VOLVO CAR GROUP
ANNUAL REPORT 2015

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THIS IS VOLVO CAR GROUP*

Our history dates back to 1927 when the Swedish company Volvo Car Corporation was founded and the first Volvo car was launched. Volvo Car Group is headquartered in Gothenburg in Sweden.

Volvo cars are produced at factories in Torslanda in Sweden, Ghent in Belgium, Chengdu, Daqing and Chongqing in China and Kuala Lumpur in Malaysia. Since 2010, Volvo Cars is owned by Shanghai Geely Zhaoyuan International Investment Co., Ltd. which is ultimately owned by Zhejiang Geely Holding Group Ltd. (Geely Holding). In 2015 around 2,300 Volvo dealers sold 503,127 cars in 100 countries around the world. During 2015, Volvo Car Group employed in average about 28,000 people.

The first Volvo rolled off the production line in Gothenburg way back in 1927 and since then, we have gone from strength to strength, creating world-changing innovations along the way.

"With a successful 2015 behind us, we now enter the second phase of our global transformation."

HÅKAN SAMUELSSON,
PRESIDENT AND CEO, CEO COMMENTS PAGE 5

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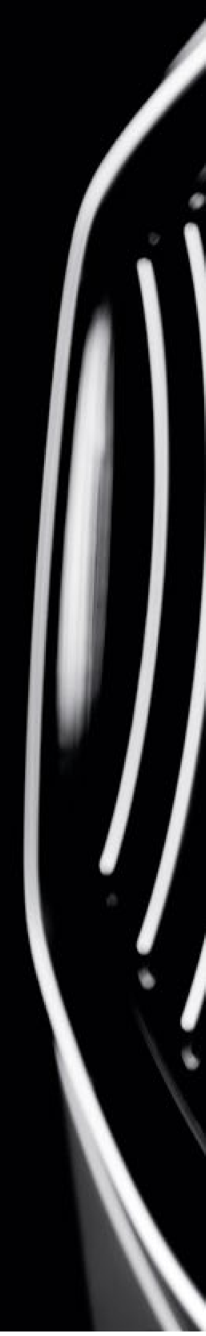
V40 CROSS COUNTRY,
707 CRYSTAL WHITE METALLIC

2015 IN BRIEF



8.0 %

Volvo Cars retail sales up to 503,127 (465,866) units

19.2 %

Volvo Car Group net revenue increased to MSEK 164,043 (137,590)

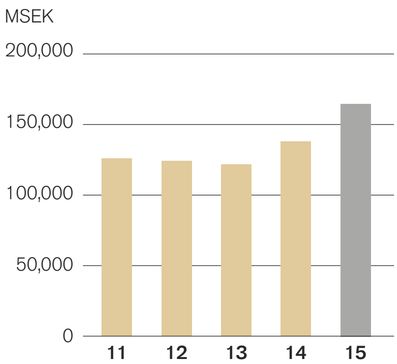
6,620

Operating income (EBIT) of MSEK 6,620 (2,128)

7,234

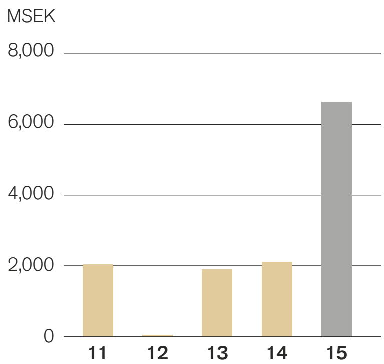
Cash flow from operating and investing activities, MSEK 7,234 (–4,766)

NET REVENUE



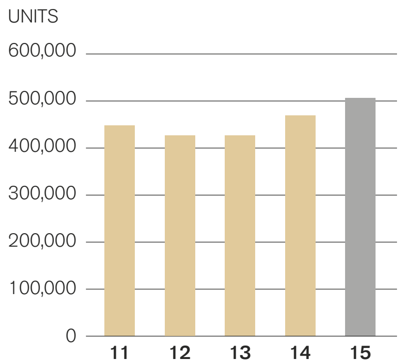
For the full year 2015, Volvo Car Group generated net revenue of MSEK 164,043 (137,590), an increase of 19.2 per cent compared to 2014.

EBIT



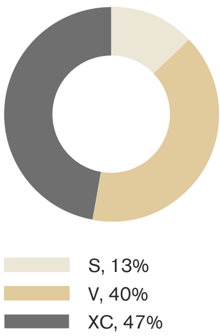
Operating income (EBIT) increased to MSEK 6,620 (2,128), resulting in an operating margin of 4.0 (1.5) per cent.

RETAIL SALES



In 2015, Volvo Cars reported retail sales record of 503,127 (465,866) units, an increase of 8.0 per cent.

