/ownership	50	50	30	30	30	30	10	10
Non-current assets	423	495	2,473	—	719	6	24,873	23,994
Cash and cash equivalents	44	71	1,367	337	669	1,289	1,785	2,586
Other current assets	43	124	893	107	908	180	2,641	3,283
Total assets	**510**	**690**	**4,733**	**444**	**2,296**	**1,475**	**29,299**	**29,863**
Equity(7)	454	628	1,723	444	1,565	1,274	3,427	3,385
Non-current liabilities(7)(8)	49	46	610	—	5	—	24,148	24,887
Current liabilities(8)	7	16	2,400	—	726	201	1,724	1,591
Total equity and liabilities	**510**	**690**	**4,733**	**444**	**2,296**	**1,475**	**29,299**	**29,863**

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

(8) In Daqing Volvo Car Manufacturing Co., Ltd the non-current liability is a financial liability and the current liabilities includes a financial liability of MSEK 1,071 (0).

(9) Year 2014 includes the consolidated figures from Daqing Volvo Car Manufacturing Co., Ltd and it's subsidiary Kaixuan Automobile Parts Manufacturing (Daqing) Co., Ltd.

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

Summarised income statements	V2 Plug-In Hybrid Vehicle Partnership HB(1)		Daqing Volvo Car Manufacturing Co., Ltd(2)(9)		Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd(3)		Volvofinans Bank AB(5)	
	2014	2013	2014	2013	2014	2013	2014	2013
Net sales	256	372	762	—	1,066	53	3,887	3,724
Profit/loss from continuing operations(11)	170	230	−215	−1	56	−15	1,007	215
Profit (loss) for the year	**170**	**230**	**−215**	**−1**	**56**	**−15**	**1,007**	**215**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive income for the year	**170**	**230**	**−215**	**−1**	**56**	**−15**	**1,007**	**215**
Dividends received from the associates during the year	—	—	—	—	—	—	22	5

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

(11) In Daqing Volvo Car Manufacturing Co., Ltd the loss for the year includes depreciation of MSEK 67 (0), interest income of MSEK 6 (1), interest expense of MSEK 57 (0) and tax income of MSEK 78 (0).

(11) In Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd the profit for the year includes depreciation of MSEK 24 (0), interest income of MSEK 6 (0) and tax expense of MSEK 19 (prior year; tax income of MSEK 5)

All amounts are in MSEK unless otherwise stated.

NOTE 14—INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (Continued)

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)		Daqing Volvo Car Manufacturing Co., Ltd(2)(9)		Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd(3)	
Reconciliation of summarised financial information	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Net asset of the joint venture	454	628	1,723	444	1,565	1,274
Proportion of the Group's ownership in the joint venture	50%	50%	30%	30%	30%	30%
Adjustments for differences in accounting principles	−94	−88	—	—	—	—
Other adjustments	—	—	−36	—	−70	—
Carrying amount of the Group's interest in the joint venture	**133**	**226**	**481**	**133**	**400**	**381**

Significant restrictions

For the Chinese joint ventures there are restrictions on the Volvo Car Group's ability to access or use cash from these joint ventures, 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.

NOTE 15—TAXES

Income tax recognised in income statement	2014	2013
Current income tax for the year	−764	−833
Current income tax for previous years	−31	15
Deferred taxes	255	680
Other taxes	−116	−34
Total	**−656**	**−172**

Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate	2014	2013
Income before tax for the year	1,490	1,132
Tax according to applicable Swedish tax rate, 22%	−328	−249
Operating income/costs, non-taxable	−36	−22
Other taxes, non-taxable	−116	−34
Capital gains or losses, non-taxable	—	—
Effect of different tax rates	−93	−90
Tax effect on deferred tax due to change of tax rate	−3	−10
Revaluation of previously non-valued losses and other temporary differences	−64	161
Other	−16	72
Total	**−656**	**−172**

NOTE 15—TAXES (Continued)

Income tax recognised directly in equity	2014	2013
Deferred tax		
Tax effects on group contributions	2,485	—
Tax effects on cash flow hedge reserve	−251	3
Tax effect of remeasurement of provisions for post employment benefits	−531	455
Tax effects on translation difference, hedge instruments of net investments in foreign operations	−54	−28
Total	**1,649**	**430**

Specification of deferred tax assets	Dec 31, 2014	Dec 31, 2013
Goodwill arising from the purchase of the net assets of a business	102	333
Provision for employee benefits	1,340	769
Unutilised tax loss carry-forwards	3,008	4,067
Reserve for unrealised income in inventory	106	364
Provision for warranty	301	271
Other temporary differences	−96	542
Total deferred tax assets	**4,761**	**6,346**
Netting of assets/liabilities	−2,226	−4,181
Total deferred tax assets, net	**2,535**	**2,165**

Specification of deferred tax liabilities	Dec 31, 2014	Dec 31, 2013
Fixed assets	5,740	5,873
Other temporary differences	−177	67
Total deferred tax liabilities	**5,563**	**5,940**
Netting of assets/liabilities	−2,226	−4,181
Total deferred tax liabilities, net	**3,337**	**1,759**

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 USA. Of the total MSEK 3,008 (4,067) recognised deferred tax assets related to tax loss carry-forwards, MSEK 2,228 (3,736) relates to Sweden with indefinite periods of utilisation. MSEK 697 (288) relates to USA where tax loss carry-forwards are expected to be utilised before expiration date. The assessement 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 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 main part of losses carried forward is related to jurisdictions where temporary differences exceed losses carried forward and where periods of utilisation are indefinite.

NOTE 15—TAXES (Continued)

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, 2014	Dec 31, 2013
Net book value of deferred taxes at January 1	406	264
Deferred tax income/expense recognised through income statement	255	681
Change in deferred taxes recognised directly in equity	−1,649	−430
Exchange rate impact	186	−109
Net book value of deferred taxes at December 31	**−802**	**406**

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. As of December 31, 2014, the recognised tax loss carry-forwards amounted to MSEK 12,216 (18,048). 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, 2014	Dec 31, 2013
Due date		
2015	—	—
2016	—	—
2017	—	—
2018	17	25
2019	—	18,023
2020–	12,199	—
Total	**12,216**	**18,048**

Significant tax loss carry forwards are related to countries with long or indefinite periods of utilisation. Of the total unused tax loss carry forwards, MSEK 0 (MSEK 0), relates to unused tax losses for which no deferred tax asset is recognised in the statement of financial position and it expires 2020.