SALES BY MODEL 2015



KEY FIGURES

MSEK	2015	2014
Net revenue	164,043	137,590
Research and development expenses	–8,803	–7,193
Operating income, EBIT	6,620	2,128
Net income	4,476	508
EBITDA	16,019	9,491
Cash flow from operating and investing activities	7,234	–4,766
EBIT margin, %	4.0	1.5
EBITDA margin, %	9.8	6.9
Equity ratio, %	26.2	27.8
Net debt (Net cash if negative)	–7,721	856

"We are in the most intense period of investment and transformation in our history."

HÅKAN SAMUELSSON,
PRESIDENT AND CEO

A SUCCESSFUL 2015 PAVES THE WAY FOR NEXT PHASE

I am pleased to report that in 2015 we sold more than half a million cars for the first time in the company's history. At the same time we trebled the profit to MSEK 6,620. Now, with a successful 2015 behind us, Volvo Cars is about to enter the second phase of its global transformation. Once completed, the company will take its place as a truly premium car company in all segments.

Volvo Cars has made significant progress since being acquired by Geely Holdings in 2010, not least in expanding its industrial footprint. Last year's announcement of the new US factory in South Carolina means that Volvo Cars will have an industrial presence in all three key global regions – Asia, Europe and the US. This will provide us with a good balance against market fluctuations. Sales have hit a series of record heights and in 2015 we reached 503,127 cars, helped by strong growth in Europe and an impressive turnaround in the US.

Financially, the operating profit was MSEK 6,620 and the fact that Volvo Cars has been profitable every year since 2010, highlights its ability to reform and grow at the same time. The operating profit margin of 4 per cent is a substantial increase on 2014.

Over the last four years, Volvo Cars has invested in the development of its SPA architecture for larger cars. In 2015 we started seeing the fruits of these investments in the shape of the XC90 and in the unveiling of the S90 sedan. The XC90 has won over 50 awards and even more important received 88,000 orders in 2015, far exceeding our expectations.

This means that customers like our cars and want to own them which bodes well for the future.

These cars have allowed us to rejuvenate the brand, giving it a distinctive identity in the premium segment. They are the first members of a new Volvo generation. In the next three years, the entire product line up will be renewed, with an expected positive impact on both sales and profitability.

We have also developed the Drive-E engine family, with the best balance between power and fuel efficiency on the market, and we have committed to a three and four cylinder strategy across the range. We are the only premium car manufacturer to have taken this bold decision.

In 2015, we strengthened our executive management and corporate structure by creating three operating regions, improving our commercial focus. We have also restructured the company to more accurately reflect the way it does business by fully consolidating our China business.

We are in the most intense period of investment and transformation in the company's history. Volvo Cars is a company that has set itself high goals. We will continue our strategy to reach them in the coming years.

Håkan Samuelsson
President and Chief Executive Officer

FOCUS 2015

- ☑ Retail sales of up to 500,000 units
- ☑ Back to growth in the US
- ☑ Positive impact of the XC90, first car out in our major product renewal
- ☑ Clear improvements in profitability

FOCUS 2016

- ☐ Transformation continues
- ☐ Volume and profit improvement
- ☐ Product renewal

2015 – A NEW BEGINNING

The all-new Volvo XC90 and the launch of the new Scalable Product Architecture (SPA) marks the beginning of a new chapter in Volvo Cars' story, featuring world-leading safety developments, progressive new human-centric technologies and an unrivalled combination of power and fuel efficiency.

JANUARY

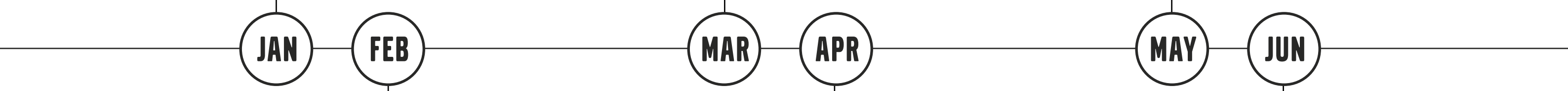
- The S60 Cross Country is unveiled at Detroit Auto Show
- The first series-produced all-new XC90 rolls off the production line at our Torslanda plant

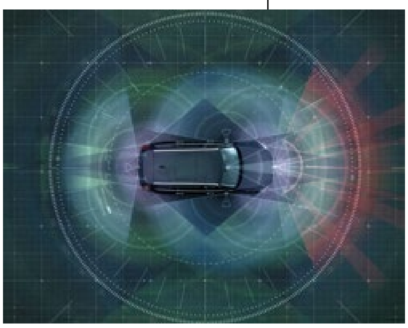
MARCH

- All-new XC90 receives Red Dot 'Best of the Best' Product Design
- New senior management structure is introduced

MAY

- Launch of 'New Beginning' brand campaign featuring Avicii
- Third production shift at the Torslanda plant in Sweden starts





FEBRUARY

- Presentation of the Drive Me autonomous driving system

APRIL

- The premium plug-in hybrid sedan S60L T6 Twin Engine goes on sale in China
- The all-new XC90 Excellence is launched at Shanghai Auto Show

JUNE

- Chinese industrial entities are fully incorporated and consolidated into Volvo Car Group
- All-new XC90 serves as courtesy cars at Swedish Royal Wedding

JULY

- Acquisition of Polestar Performance AB

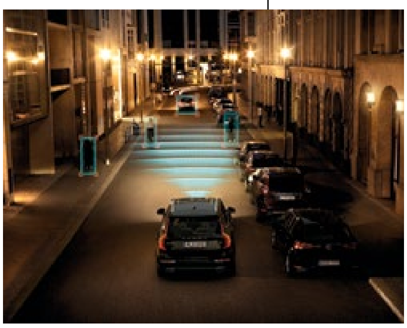
SEPTEMBER

- Start of construction of new plant in South Carolina, USA
- Ghent factory celebrates its 50th anniversary

NOVEMBER

- Launch of Volvo In-car Delivery, the world's first commercially available in-car delivery service
- Reveal of Concept 26, an interior design concept for autonomous-driving cars

JUL AUG SEPT OKT NOV DEC



AUGUST

- The all-new XC90 receives top five star rating in Euro NCAP assessment

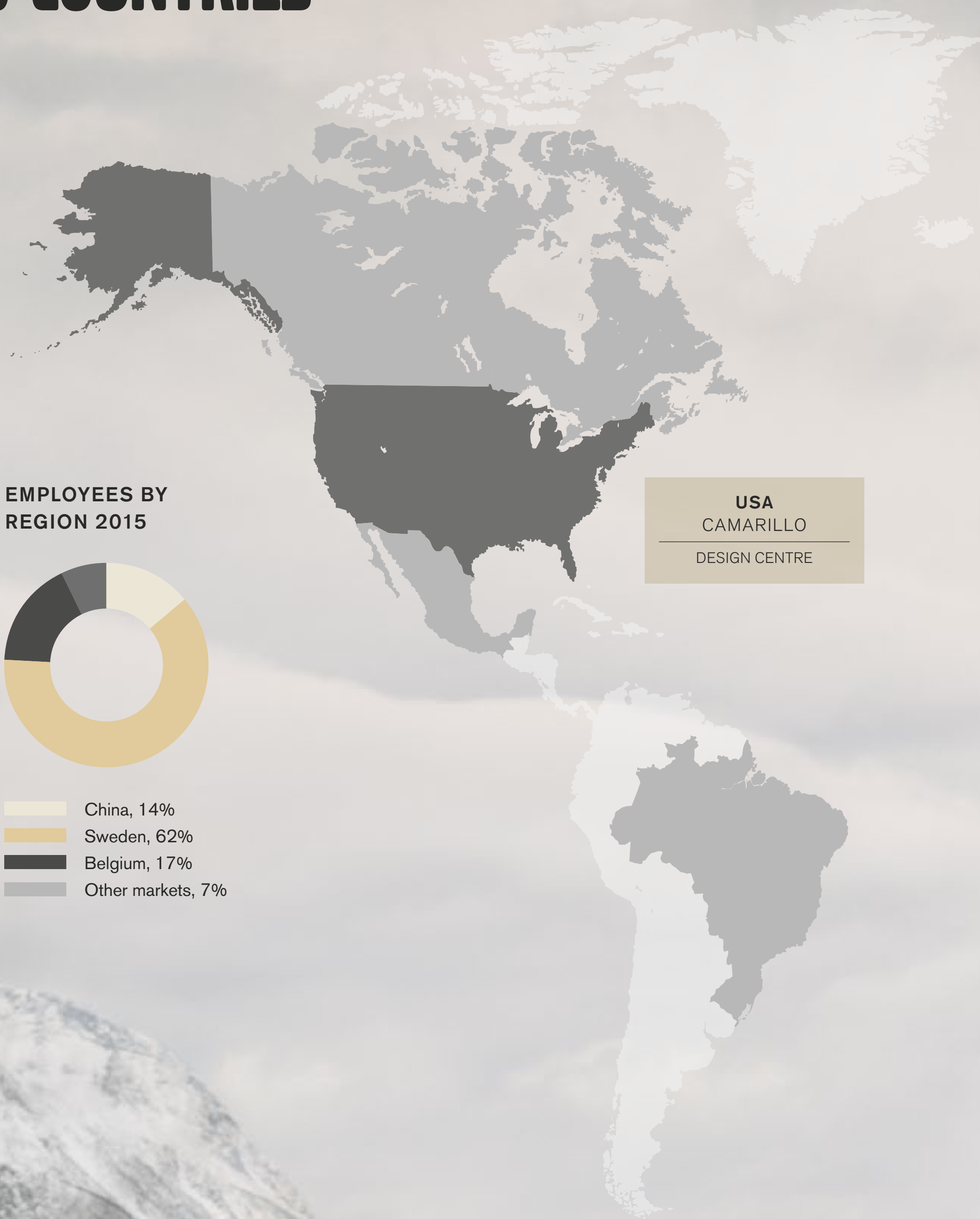
OCTOBER

- Kangaroo detection safety tests are conducted in Australia
- Reveal of the Compact Modular Architecture (CMA) underpinning Volvo Cars future compact car range
- Launch of global electrification strategy