NOTE 16—INTANGIBLE ASSETS

	Capitalised product development cost(1)	Software	Trademark and goodwill(2)	Other intangible assets(3)	Total
Acquisition cost					
Balance at January 1, 2013	5,878	3,670	3,598	9,042	22,188
Additions	4,089	208	—	—	4,297
Divestments and disposals	−1	−41	—	−184	−226
Effect of foreign currency exchange differences	—	8	—	−4	4
Balance at December 31, 2013	**9,966**	**3,845**	**3,598**	**8,854**	**26,263**
Additions	4,748	312	26	443	5,529
Divestments and disposals	—	−302	—	6	−296
Effect of foreign currency exchange differences	—	13	—	23	36
Balance at December 31, 2014	**14,714**	**3,868**	**3,624**	**9,326**	**31,532**
Accumulated amortisation and impairment					
Balance at January 1, 2013	−990	−2,232	—	−3,300	−6,522
Amortisation expense	−1,165	−265	—	−1,263	−2,693
Divestments and disposals	1	45	—	184	230
Effect of foreign currency exchange differences	—	−9	—	2	−7
Balance at December 31, 2013	**−2,154**	**−2,461**	**—**	**−4,377**	**−8,992**
Amortisation expense	−1,374	−261	—	−1,084	−2,719
Divestments and disposals	—	301	—	−6	295
Effect of foreign currency exchange differences	—	−15	—	−3	−18
Balance at December 31, 2014	**−3,528**	**−2,436**	**—**	**−5,470**	**11,434**
Net balance at December 31, 2013	**7,812**	**1,384**	**3,598**	**4,477**	**17,271**
Net balance at December 31, 2014	**11,186**	**1,432**	**3,624**	**3,856**	**20,098**

(1) Volvo Car Group has capitalised borrowing costs related to product development of MSEK 192 (108). A capitalisation rate of 4,6% (4,8%) was used to determine the amount of borrowing costs eligible for capitalisation.

(2) Of the total Net balance at December 31 2014, Goodwill amounts to MSEK 26 (0).

(3) Other intangible assets refers to licences, dealer network, patents 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 a basis for the valuation.

Management's business plan for 2015–2019 and volume programs for 2020–2023 are used as a basis for the calculation. The available future volume programs are considered in the calculation for increased

NOTE 16—INTANGIBLE ASSETS (Continued)

precision. 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 and volume programs are 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 builds 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.

A discount rate of 10.8 (11.1) per cent has been used. In 2014, 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. 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(5)	Total
Aquisition cost					
Balance at January 1, 2013	13,072	62,847	1,728	1,706	79,353
Additions	331	2,098	1,897	1,202	5,528
Divestments and disposals	−696	−3,712	—	−743	−5,151
Reclassifications	64	1,341	−1,405	—	—
Effect of foreign currency exchange differences	45	293	—	−3	335
Balance at December 31, 2013	**12,816**	**62,867**	**2,220**	**2,162**	**80,065**
Additions	75	4,244	3,186	1,106	8,611
Divestments and disposals	−115	−2,275	—	−970	−3,360
Reclassifications	70	702	−772	—	—
Effect of foreign currency exchange differences	311	880	3	−4	1,190
Balance at December 31, 2014	**13,157**	**66,418**	**4,637**	**2,294**	**86,506**
Accumulated depreciation and impairment					
Balance at January 1, 2013	−6,715	−45,278	—	−216	−52,209
Depreciation expense	−471	−3,772	—	−202	−4,445
Divestments and disposals	620	3,597	—	148	4,365
Effect of foreign currency exchange differences	−40	−191	—	−2	−233
Balance at December 31, 2013	**−6,606**	**−45,644**	**—**	**−272**	**−52,522**
Depreciation expense	−457	−3,494	—	−261	−4,212
Divestments and disposals	102	2,001	—	188	2,291
Effect of foreign currency exchange differences	−174	−665	—	−7	−846
Balance at December 31, 2014	**7,135**	**−47,802**		**−352**	**−55,289**
Net balance at December 31, 2013	**6,210**	**17,223**	**2,220**	**1,890**	**27,543**
Net balance at December 31, 2014	**6,022**	**18,616**	**4,637**	**1,942**	**31,217**

(1) Buildings and land include finance leases of MSEK 34 (39) and Machinery and equipment includes finance leases of MSEK 7 (130). For further information regarding finance leases, see Note 8—Leasing.

(2) Depreciation expense include impairment loss of MSEK 2 (7). 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) Machinery and equipment includes capitalised borrowing costs of MSEK 94 (123).

(5) Volvo Car Group has reclassified lease agreements with maturity less than one year from assets held under operating leases to inventory. The reclassification has affected the Net balance as at December 31, 2014 by MSEK 2,738 (2,255).

NOTE 18—OTHER NON-CURRENT ASSETS

	Dec 31, 2014	Dec 31, 2013
Receivables from related companies and group companies	10,799	—
Restricted cash	424	930
Endowment insurance for pensions	191	—
Rental deposition	32	27
Other non-current assets	201	120
Total	**11,647**	**1,077**

Change in other non-current assets during the year	2014	2013
Balance at January 1	1,077	734
Received group contribution	10,574	—
Change in restricted cash	−506	424
Change in endowment insurance for pensions	191	—
Other changes	311	−81
Balance at December 31	**11,647**	**1,077**

For further information see Note 21—Financial risks and financial instruments.

NOTE 19—INVENTORIES

	Dec 31, 2014	Dec 31, 2013
Raw materials and consumables	142	130
Products in progress	2,181	2,118
Finished goods and goods in resale	12,045	12,168
Total	**14,368**	**14,416**
Of which value adjustment reserve:	−221	−191

The cost of inventories recognised as an expense and included in cost of sales amounted to MSEK 105,316 (99,549).

The cost of inventories recognised as an expense includes MSEK 1 (50) in respect of write-downs of inventory to net realisable value.

During 2014, Volvo Car Group has reclassified lease agreements with maturity less than one year from assets held under operating leases to inventory. The reclassification has increased the inventory value by MSEK 2,738 (2,255).

NOTE 20—ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

	Dec 31, 2014	Dec 31, 2013
Accounts receivable from non-group companies	5,777	5,062
Accounts receivable from related companies and group companies	2,227	556
VAT receivables	738	896
Prepaid expenses and accrued income	1,752	1,078
Other financial receivables	694	434
Other receivables[(1)]	1,300	373
Total	**12,488**	**8,399**

(1) Whereof receivables from group companies MSEK 719 (0).

NOTE 20—ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS (Continued)

Aging analysis of accounts receivable and receivables from related companies	Not due	1–30 days overdue	30–90 days overdue	>90 days overdue	Total
2014					
Accounts receivable gross	6,636	486	143	799	8,064
Provision doubtful accounts receivable	−2	−7	−18	−33	−60
Accounts receivable net	**6,634**	**479**	**125**	**766**	**8,004**
2013					
Accounts receivable gross	4,782	242	15	651	5,690
Provision doubtful accounts receivable	−8	—	−29	−35	−72
Accounts receivable net	**4,774**	**242**	**−14**	**616**	**5,618**

Accounts receivable amounting to MSEK 8,004 (5,618) includes provision for doubtful accounts receivable of MSEK 60 (72). 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, 2014, the total credit loss reserves for account receivables amounted to 0.75 (1.28) 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.

Change in provision for doubtful accounts receivable is as follows:	2014	2013
Balance at January 1	72	141
Additions	29	24
Reversals	−29	−83
Write-offs	−11	−10
Translation difference	−1	—
Balance at December 31	**60**	**72**

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, interest rate risk, credit risk, commodity price risk, refinancing risk and liquidity risk.

Volvo Car Group treasury function is responsible for management and control of the financial risks, ensures that appropriate financing is in place through loans and committed credit facilities and manages the Group's liquidity. The management of financial risks is governed by Volvo Car Group 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.

During the year, the Group treasury policy has been reviewed and amended. A more detailed policy on commercial credit risk has been decided and the requirement on short term liquidity has been increased. Volvo Cars shall always have committed back-up facilities or cash and marketable securities available corresponding to 10 (5) per cent of the net revenue. Furthermore, the time horizon for FX hedge activities has increased from fifteen months to twentyfour months starting January 1, 2015 and has not affected the hedges decribed below.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

Currency risk

The currency exposure arises from the production in various countries, procurement and the mix of sales currencies and has a direct impact on the Volvo Car Group's operating income, balance sheet and cash flow as well as the long-term competitiveness.