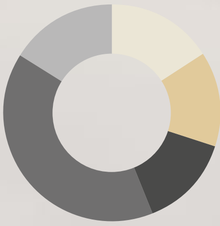
DECEMBER

- Best sales month in 88 years of our history
- New premium sedan S90 is unveiled in Gothenburg

GLOBAL PRESENCE WITH SALES IN OVER 100 COUNTRIES



RETAIL SALES BY REGION 2015



- China, 16%
- Sweden, 14%
- US, 14%
- Western Europe, 40%
- Other markets, 16%

EMPLOYEES BY REGION 2015

- China, 14%
- Sweden, 62%
- Belgium, 17%
- Other markets, 7%

V60 CROSS COUNTRY,
700 TWILIGHT BRONZE METALLIC


DENMARK
COPENHAGEN
R&D CENTRE
SWEDEN
GOTHENBURG
HEAD OFFICE, PRODUCT DEVELOPMENT, DESIGN CENTRE, MARKETING, ADMINISTRATION,
S60, S80, V60, V70, XC70, XC90
SWEDEN
SKÖVDE, FLOBY* & OLOFSTRÖM
ENGINE & COMPONENT MANUFACTORING
BELGIUM
GENT
V40, V40CC, S60, XC60
CHINA
SHANGHAI
R&D CENTRE
CHENGDU
S60L, XC60
DAQING
XC CLASSIC
ZHANGIJAKOU
ENGINE PRODUCTION
CHONQING**
S80L
MALAYSIA
KUALA LUMPUR
ASSEMBLY FACTORY
MANUFACTURING, R&D
SALES LOCATIONS
*Floby plant sold in December
**S80L production discontinued in December
VOLVO
MLB 060

THE WORLD AROUND VOLVO CARS

In an ever-changing world, Volvo Cars needs to ensure that it adapts quickly to changes in its business environment. By acting fast and nimble, Volvo Cars can remain a leader in the automotive industry. These are some of the many challenges and opportunities in the world around Volvo Cars.

THE FUTURE OF CAR OWNERSHIP

Consumer research shows that some younger consumers are changing their attitudes toward owning a car. Car-sharing and fleet firms may become more important within the customer base, while there may be a growing demand for new business models that allow consumers to share car ownership. An equally important trend appears on the other end of the demographic scale, as many countries face ageing populations. Cars will need to be equipped with intuitive technology as well as sophisticated driver assistance and safety systems.

The Volvo Cars Approach

The Sensus Human Interface is the Volvo Cars' intuitive infotainment system on the market. Via our Swedish car sharing business Sunfleet, we are gaining important insight, which allow us to leverage on future business models.

THE CONNECTED AND SELF-DRIVING CAR

On top of customer benefits, connected vehicles allow for the roll-out of (semi)-autonomous cars as well as communication between cars and with infrastructure. Done right, this allows for improvements in safety, fuel economy and congestion in an ever-urbanising world. New technologies in autonomous driving and connectivity can help bring about solutions to transportation issues faced by cities and their inhabitants.

The Volvo Cars Approach

Volvo Cars leads the industry in implementing semi-autonomous technology into its cars. The Drive Me public pilot with fully autonomous vehicles is among the most ambitious autonomous driving projects in the industry.

EMERGING MARKETS

In order to grow their business, global car makers have in recent years focused a lot on emerging markets as their main source of growth. But as emerging markets are entering a phase of slower growth and higher maturity, industry players are reminded that traditional markets remain just as important for the bottom line. Car makers need to ensure they have a healthy balance in their manufacturing and sales operations, ready to pounce on market opportunities wherever they arise.

The Volvo Cars Approach

With the announcement of a new manufacturing plant in South Carolina, Volvo Cars is now a truly global car maker with a manufacturing presence in its three major sales regions. This three pillar strategy is also reflected by the company's three main sales and marketing organisations: Americas, EMEA and Asia-Pacific.

EMISSION LEVELS AND FUEL EFFICIENCY

Ever stricter emission regulations in all major automotive markets mean that manufacturers have to constantly improve the fuel efficiency and emission levels of their cars. Upcoming regulations in terms of emissions mean that car makers will have to increase the share of hybrid and fully electric drivetrains in their portfolios.

The Volvo Cars Approach

The Drive-E engine family of four- and three cylinder engines is prepared for electrification and offers customers class-leading balance between efficiency and power. In 2015, Volvo Cars has four Twin Engines on the market and is planning for more.

COMPETITION FOR COMPETENCE

As cars become more and more like 'smartphones on wheels', car makers have a growing need for bringing in digital engineering talent that can develop future products. At the same time, technology firms have a growing interest in automotive technology and expand in this area either with or without traditional automotive partners. These factors make it more challenging for car makers to secure the necessary competence.

The Volvo Cars Approach

Volvo Cars aims to be an Employer of Choice for the world's talent and has made great progress in this area. At the same time, partnerships with technology firms allow Volvo Cars to indirectly tap other sources of talent as well.

EVERYTHING STARTS WITH PEOPLE

COMPANY PURPOSE

Everything we do starts with people. We understand people. We protect what's important to them and want to make them feel special. We take pride in our role within society and recognise our commitment towards the environment. We innovate to make people's lives better and less complicated. Our human-centric focus is what makes us different from all other car companies. And, it is at the heart of everything we create. This is why Volvo cars are designed around you.

VISION

Our vision is to be the world's most progressive and desired premium car brand.

MISSION

Our global success will be driven by making life less complicated for people, while strengthening our commitment to safety, quality and the environment.

CORPORATE OBJECTIVES

Attractive products
Employer of choice for people who want to make a difference

Delivering
True premium alternatives in all our segments
Sustainable growth and profitability

A STRONG FOUNDATION WILL LEAD TO THE NEXT PHASE

Volvo Cars has a long history, but a new era started when Geely Holding acquired Volvo Cars in 2010. Since then, we have gone through a turnaround phase with an extensive investment programme, building a strong foundation. Now it is time to execute.

PHASE 1 FROM 2010 TO 2015: BUILDING A STRONG FOUNDATION

Volvo Cars has undertaken a strategic transformation, investing in the new in-house developed platforms upon which all our new cars and engines will be built. We have also commenced an organisational and operational change of becoming truly global.

STRATEGIC CHANGE THEMES		PHASE 1 KEY INITIATIVES: ACHIEVEMENTS BY 2015
1. Sustainable profitability and growth	**FLEXIBLE PLATFORM AND ENGINE ARCHITECTURES**	**PROFITABILITY AND INVESTMENTS IN SPA AND DRIVE-E PLATFORMS** For the fourth consecutive year, Volvo Cars has been profitable, whilst making one of the largest industrial investments in the Swedish history. The cornerstones of the company's transformation plan, SPA platform and Drive-E engines, have made Volvo Cars technologically independent. In 2015, the projects are, to a large extent, completed.
	STAND ALONE	**GOVERNANCE STRUCTURE** Volvo Cars has created a strong global stand-alone organisation with a governance structure built on transparency as if Volvo Cars had been a listed company.
2. Revitalise the Volvo brand with customer centricity throughout the value chain	**DIGITAL LEADERSHIP**	**DIGITAL PLATFORMS** Volvo Cars' new marketing strategy, The Volvo Way to Market, aims to market and sell cars in ways never seen before in the industry. An important element of this new strategy is digital leadership, reflecting shifts in customer purchasing behaviours.
	NEW DESIGN	**PREMIUM PROPORTIONS AND CRAFTSMANSHIP** Volvo Cars has improved the cars' attractiveness in all areas - design, driving pleasure and quality, down to the smallest details. The S90 delivers a high-end luxury experience with premium vehicle proportions, interior craftsmanship and intuitive technologies.
3. Reinforce our product strengths based on focused innovation, smart architecture and win-win collaboration	**ADVANCE DRIVER ASSISTANT SYSTEMS (ADAS)**	**PILOT ASSIST** Both the new S90 and V90 come equipped with an advanced semi-autonomous driving feature, Pilot Assist. The system gives gentle steering inputs to keep the car properly aligned within lane markings up to motorway speeds of around 130 km/h and no longer needs to follow another car. Pilot Assist is another step towards full autonomous driving – a key innovation area for Volvo Cars.
	ELECTRIFICATION	**TWIN ENGINE TECHNOLOGY** The XC90 T8 Twin Engine is one of the cleanest and most powerful 7-seater SUV on the market, delivering over 407 horsepower equivalent and just 49 g/km CO_2, plus a pure electric range of 43 km. Both SPA and CMA are designed with electrification in mind from the start. This allows for electrified variants of all models in the portfolio with optimised battery placement.
	CONNECTIVITY	**CONNECTIVITY IN ALL MODELS** All Volvo car models are available with a rich set of connectivity services such as Sensus Connect and Volvo On Call, as standard or option depending on country. In 2015, Volvo Cars launched the world's first commercially available in-car delivery. The service is a good example of Volvo Cars' broad attitude towards introducing innovative solutions to simplify life.