The currency risk is related to:

- expected future cash flows from sales and purchase in foreign currencies (transaction risk)
- changes in value of loans and investments (translation risk)
- net assets and liabilities of foreign subsidiaries (translation risk)

Transaction exposure risk

The currency transaction exposure risk is the risk that profitability is negatively affected by changes in exchange rates. The sales to different markets in combination with purchases in different currencies determine the transaction exposure.

Sales to markets other than Sweden generate transaction exposure. For the majority of the sales the parent company's invoices to national sales companies are in local currencies. The total currency inflow was distributed between EUR 21 (25) per cent, SEK 20 (19) per cent, CNY 21 (15) per cent, USD 12 (13) per cent, GBP 7 (6) per cent, RUB 3 (4) per cent and other currencies 16 (18) per cent. The major part of the production is in the plants in Sweden and Belgium at cost mainly in EUR and SEK. The total currency outflow was split into EUR 51 (47) per cent, SEK 30 (30) per cent, CNY 4 (5) per cent, JPY 4 (5) per cent and other currencies 11 (13) per cent.

Transaction exposure risk management

The policy for transaction risk management states that up to 80 per cent of the future expected cash flows in the coming fifteen months can be hedged with adequate financial instruments: options, forwards or combined instruments with maturities matching expected timing of cash flows. Hedging of cash flows with maturity more than fifteen months requires a Board of Directors' decision.

Maturities of cash flow hedges (forwards and call options), nominal amounts in millions, local currency

Maturity	EUR	USD	GBP	CNY	RUB	NOK	AUD	CHF	CAD	PLN	TRY
0–6 months	204	−678	−194	−2,729	−3,978	−660	−36	−47	−36	−113	−25
7–12 months	45	−273	−69	−1,873	−500	−170	−5	−23	−11	−11	—
>12 months	—	—	—	—	—	—	—	—	—	—	—
Total	**249**	**−951**	**−263**	**−4,602**	**−4,478**	**−830**	**−41**	**−70**	**−47**	**−124**	**−25**

The average duration of the portfolio was 4 (3) months. The fair value of the outstanding derivatives as at December 31, 2014 amounted to MSEK −802 (226).

The currency 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 dependent on the cash flow forecast for the coming fifteen months, market volatility and correlations. The CFaR at year end for the cash flows in one year, excluding hedges, was approximately SEK 4 billion. Another way of expressing the currency sensitivity in income and expenses in foreign currencies is to say that during 2014, a one per cent change in SEK against major currencies, excluding currency hedges, has a net impact on operating income of approximately MSEK 190.

A steering model with a benchmark level of CFaR is decided and a stipulated mandate to deviate from that benchmark is given to Group Treasury. The hedging strategy for the forecasted cash flows up to fifteen

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

months is proposed by Group Treasury and approved by the CEO/CFO. The hedging strategy is expressed as a strategic hedge level in terms of currency exposure expressed as CFaR. Group Treasury is given a tactical mandate to deviate from the strategic hedge level. The hedging strategy shall be revised at least quarterly.

Forward contracts and options are used to reduce the currency risk in expected future cash flows from sales and purchase in foreign currencies. At year end 21 (39) per cent of the forecasted cash flows in foreign currencies the coming fifteen months was hedged and during 2014 the average hedge level has been 29 (35) per cent. The transaction exposure in the Group, measured as Cash Flow at Risk (CFaR) based on fifteen months net cash flows, is reduced by 34 per cent as of end December 2014.

Hedge accounting

Hedge accounting is applied for cash flow hedging of currency risk and for net investment in foreign operations. Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting and net investment in foreign operations 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 fifteen months. Gains and losses recognised in the hedge reserve in equity on forward foreign exchange contracts as at December 31, 2014 are recognised in the income statement in the periods when the hedged forecast transaction affects the income statement.

Based on cash flow hedging portfolio, a one per cent change in the Swedish krona (SEK) against major currencies has a net impact of MSEK 170 on other comprehensive income.

The cash flow hedge reserve in shareholders' equity as at December 31, 2014 amounts to MSEK −955 (189) before tax. Due to the uncertainty in the political and economic situation in Russia, which had an impact on market conditions for the Volvo Car Group, has the short term forecasted sales in Russia been reduced. The consequence of this is that a significant part of the cash flows are no longer expected to occur and Volvo Car Group is thus over-hedged in ruble. This over- hedge is recognised in the income statement as inefficiency in cash flow hedges. The ineffectiveness in the cash flow hedges that has affected net income amounts to MSEK 181 (4). The hedge reserve for net investment in foreign operations as at December 31, 2014 amounts to MSEK −314 (−68) before tax. No ineffectiveness has affected net income for 2014 and 2013.

Fair value of derivatives for cash flow hedging	2014	2013
Hedge reserve	−955	189
Recognised in other comprehensive income	**−955**	**189**
Time value in options	−28	37
Ineffective contracts	181	—
Recognised in other operating income and expenses	**153**	**37**
Fair value of financial instruments for hedging of net investments of foreign operations		
Hedge reserve	−314	−68
Recognised in other comprehensive income	**−314**	**−68**
Total fair value	**−1,116**	**158**

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

Translation exposure risk

Translation risk in Volvo Car Group relates to the translation of net assets in foreign subsidiaries. This exposure can generate a positive or negative impact on Group earnings or change the value of equity.

	EUR	CNY	GBP	AUD	USD	Other	Total
Investments in foreign operations (MSEK)	5,005	3,866	562	427	−97	1,374	11,137
Translation exposure	**5,005**	**3,866**	**562**	**427**	**−97**	**1,374**	**11,137**

A one per cent change in the Swedish krona against major currencies has a net impact of approximately MSEK 111.

Translation risk of assets and liabilities in foreign currencies related to the operations, as accounts receivable, trade payables and guarantee provisions, will generate an impact on the income statement in other operating income. All translation of assets and liabilities to credit institutions and intercompany loans and deposits are reflected in the financial income and expenses.

Translation exposure risk management

The translation risk is primarily covered by matching the currency composition of debt with the composition of assets.

The translation risk management is managed on the following levels:

- Exposure related to the translation effects on financial asset and liabilities is managed via natural hedging or via financial derivatives.
- Exposure related to translation effects on operational items in the balance sheets is managed via financial derivatives and liquidity management.

Part of the investments in operations in the Euro zone is used for hedge accounting. 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 681 (−160). This effect does not impact the income statement but is recognised in other comprehensive income.

Volvo Car Group uses MEUR 420 of the MEUR 907 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 currency risk arising from the part of the external debt of MEUR 907 not used to hedge the net investments in EUR is managed by currency swaps. Currency gains or losses from the currency swaps are recognised in the income statement and offset the currency gains or losses from the residual part of the loan.

The translation effect arising from the external debt of MUSD 800 is naturally hedged by the translation effect on internal receivables in USD, the residual part of the loan is hedged by currency swaps, effects are recognised in the income statement.

Capital Structure

Volvo Car Group 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; currently Volvo Car Group has no external rating. The equity ratio as per December 31, 2014 is 29.9 (28.1) per cent. Volvo Car Group defines capital as shareholders' equity as at the balance sheet date amounted to MSEK 32,702 (24,638).