STRATEGIC CHANGE THEMES | **PHASE 1 KEY INITIATIVES:** ACHIEVEMENTS BY 2015

4. Capture global growth and sourcing potential, leveraging the presence in China	**EXPANDING FOOTPRINT IN CHINA FOR GLOBAL GROWTH**	**INCORPORATION OF CHINESE ENTITIES AND NEW R&D CENTRE** In 2015, Volvo Cars incorporated its Chinese industrial entities in order to reflect the management responsibility and simplify the legal structure. With its industrial footprint and presence in China, Volvo Cars has started exporting cars from China to the US, capturing global growth and sourcing potential. Volvo Cars also inaugurated new testing facilities in Shanghai. It strengthens Volvo Cars' local R&D capabilities and contributes to the automotive industry in China through developing local talents. This move establishes Volvo Cars as the only international premium car maker that has core vehicle R&D capabilities in China.
5. Secure profitable growth in core segments in Europe and North America	**SECURING EUROPEAN FOOTPRINT FOR GLOBAL GROWTH**	**FIRST SPA CARS ROLLED OUT IN SWEDEN** In January 2015, the first series-produced SPA cars rolled off the production line in Torslanda, Sweden. To meet the high demands for the all-new XC90, a third shift started and 1,500 jobs were created.
	TURNAROUND US	**REVIVAL PLAN SUCCESSFULLY EXECUTED** In line with the US revival plan put in place in 2014, Volvo Cars strengthened the 60 series with two new versions of the S60 and launched the all-new XC90. This led to increased sales and brought performances in the US back on track.
6. Build a global organisation with performance and health, able to act in a fast, smart and nimble way	**CREATION OF A GLOBAL ORGANISATION AND INTEGRATE HEALTH**	**STEPS TOWARDS A GLOBAL ORGANISATION AND HEALTH** During the first phase, Volvo Cars has established a global organisation with health, including establishing the three-pillar regional strategy with EMEA, Americas and Asia Pacific. Volvo Cars' Diversity and Inclusion Council ensures continuous focus on diversity within our global organisation. New in-house leadership development programmes have been implemented and the roll-out of our activity-based work place concept DAY@work continues.

PHASE 2 FROM 2016 AND AHEAD: EXECUTING ON THE ROAD AHEAD

At Volvo Cars, we are committed to deliver on the targets set out five years ago in our corporate objectives. In Phase 2 of our transformation, focus is on execution, including the roll out of a wide range of new attractive products based on our SPA and Drive-E platforms. For Phase 2, we have refined our strategic direction and identified six strategic focus areas to ensure that Volvo Cars becomes a true premium alternative in all our segments and that we deliver sustainable growth and profitability.

STRATEGIC FOCUS AREAS		PHASE 2 KEY INITIATIVES: 2016 AND AHEAD
1. Deliver sustainable profitability, be lean and act as a listed company	**MARGIN MANAGEMENT**	**CUSTOMER ORDER PRODUCTION** Volvo Cars has defined the prerequisites to reduce lead-time for customer orders and optimise inventory value. Active revenue management and intense cost focus is expected to further improve margins.
2. Deliver on brand promises	**EVERYTHING STARTS WITH YOU**	**FUTURE CAR MODELS** By 2019, the XC90 will be the oldest model in the Volvo range after a complete renewal of the entire portfolio. All future models are inspired by the Scandinavian design elements that were introduced with three concept cars in 2013-2014, where we place our customers at the centre of everything we do.
3. Modular product architecture	**SMART MODULAR PRODUCT ARCHITECTURE**	**EFFICIENCY AND EXECUTION THROUGH MODULAR PLATFORMS** The SPA architecture covers about two-thirds of Volvo Cars total sales volume. With about 50 to 60 per cent of all components shared by all car models irrespective of size, Volvo Cars will benefit from economies of scale, thus boosting competitiveness. Volvo Cars will further broaden the product range with the CMA platform, on which C-segment cars will be built in the future.
	LEADERSHIP IN AUTONOMOUS DRIVE	**VISION 2020 AND SELF-DRIVING CARS** Starting in 2017, the Drive Me project will include up to 100 self-driving cars on real traffic roads in Gothenburg. Volvo Cars aims to take a leading position within autonomous driving, as this technology will be a key factor to deliver on the 2020 vision of no one getting killed or seriously injured in a new Volvo car by 2020.
	ELECTRIFICATION	**PURE ELECTRIC BY 2019** Volvo Cars has a comprehensive electrification strategy in which plug-in hybrids are being introduced across the entire range. Volvo Cars will develop an entirely new range of electrified smaller cars and build a fully electric car for sale by 2019.

STRATEGIC FOCUS AREAS		PHASE 2 KEY INITIATIVES: 2016 AND AHEAD
4. Value creating standardised Service Products throughout lifecycle Develop additional ways to customers	SERVICES	**CONNECTIVITY IS AN ENABLER** Connectivity will strengthen Volvo Cars' leadership in safety by enabling functions such as Slippery Road Alert. Within medium term, all new cars will come with built-in connectivity providing a range of features for increased safety, convenience and customer interactions.
	DIGITAL LEADERSHIP	**DIGITAL CUSTOMER JOURNEY** Volvo Cars aims to be at the forefront of the digital-commerce development and will do so in partnership with Volvo Cars' authorised dealerships. In the coming years, Volvo Cars plan to expand in new ways of meeting our customers. Volvo Cars sees opportunities in Car Sharing and the technologies related thereto, which will enable us to reach out to a broader customer base to experience a Volvo car.
5. Leverage on "Three home markets"	COMMERCIAL PRESENCE	**CLOSE TO MARKETS** Sales offices close to our markets help us to both understand specific customer needs and better support our dealerships. Volvo Cars will continue to expand in Asia by exploring new opportunities in markets like Sri Lanka, Myanmar and Vietnam.
	PRODUCT DEVELOPMENT	**GLOBAL RESEARCH & DEVELOPMENT PRESENCE** Research and development is conducted across all three regions enabling Volvo Cars to gain access to key talents, to new technology, and to be close to our suppliers and other partners facilitating strategic collaborations.
	INDUSTRIAL PRESENCE	**VOLVO CARS IS BUILDING A NEW FACTORY IN US** Volvo Cars has started the construction of the all-new car manufacturing facility in Berkeley County, South Carolina. The new plant will initially produce the next-generation S60 sedan and it will be operational by 2018. With this factory in place, Volvo Cars will have a truly global manufacturing footprint.
6. Passion for customers, cars and responsible business	HEALTHY, SUSTAINABLE AND HIGH PERFORMING ORGANISATION	**"GO OUT AND SEE, TRUST YOUR EXPERIENCE AND ACT"** Health and sustainability encompasses all aspects of the organisation and is a crucial factor for Volvo Cars' organisational capability to deliver on its ambitions now and in the future. Volvo Cars leaders continuously develop its team members, role-model ethical leadership and foster a true performance culture.

CREATING VALUE IN MORE THAN ONE WAY

	DESIGN, PRODUCTS AND RESEARCH & DEVELOPMENT	PURCHASING
VALUE CREATION PROFITABILITY & GROWTH	We compete in the premium car segment with confidence, innovations and niche products. Our products are developed on the highly flexible vehicle platforms and powered by our industry-leading in-house developed engine technology. Our innovations are designed to simplify and improve life and we are especially proud of our advances in efficient power, autonomous drive, connectivity and safety.	We have approximately 500 business partners delivering production materials for serial production and roughly 3,500 preferred suppliers delivering indirect products and services. The majority of the components used in our vehicles are manufactured by our suppliers, therefore our relationships are of vital importance to us.
	READ MORE ON PAGE 24–31	READ MORE ON PAGE 32–33
SUSTAINABILITY IN VALUE CREATION FOR MORE DETAILS, PLEASE SEE OUR 2015 SUSTAINABILITY REPORT.	Our new product portfolio, our engine programs and our electrification strategy marks our clear commitment to the environment. In addition to fuel efficiency, we also have an ambitious safety vision – no one should be killed or seriously injured in a new Volvo car by the year 2020. Our methods are unique and far-reaching, combining exhaustive research, computer simulations and thousands of crash tests with data from real-life collisions to make us the world leader in safety.	We work actively with our suppliers to ensure supply chain sustainability and we aim to source where we produce. The foundation of our Purchasing Strategy is to incorporate and adapt sustainability activities into our day-to-day processes and tools. We believe this should be done not only through the implementation of our compliance program and the rollout of our Code of Conduct, but also through responsible and ethical leadership.

INVESTMENTS

We are continuously investing in product development to secure our position of offering industry leading technologies to our customers. In addition, we also invest in our manufacturing facilities to ensure our production quality and capacity.

SUSTAINABLE PROFITABILITY AND GROWTH

MANUFACTURING & LOGISTICS

We are establishing a global industrial footprint. We implement the Volvo Car Manufacturing System in all our plants to ensure the high quality standards of our products.

We manage the logistics of our production materials and our vehicles in-house. We are constantly reviewing and improving the efficiency of our logistics operations.

READ MORE ON PAGE 32–33

We make sure that all our plants follow Volvo Cars Global Environmental Standards. This is achieved through energy efficiency and implementing a climate-neutral energy supply.

We work to provide healthy and safe working conditions for our people. Our commitment is to have no work-related fatalities or serious injuries involving any of our employees or contractors.

MARKETING & SALES

We make life easy for our customers and are determined to provide the most intuitive retail experiences for our customers, through digital leadership on our website, in social media and e-commerce.

We are also rolling out Volvo Retail Experience concept at our dealerships worldwide.

READ MORE ON PAGE 41–43

We market and sell our products and services in a fair and honest manner. We issue Volvo Cars Corporate Marketing Instruction to provide guidance on the preparation and documentation of our advertising materials, for our sales companies worldwide.

The instruction is prepared in accordance with applicable laws and regulations.

OWNERSHIP MANAGEMENT AND RE-USAGE

We take good care of our customers.

We aim to provide personalised technical services and we improve our customers' ownership experiences with connectivity offers such as Volvo On Call and Volvo In-car Delivery etc.

Beyond the new car sales, we also offer a global used car program – Volvo Selekt, offering a more affordable entry to our brand.

READ MORE ON PAGE 41–43

We engineer and produce cars not only from a fuel-efficiency and safety perspective, but also embrace topics such as customer experience, sustainable materials and remanufacturing.