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

Funding and liquidity risk management

Long term funding

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.

During the year, the second and third tranche of the USD funding were drawn which means that all long term funding facilities are now fully drawn, which is according to plan.

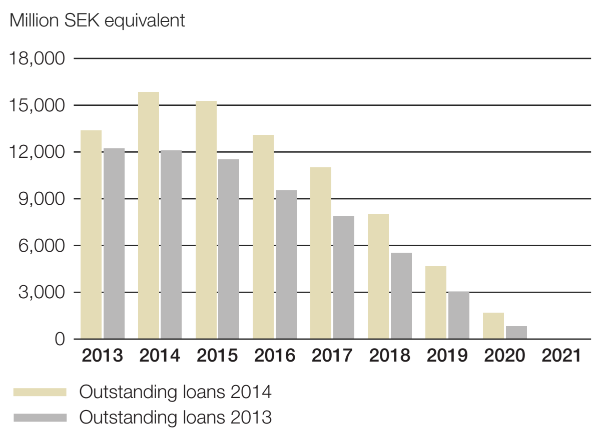
The outstanding amount of long term funding in Volvo Car Group as per year end 2014 was MSEK 15,110 (11,919). Remaining credit duration of the outstanding facilities was 4.0 (4.8) years.

Outstanding loans are shown below.

Funding	Currency	Nominal amount (million)	Maturity
Bank loan	SEK	1,000	2016
Bank loan	EUR	907	2020
Bank loan	USD	800	2021

Loan Repayment Structure	2014	2015	2016	2017	2018	2019	2020	2021
2013	137	389	2,002	1,668	2,335	2,531	2,182	813
2014	146	425	2,158	2,080	3,003	3,333	2,991	1,683

Maturity profile of external loans



In relation to all external loans there are information undertakings and covenants according to Loan Market Association (LMA) 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

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 back up facilities or free cash available corresponding to 10 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.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

In June 2014, Volvo Car Group signed a MEUR 660 revolving credit facility with a group of twelve leading global and regional banks. The MEUR 660 revolving credit facility replaces an existing MEUR 360 revolving credit facility signed early in 2013. It will serve as a back-up facility for general corporate purposes and has a tenor of three years with two extension options of one year each. The banks are well diversified and will form the core relationship bank group for Volvo Cars globally. During 2014, the facility has remained undrawn.

As at December 31, 2014, Volvo Car Group had committed back-up facilities and cash and marketable securities available of MSEK 21,469 (18,662), approximately 17 (15) 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 at year end, and available back-up 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, 2014	Up to 1 year	1–5 years	Over 5 years
Assets			
Other non-current assets	—	11,457	190
Total non-current financial assets	**—**	**11,457**	**190**
Accounts receivable	8,004	—	—
Derivative assets	665	—	—
Other current assets(1)	1,211	—	—
Marketable securities	1,047	—	—
Cash and cash equivalents	14,165	—	—
Total current financial assets	**25,092**	**—**	**—**
Total financial assets	**25,092**	**11,457**	**190**
Liabilities			
Liabilities to credit institutions	—	10,530	4,678
Other non-current liabilities(1)	—	1,236	8
Total non-current financial liabilities	**—**	**11,766**	**4,686**
Liabilities to credit institutions	932	—	—
Trade payables	14,434	—	—
Derivative liabilities	1,171	5	—
Other current liabilities(1)	5,604	—	—
Total current financial liabilities	**22,141**	**5**	**—**
Total financial liabilities	**22,141**	**11,771**	**4,686**

(1) Pre-payments, accruals, statutory recievables and liabilities are excluded as this table only includes financial assets and liabilities.

Interest rate risk management

Changes in the interest rate levels will impact Volvo Car Group's net financial income/expense or 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.

As at December 31, 2014, 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

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

less than one month. The average interest fixing term on outstanding loans was less than six months. The average cost of borrowing was 4.9 (4.8) per cent. A 100 basis points change in market interests would have an impact of MSEK 149 (93) on interest expenses.

According to the policy, the interest rate risk in Volvo Car Group's net cash position has a benchmark duration of six months. The policy allows a deviation of −6/+3 months from the benchmark. At year end the duration was 5 (5) months.

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. In 2014, Volvo Car Group had cost for raw materials of approximately SEK 8 billion. Purchases of steel and resin accounted for the largest cost.

Commodity price risk is primarily managed through contracts with the suppliers using clauses or similar constructions and fixed prices with suppliers. A one per cent change in the prices of commodities has an impact on operating income of approximately MSEK 80.

Volvo Car Group manages the changes in prices for electricity by using forward contracts. The hedging is managed by Vattenfall Power Management AB on discretionary account with certain risk limits decided by Volvo Car Group.

Credit risk management

Volvo Car Group's credit risk focuses mainly on counterparty risk in financial market transactions, investments of cash surplus and counterparty risk in connection with customer and dealer financing.

Financial counterparties

The maximum amount exposed to financial credit risk is the total of cash and cash equivalents MSEK 14,165 (15,372), investments in marketable securities MSEK 1,047 (88) and positive market value of outstanding derivative assets MSEK 665 (411). 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. Investments of cash surplus are made in the money and capital markets. All investments must meet the requirements of low credit risk and high liquidity. 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 are in place with all counterparties used for derivative transactions which is required according to Volvo Car Group treasury policy. Limits are set and limit usage is followed up for the Volvo Car Group treasury counterparties and deposits are diversified between relationship banks. Subsidiaries' bank balances are diversified in order to limit credit risk.

No financial assets and liabilities are offset in the balance sheet. Derivative contracts are subject to master netting agreements (ISDA) and the carrying amount of derivative assets that are not offset in the balance amount to MSEK 665 (411) and the carrying amount of the related derivative liabilities amount to MSEK −1,176 (−307). No collateral has been received or posted.

Dealers, importers and other counterparties

For the credit 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.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

Financial Instruments—Classification

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, 2014 belong to level 2. 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 to sell 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 done at quoted market prices. For instruments where no reliable price is available on the market, cash flows are discounted using the deposit/swap curve of the cash flow currency. For option instruments, the valuation is based on Black & Scholes formula.

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. For Volvo Car Group this only applies to derivatives and marketable securities since no other classes of assets and liabilities are recorded at fair value. Volvo Car Group has chosen to use Default Probability of the 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.

All amounts are in MSEK unless otherwise stated.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

The table below presents Volvo Car Group's financial assets and liabilities that are measured at fair value.

December 31, 2014	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows	—	320	—	320
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	339	—	339
Electricity derivatives	—	6	—	6
Marketable securities	—	1,047	—	1,047
Total assets	**—**	**1,712**	**—**	**1,712**
Derivative instruments for hedging of currency risk in future commercial cash flows	—	1,122	—	1,122
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	24	—	24
Electricity derivatives	—	30	—	30
Total liabilities	**—**	**1,176**	**—**	**1,176**

December 31, 2013	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows	—	393	—	393
Electricity derivatives	—	18	—	18
Marketable securities	—	88	—	88
Total assets	**—**	**499**	**—**	**499**
Derivative instruments for hedging of currency risk in future commercial cash flows	—	167	—	167
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	70	—	70
Electricity derivatives	—	70	—	70
Total liabilities	**—**	**307**	**—**	**307**

All amounts are in MSEK unless otherwise stated.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

	Financial instruments at fair value through the income statement					
Financial assets and liabilities by category	**Instruments held for trading**	**Derivatives used in hedge accounting**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Total**	**Fair value**
December 31, 2014						
Other non-current assets	—	—	11,647	—	11,647	11,647
Accounts receivable	—	—	8,004	—	8,004	8,004
Derivative assets	583	82	—	—	665	665
Other current assets[1]	—	—	1,211	—	1,211	1,211
Marketable securities	1,047	—	—	—	1,047	1,047
Cash and cash equivalents	—	—	14,165	—	14,165	14,165
Total financial assets	**1,630**	**82**	**35,027**	**—**	**36,739**	**36,739**
Liabilities to credit institutions	—	—	—	16,140	16,140	16,140
Other non-current liabilities[1]	—	—	—	1,244	1,244	1,244
Trade payables	—	—	—	14,434	14,434	14,434
Derivative liabilities	138	1,038	—	—	1,176	1,176
Other current liabilities[1]	—	—	—	5,604	5,604	5,604
Total financial liabilities	**138**	**1,038**	**—**	**37,422**	**38,598**	**38,598**
December 31, 2013						
Other non-current assets[1]	—	—	1,054	—	1,054	1,054
Accounts receivable	—	—	5,618	—	5,618	5,618
Derivative assets	58	353	—	—	411	411
Other current assets[1]	—	—	260	—	260	260
Marketable securities	88	—	—	—	88	88
Cash and cash equivalents	—	—	15,372	—	15,372	15,372
Total financial assets	**146**	**353**	**22,304**	**—**	**22,803**	**22,803**
Liabilities to credit institutions	—	—	—	12,853	12,853	12,853
Other non-current liabilities[1]	—	—	—	792	792	792
Trade payables	—	—	—	13,632	13,632	13,632
Derivative liabilities	143	164	—	—	307	307
Other current liabilities[1]	—	—	—	3,460	3,460	3,460
Total financial liabilities	**143**	**164**	**—**	**30,737**	**31,044**	**31,044**

(1) Pre-payments, accruals, statutory recievables and liabilities are excluded as this table only includes financial assets and liabilities.

The carrying amount essentially equals the fair value for all current items. For liabilities to credit institutions, the carrying amount is a good estimate of the fair value. The interest rates in existing loan agreements were on December 31, 2014 estimated to be in par with credit market interest rates, and the fair value therefore corresponds, in every significant respect, with the carrying amount.

All amounts are in MSEK unless otherwise stated.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

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 Note 26—Other non-current liabilities. Trade payables are for the most part due within 60 days.

	Dec 31, 2014		Dec 31, 2013	
Nominal amounts and fair values of derivative instruments	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
Derivative instruments for hedging of currency risk related to financial assets and liabilities				
Foreign exchange swaps				
—receivable position(1)	13,087	340	39	—
—payable position(2)	2,251	—25	8,552	—70
Forward contracts				
—receivable position(1)	115	—	—	—
—payable position(2)	—	—	—	—
Subtotal	**15,453**	**315**	**8,591**	**−70**
Derivative instruments for hedging of currency risk in future commercial cash flows				
Foreign exchange swaps				
—receivable position(1)	1,154	131	6,643	111
—payable position(2)	5,111	−385	5,968	−117
Forward contracts				
—receivable position(1)	1,681	187	13,203	215
—payable position(2)	7,472	−456	3,904	−39
Currency options				
—receivable position(1)	67	1	8,915	67
—payable position(2)	7,949	−280	853	−11
Subtotal	**23,434**	**−802**	**39,486**	**226**
Electricity derivatives				
—receivable position(1)	−46	6	−104	18
—payable position(2)	326	−30	422	−70
Subtotal	**280**	**−24**	**318**	**−52**
Total	**39,167**	**−511**	**48,395**	**104**

(1) Financial instruments included in the balance sheet under other current assets.

(2) Financial instruments included in the balance sheet under 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.

NOTE 21—FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (Continued)

Net gains/losses, interest income and expenses related to financial instruments

	2014			2013		
Recognised in operating income	Gains/losses	Interest income	Interest expenses	Gains/losses	Interest income	Interest expenses
Financial assets and liabilities at fair value through the income statement						
Derivative instruments for hedging of currency risk in future commercial cash-flows rerouted from the hedge reserve	−676	—	—	836	—	—
Electricity derivatives	28	—	—	22	—	—
Loans and receivables						
Accounts receivable/trade payables(1)	−173	—	—	−43	—	—
Effect on operating income	**−821**	**—**	**—**	**815**	**—**	**—**
Recognised in financial items						
Financial assets and liabilities at fair value through the income statement						
Derivative instruments for hedging of currency risk related to financial assets and liabilities	1,289	—	—	195	—	—
Marketable securities	−11	6	—	—	—	—
Loans and receivables						
Cash and cash equivalents(1)	—	125	—	—	83	—
Financial liabilities at amortised cost including currency effects(1)	−1,253	—	−662	−106	—	−438
Effect on financial items	**25**	**131**	**−662**	**89**	**83**	**−438**

(1) The total income and expenses from items that are not measured at fair value through the income statement amounts to MSEK 125 (83) and MSEK −2,088 (−587) respectively.

NOTE 22—MARKETABLE SECURITIES AND CASH AND CASH EQUIVALENTS

Marketable securities	Dec 31, 2014	Dec 31, 2013
Commercial papers	597	88
Time deposits in banks	450	—
Total	**1,047**	**88**

Marketable securities comprise of interest-bearing investments with a term of more than three months from acquisition date.

Cash and cash equivalents	Dec 31, 2014	Dec 31, 2013
Cash in banks	11,285	11,223
Time deposits in banks	2,405	4,149
Commercial papers(1)	475	—
Total	**14,165**	**15,372**

(1) Commercial papers which matures within three months of the date of acquisition

Cash and Cash equivalents includes MSEK 863 (1,047) where limitations exist, mainly liquid funds where exchange controls or other legal restrictions apply. It is not possible to immediately use the liquid funds in

NOTE 22—MARKETABLE SECURITIES AND CASH AND CASH EQUIVALENTS (Continued)

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 of Geely Sweden AB consists of 1,000,000,000 shares fully paid with a par value of 1 SEK and with voting rights of one vote per share.

The share premium relates to the business combination, through contribution in kind.

Other contributed capital consists of Group contribution from Geely Sweden Holdings AB and unconditional shareholders' contribution from Shanghai Geely Zhaoyuan International Investment Co., Ltd. An unconditional shareholders' contribution was initially received by Geely Sweden Holdings AB from Shanghai Geely Zhaoyuan International Investment Co., Ltd and was then given to Geely Sweden Automotive AB and thereafter to Geely Sweden AB.

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 Swedish kronor (SEK).

The other reserve consist 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 preceding years.

Total equity consists of the equity attributable to the owners of the parent company. At year end 2014, the Volvo Car Group's total equity amounted to MSEK 32,702 (24,638).

Change in other reserves	2014	2013
Balance at January 1	147	138
Change in fair value of currency risk derivatives during the year	−955	189
Currency risk contracts recognised in the income statement[1]	−189	−177
Tax attributable to items recognised in other comprehensive income	251	−3
Balance at December 31	**−746**	**147**

(1) Included in the income statement under other operating income/expenses.

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.

NOTE 24—POST EMPLOYMENT BENEFITS (Continued)

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 2014, Volvo Car Group did not have access to the information to report it's 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 113 to Alecta in 2015. The Group's share of the total saving premiums for ITP2 in Alecta as at December 31, 2014 amounted to 0,23% and the Group's share of the total number of active policy holders amounted to 1,22%.

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 2014, Alecta's surplus in the form of the collective funding ratio amounted to 144 (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 tables below show the Groups 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

NOTE 24—POST EMPLOYMENT BENEFITS (Continued)

the amounts recognised in the income statement and balance sheet. The Group's reported pension liability totals MSEK 6,377 (3,641), which sum includes endowment insurances and similar undertakings totalling MSEK 191 (31) in respect of defined premium pension plans in Sweden.

	Total	of which Sweden	of which Belgium	Total	of which Sweden	of which Belgium
Financial year ending on	**Dec 31, 2014**	**Dec 31, 2014**	**Dec 31, 2014**	**Dec 31, 2013**	**Dec 31, 2013**	**Dec 31, 2013**
Amounts recognised in the statement of financial position						
Defined benefit obligation	18,271	11,018	3,185	13,912	8,565	2,346
Fair value of plan assets	12,085	6,930	2,067	10,302	6,384	1,592
Funded status	**6,186**	**4,088**	**1,118**	**3,610**	**2,181**	**754**
Endowment insurance and similar undertakings	**191**	**191**	**—**	**31**	**—**	**—**
Net liability (asset)	**6,377**	**4,279**	**1,118**	**3,641**	**2,181**	**754**
Principal actuarial assumptions						
Weighted average assumptions to determine benefit obligations						
Discount rate	2.58%	2.60%	1.90%	3.89%	4.00%	3.15%
Rate of salary increase	3.18%	3.00%	3.17%	3.20%	3.00%	3.17%
Rate of price inflation	1.78%	1.50%	2.00%	2.13%	2.00%	2.00%
Rate of pension increases	1.72%	1.50%	N/A	2.16%	2.00%	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.

All amounts are in MSEK unless otherwise stated.

NOTE 24—POST EMPLOYMENT BENEFITS (Continued)

The actuarial assumptions are annually reviewed by Volvo Car Group and modified when deemed appropriate to do so.

	Total	of which Sweden	of which Belgium	Total	of which Sweden	of which Belgium
Financial year ending on	**Dec 31, 2014**	**Dec 31, 2014**	**Dec 31, 2014**	**Dec 31, 2013**	**Dec 31, 2013**	**Dec 31, 2013**
Change in defined benefit obligation						
Defined benefit obligation at end of prior year	13,912	8,566	2,346	14,602	9,866	1,908
Service cost	540	341	141	588	385	125
Interest expense	545	338	76	507	338	59
Cash flows	−426	−230	−105	−371	−217	−80
Remeasurements	3,147	2,003	556	−1,494	−1,806	266
Effect of changes in foreign exchange rates	553	—	171	80	—	68
Defined benefit obligation at end of year	**18,271**	**11,018**	**3,185**	**13,912**	**8,566**	**2,346**
Change in fair value of plan assets						
Fair value of plan assets at end of prior year	10,302	6,384	1,592	9,184	5,913	1,182
Interest income	440	274	57	335	207	41
Cash flows	−103	−179	56	90	—	61
Remeasurements	1,014	451	247	637	264	266
Effect of changes in foreign exchange rates	432	—	115	56	—	42
Fair value of plan assets at end of year	**12,085**	**6,930**	**2,067**	**10,302**	**6,384**	**1,592**
Components of defined pension cost						
Service cost	540	341	141	588	385	125
Net interest cost	104	65	18	172	131	19
Remeasurements of Other long term benefits	−12	—	−22	62	—	60
Administrative expenses and taxes	8	—	—	8	—	—
Total pension cost for defined benefit plans	**640**	**406**	**137**	**830**	**516**	**204**
Pension cost for defined contribution plans	1,536	1,334	139	1,480	1,321	123
Total pension cost recognised in P&L	**2,176**	**1,740**	**276**	**2,310**	**1,837**	**327**
Remeasurements (recognised in other comprehensive income)	2,162	1,552	348	−2,194	−2,070	−60
Effect of changes in demographic assumptions	39	23	−6	16	—	—
Effect of changes in financial assumptions	3,303	2,252	470	−1,730	−1,748	−6
Effect of experience adjustments	−183	−272	115	157	−58	212
(Return) on plan assets (excluding interest income)	−997	−451	−231	−637	−264	−266
Total defined benefit cost recognised in P&L and OCI	**2,802**	**1,958**	**485**	**−1,364**	**−1,554**	**144**
Net defined benefit liability (asset) reconciliation						
Net defined benefit liability (asset)	3,610	2,181	754	5,418	3,953	726
Defined benefit cost included in the income statement	640	406	137	830	515	203
Total remeasurements included in OCI	2,162	1,552	348	−2,194	−2,070	−60
Cash flows	−348	−51	−178	−469	−217	−141
Employer contributions	−47	178	−143	−183	—	−105
Employer direct benefit payments	−301	−229	−35	−286	−217	−35
Effect of changes in foreign exchange rates	122	—	57	25	—	26
Net defined benefit liability (asset) as of end of year	**6,186**	**4,088**	**1,118**	**3,610**	**2,181**	**754**
Defined benefit obligation						
Defined benefit obligation by participant status						
Actives	10,764	5,900	2,675	8,038	4,247	2,166
Vested deferreds	3,282	2,246	226	2,489	1,809	122
Retirees	4,225	2,872	284	3,385	2,509	58
Total	**18,271**	**11,018**	**3,185**	**13,912**	**8,565**	**2,346**

NOTE 24—POST EMPLOYMENT BENEFITS (Continued)

Plan assets

Fair value of plan assets	2014	2013	Of which with a quoted market price 2014	Of which with a quoted market price 2013
Cash and cash equivalents	334	333	43	5
Equity instruments	2,054	2,262	1,365	931
Debt instruments	3,510	2,791	1,404	609
Real estate	64	9	—	—
Investment funds	4,690	3,243	213	178
Other	1,433	1,664	489	308
Total	**12,085**	**10,302**	**3,514**	**2,031**

Responsibility for the management of the pension plans and retirement assets is the resonsibility of the Company and Volvo Personvagnar's pension fund. The pension fund is managed by a capital preservation strategy and the risk exposure is adjusted accordingly. The investments are 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 fund, 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.

The actual return on plan assets amounts to MSEK 1,454 (972).

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.

Below is the sensitivity analysis for the main financial assumption and the potential impact on the present value of the defined benefit obligation on the major plans.

Sensitivity analysis on defined benefit obligation	Sweden	Belgium
Discount rate +0,5%	−1,166	−193
Discount rate −0,5%	1,265	205

The weighted average duration of the obligation is 22.9 years for Sweden and 12.5 years for Belgium.

All amounts are in MSEK unless otherwise stated.

NOTE 25—CURRENT AND OTHER NON—CURRENT PROVISIONS

	Warranties	Service contracts	Other sales generated obligations	Other provisions	Total
Balance at January 1, 2014	**4,694**	**3,082**	**3,774**	**2,081**	**13,631**
Provided for during year	3,329	4,204	9,345	8,518	25,396
Utilised during year	−3,162	−4,232	−9,062	−8,616	−25,072
Reversal of unutilised amounts	−115	3	−54	−199	−365
Translational differences and other	129	227	439	526	1,321
Balance at December 31, 2014	**4,875**	**3,284**	**4,442**	**2,310**	**14,911**
Of which current	2,045	1,039	4,442	1,793	9,319
Of which non-current	2,830	2,245	—	517	5,592

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 programmes.

For additional information regarding accounting principles for provisions, see Note 1—Accounting principles and Note 2—Critical accounting estimates and judgements.

NOTE 26—OTHER NON-CURRENT LIABILITIES

	Dec 31, 2014	Dec 31, 2013
Liabilities to credit institutions and finance lease contracts		
Liabilities to credit institutions	15,110	11,919
Liabilities related to finance lease contracts	98	114
Total	**15,208**	**12,033**

NOTE 26—OTHER NON-CURRENT LIABILITIES (Continued)

Liabilities to credit institutions

Liabilities to credit institutions mature until 2021 (2021). The average cost of borrowing paid 2014 amounted to 4.9 (4.8) per cent. In 2014 the shares of Volvo Car Corporation were pledged for the liabilities to credit institutions of MSEK 14,110 (10,919).

	Dec 31, 2014	Dec 31, 2013
Other non-current liabilities		
Liabilities related to repurchase agreements	733	745
Deferred leasing revenue	357	420
Other liabilities	510	47
Total	**1,600**	**1,212**

	Dec 31, 2014	Dec 31, 2013
Repayment structure of liabilities to credit institutions		
1–5 years	10,432	8,924
Over 5 years	4,678	2,995
Total	**15,110**	**11,919**
Exposure of interest rate changes related to liabilities to credit institutions		
6 months or less	15,110	11,919
Total	**15,110**	**11,919**

	Dec 31, 2014	Dec 31, 2013
The carrying amounts, in MSEK, of Volvo Car Group's liabilities to credit institutions are denominated in the following currencies:		
EUR	7,943	7,973
USD	6,168	2,948
SEK	999	998
Total	**15,110**	**11,919**
Volvo Car Group has the following undrawn borrowing facilities:		
Floating rate		
Expiring within one year	—	2,159
Expiring after one year but within five years	6,257	3,202
Total	**6,257**	**5,361**

All amounts are in MSEK unless otherwise stated.

NOTE 27—OTHER CURRENT LIABILITIES

	Dec 31, 2014	Dec 31, 2013
Accrued expenses and prepaid income	7,425	5,624
Liabilities related to repurchase agreements	4,235	3,460
Personnel related liabilities	3,069	2,906
VAT liabilities	1,543	1,475
Hedging instruments	1,176	308
Deferred leasing revenue	473	549
Other liabilities	1,155	933
Total	**19,076**	**15,255**

NOTE 28—PLEDGED ASSETS

	Dec 31, 2014	Dec 31, 2013
Shares in subsidiaries	19,488	14,844
Restricted cash	424	930
Inventory	277	486
Other pledged assets	—	1
Total	**20,189**	**16,261**

NOTE 29—CONTINGENT LIABILITIES

	Dec 31, 2014	Dec 31, 2013
Investment commitments in contractual manufacturer	182	266
Guarantees to insurance company FPG	123	116
Legal claims(2)	166	113
Tax claims(2)	252	—
Other contingent liabilities(1)	53	70
Total	**776**	**565**

(1) 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.

(2) Legal proceedings and tax processes are further explained in Note 2—Critical accounting estimates and judgements.

NOTE 30—CASH FLOW STATEMENTS

	2014	2013
Adjustments for items not affecting cash flow consist of:		
Capital gains/losses on sale of tangible and intangible assets	197	33
Share of income in joint ventures and associates	−104	−179
Interest effect from the measurement of repurchase obligations	−186	−197
Shareholders' contribution to associates offset against invoiced services	—	−14
Other non-cash items	−270	76
Total	**−363**	**−281**

"Other" under cash flow from financing activitites is attributable to realised result from financial instruments.

NOTE 31—SIGNIFICANT AND SUBSEQUENT EVENTS

Significant Events

Acquisitions and divestments

New joint venture was established in China In January 2014, the joint venture company Shanghai Volvo Car Research and Development Co., Ltd was established in China. The purpose of the new joint venture is to engage in services supporting the production and sales of Volvo cars in China.

Acquisition of the assembly business in Johnson Controls In July 2014, Volvo Car Group acquired the assembly business for headliner and tunnel consoles from Johnson Controls Inc. The acquisition was performed in order to strengthen the value chain and provide efficiency benefits in the Torslanda and Ghent plants respectively. The paid consideration amounted to MSEK 50 and the acquired net assets amounted to MSEK 27, resulting in a goodwill of MSEK 23.

Floby

During 2014, Volvo Cars investigated the interest from external parties to acquire the business performed in the Floby manufacturing plant. A decision to dispose the business has not been taken.

Investments in manufacturing

New plant opened in Gothenburg, Sweden In April 2014, Volvo Cars opened a new manufacturing facility in Gothenburg, Sweden. The investment increased the manufacturing capacity from 200,000 cars per year to approximately 300,000 cars a year. The new plant moved Volvo Cars a significant step closer to achieving the long term objective of selling 800,000 cars a year.

Cooperations

Partnership with Venko Motors do Brasil established In September 2014, Volvo Car Group established a partnership with Venko Motors do Brasil. The partnership increases the number of potential vehicles sold into the Brazilian market with an additional 4,000 units.

Collaboration with Geely regarding common development

In December 2014, Volvo Car Group entered into an agreement with Ningbo Geely Automotive Research & Development Co., Ltd regarding certain common development activities, for instance a common C-segment vehicle architecture called CMA.

An extension of the credit facility was signed

In June 2014, Volvo Car Corporation signed an agreement with twelve international banks to extend the existing credit facility of MEUR 360 to MEUR 660. The revolving credit facility has a tenor of three years with the option to extend to five years. The purpose of the credit facility is to serve as a back-up and the facility has not yet been utilised.

Production of the first-generation XC90 "Volvo Classic" ended

at the Torslanda plant in Gothenburg, Sweden In July 2014, the production of the first-generation Volvo XC90 ended at the Torslanda plant after more than 636,000 cars of the model were produced over the last twelve years. The XC90 will continue to be produced in China under the name Volvo XC Classic. Production of the all-new Volvo XC90 started at the Torslanda plant in January 2015.

All-new XC90 pre-launch

In August 2014, Volvo Cars pre-launched the all new XC90 in Stockholm. The limited series of 1,927 First Edition XC90's was sold exclusively online at www.volvocars.com within 47 hours. Third shift in the Torslanda plant creates 1,300 new jobs In October 2014, Volvo Cars announced the strategic decision to

NOTE 31—SIGNIFICANT AND SUBSEQUENT EVENTS (Continued)

add a third shift in the Torslanda plant, in order to meet the increasing customer demand for the company's cars. The third shift will lead to up to 1,300 new employments.

Subsequent Events

Incorporation of Chinese industrial entities

On June 25, Volvo Cars gained control over the Chinese industrial entities and consolidated them into Volvo Car Group. The former legal structure in China has evolved since Geely's acquisition of Volvo Cars in 2010 and the new incorporation marks another milestone in Volvo Car Group's transformation journey. In recent years, Volvo Cars has established its manufacturing footprint and strengthened its dealer network in China. The incorporation of the Chinese industrial entities is an important step towards the long term objectives of capturing growth and sourcing potential in China whilst simplifying the legal structure.

As the acquisition of additional shares in the Chinese industrial entities was a common control transaction Volvo Car Group has elected to apply predecessor accounting, meaning that the comparative information is presented in the consolidated financial statements as if the incorporated entities had always been controlled by Volvo Car Group. Therefore, the comparative information is restated to show the new Volvo Car structure including the acquired Chinese industrial entities.

Further descriptions and information can be found in the following notes to the consolidated financial statements; 2—Accounting principles, 32—Business combinations under common control, and Note 34—Restatement.

Change in organisational structure

In December, in order to simplify the organisational structure, Geely Sweden AB was merged into Volvo Car Corporation (legal name Volvo Personvagnar AB) and Geely Sweden Automotive AB became the new parent of Volvo Car Group and changed name to Volvo Car AB. The change of parent company has had no significant effects on the consolidated financial statements.

Acquisitions and divestments

Acquisition of assets in DSV

In January 2015, Volvo Car Group acquired assets in DSV Solutions NV in Ghent, to a value of MSEK 38, to further strengthen the value chain and provide efficiency benefits. DSV Solutions NV has been providing logistic services to Volvo Cars in Ghent and the services provided consisted of storing and sequencing 200,000 parts per day and delivering the same amount of parts to the Ghent plant.

Acquisition of Polestar

In July 2015, Volvo Cars acquired 100 per cent of Polestar Performance AB, the Swedish high performance car company, and Polestar Holding AB, which is the owner of the Polestar trademarks. Polestar is used as the model name for special high performance Volvo cars. Volvo Cars and Polestar share a long history. They have been working in motor sport since 1996 and in recent years signed a cooperation agreement to jointly develop Polestar versions of Volvo cars.

Volvo Cars sells its Floby component plant

In July 2015, Volvo Cars announced that its component plant in Floby, Sweden will be sold to Amtek Group, a global manufacturer of automotive components. The Floby plant produces brake discs, wheel hubs and connecting rods for passenger cars and commercial vehicles. The plant employs 441 people, all of whom will retain their positions under new ownership. The transaction was completed on December 30th.

NOTE 31—SIGNIFICANT AND SUBSEQUENT EVENTS (Continued)

Investments in manufacturing

Volvo Car Group to build its first plant in the US

In September 2015, the first steps towards construction of the new car manufacturing facility in Berkeley County, South Carolina, US were taken. The new plant will produce the next-generation cars, based on Volvo Cars' new Scalable Product Architecture (SPA). The new facility will initially have a capacity of up to 100,000 cars per year. The first South Carolina-built Volvo cars are expected to roll off the assembly line in late 2018.

Other significant events during the year

Start of production of all-new XC90 in Torslanda

In January 2015, Volvo Car Group started the production of the all-new XC90 in the Torslanda plant in Gothenburg. The new Volvo XC90 is the first model based on Volvo Cars' in-house developed Scalable Product Architecture (SPA) which will be the base for a series of upcoming Volvo models.

Maastricht operations moved to Ghent

In January 2015, the logistic centre in Maastricht, the Netherlands, was moved to the Ghent plant in Belgium following a strategic decision taken in July 2014 to change the set-up of the Maastricht operations. All employees were offered the opportunity to join Volvo Cars' operations in Ghent. At the same time the customer service operation in Maastricht was outsourced, with all employees offered the option to remain in the company.

New Senior Management structure

In March 2015, significant changes to the structure of Volvo Cars' senior management were announced as part of its drive to position the company for the next stage of its global transformation. The Americas region now encompasses North America and South America, and is led by Lex Kerssemakers, the former Senior Vice President Product Strategy and Vehicle Line Management. The Asia Pacific region includes China, Volvo Cars' largest individual sales country, and embraces other fast growing Asian regional markets. It is led by Lars Danielson, the former Senior Vice President Volvo Cars China Operations. The EMEA region is run by Anders Gustafsson, formerly President of Volvo Cars Sweden. Volvo Cars has also appointed Klas Bendrik as Senior Vice President Chief Information Officer.

In October, Björn Annwall was appointed Senior Vice President of Marketing, Sales and Service.

Third shift in the Torslanda plant started

In May 2015, supporting the capacity increase to up to 300,000 cars per year, the third shift in the Torslanda plant started, creating nearly 1,500 new jobs. The introduction of the additional night shift comes as Volvo Cars now has started production of the new XC90.

BOARD OF DIRECTORS REPORT

Change of Board Members

Tom Johnstone was appointed as a member of the Board of Directors effective January 1, 2015. Mr Johnstone joined the Board of Directors of Volvo Car Corporation leaving the position as CEO at AB SKF.

Dr Herbert H Demmel left the Board of Directors in March and Hans Olov Olsson left in October. Hans-Olov Olsson held the position as Vice-Chairman of the Board since the acquisition by Geely in 2010 and was the President and CEO of Volvo Car Corporation between 2000 and 2005. Mikael Olsson, member of the Board since 2013, has replaced Hans-Olov Olsson as Vice-Chairman.

In December 2015, all members of the Board of Volvo Car Corporation shifted to being members of the Board of the new parent company Volvo Car AB. For further explanation of the group structure, please see section "The Volvo Car Group" on page 49. For more details on the corporate governance structure please see the Corporate Governance Report.

All new Volvo S90 pre-launch

In December 2015, Volvo Cars pre-launched the all new S90 in Gothenburg and it was publically unveiled at the NAIAS in Detroit in January 2016. With the S90, Volvo Cars introduces a range of new technical solutions, from safety to cloud-based apps and services. The launch of the S90 clearly moves Volvo Cars into the premium sedan segment.

Insurance Captive

Volvo Cars has started its own insurance company, Volvo Car Insurance AB, in December. Volvo Car Insurance AB, insures part of the groups' risks in relation to Property Damage & Business Interruption, General & Products Liability and Transport. The Volvo Cars' owned insurance company (captive) provides opportunities to reduce costs and enhance risk management while increasing control over the Volvo Cars' insurance programs.

Volvo Cars to acquire additional shares in Volvofinans

In December 2015, Volvo Cars made an agreement with the Sixth AP Fund to acquire an additional 40 per cent of the shares in Volvofinans Bank AB, thus increasing its ownership from 10 to 50 per cent. The transaction will be carried out as soon as the required regulatory approvals have been obtained. In Sweden, Volvofinans Bank AB is the leading bank within vehicle financing services.

New Board member appointed

As of January 1, 2016, Betsy Atkins has been appointed new member of the Board of Directors of Volvo Car AB. Ms. Atkins joined the board from Silicon Valley where she has been a leading entrepreneur building global technology companies in Internet Infrastructure, Big Data Analytics, Mobile Enablement and E-commerce.

Launch of S90 and V90

The S90 premium sedan was launched at the Detroit Motor Show in January. A month later, Volvo launched the V90, a premium large estate. Like the XC90, both cars are based on Volvo Cars' modular vehicle platform, the Scalable Product Architecture (SPA) and are equipped with in-house developed safety, infotainment and powertrain technologies. With the launch of S90 and V90, Volvo Cars has now completely renewed its top-of-the line 90 series.

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