We aim to be a leader in health related care for customers by offering class-leading interior air quality and materials.

In order to further reduce our environmental impact, our goal is to continuously increase the amount of sustainable materials in our cars.

EVERYTHING STARTS WITH YOU

Because everything we do starts with people. It's what makes us different from virtually every other car company. It's at the heart of everything we create. That's why Volvo cars are designed around you and the things you value most.

Our approach is human-centric: we start every project out of a love for humankind. Every project is based on a culture that is genuinely interested in understanding and anticipating the real needs, wants, and lives of our consumers. And there's much more to come.

This leads to the three customer promises that guide everything we do:

"We understand you"
– Understanding more about how people use cars allows us to create intuitive and user-friendly technology and innovations.

"We protect what's important to you"
– With legendary durability, superior safety, enduring value and technologies that limit environmental impact.

"We make you feel special"
– With Scandinavian design, natural high-end materials and thoughtful 21st century premium in look, feel, style and service.

CUSTOMER PROMISE	WE UNDERSTAND YOU	WE PROTECT WHAT'S IMPORTANT TO YOU	WE MAKE YOU FEEL SPECIAL
PRODUCT FOCUS	INTUITIVE INNOVATIONS	SAFETY AND ENVIRONMENTAL PERFORMANCE	SCANDINAVIAN DESIGN

MEETING CUSTOMER EXPECTATIONS

Isabelle Olsson is the woman behind the Google Glass. She graduated from Lund University, majoring in Industrial Design. Isabelle is one of the 1,927 owners of our first edition all-new XC90, and we asked her to give us some insights on her experiences with the car.

How do you use your XC90?
"We recently moved out of central San Francisco to a house in the suburbs, where we can't live without a car."

"My XC90 was delivered right after our move. We are currently refurbishing our house, and loving the large space the car has to offer."

"We also do many excursions around the area during the weekends. The seven-seated XC90 is both convenient and comfortable. I always sit in the third row when we travel with our friends and family and never felt being squeezed. We really enjoy the drive because the view is just amazing, along the coastline and on the winding roads up in the hills."

"I think it is cool that safety and luxury can be combined. Not gold and diamonds, but clean design with attention to details. That is luxury to me. I like that my XC90 is spacious, luxurious AND safe, especially now since we are planning for a bigger family."

Being an industrial designer yourself, what is it that you like about your XC90?
"I look for details, and in this case it is not only one or two details that I like. What makes this car special is the attention to ALL details. The car gives the impression of being furnished as a small living room."

Isabelle Olsson

HEAD OF INDUSTRIAL DESIGN, PROJECT AURA, GOOGLE

FAMILY:
Married to an Apple Designer, no kids, yet…

UNEXPECTED TALENT:
Hair styling – "I like making people look good, it makes them feel better about themselves".

VOLVO MEMORY:
My grandpa was interested in product design and built a foldaway armrest with storage in his Volvo, long before it was standard. I remember thinking that it, together with the corduroy plush fabric on the seats, was so luxurious.

"I like that my XC90 is spacious, luxurious AND safe."

ISABELLE OLSSON
HEAD OF INDUSTRIAL DESIGN, PROJECT AURA, GOOGLE

"One technical feature that I like is the Blind Spot Information System (BLIS), which has been developed in the XC90 to be almost invisible when you don't need it. This is the aspect I think will be even more important going forward. The more invisible the technology is, the better. In my work, I strive to make technology "disappear". But when you need it, it is there to support you. In my view, the advanced technological features should only be implemented in products when they are functioning nearly perfectly. For the XC90, I think Volvo Cars has managed to secure very high operational quality for most of the technological innovations it has decided to implement."

So, would you recommend people to buy the XC90?
"YES! To all my designer colleagues, especially because it looks so good!"

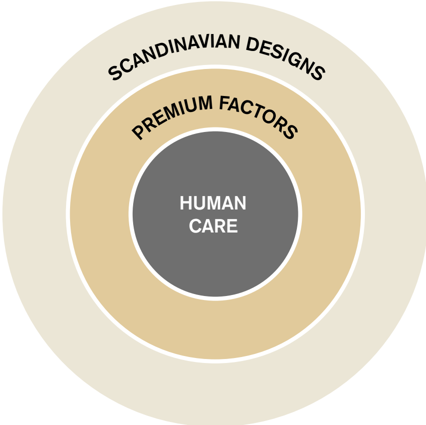
PROUDLY SCANDINAVIAN

Our Scandinavian Design language channels the Volvo brand's origins and other Scandinavian sources of inspiration. Being the largest Scandinavian car brand, we aim to create the most beautiful proportions possible for our cars while maintaining functionality.

We have outlined our design strategy with three themes that will guide Volvo Cars' future designs: Scandinavian Authority, Scandinavian Activity and Scandinavian Creativity.

During 2013 and 2014, we revealed three concept cars (Concept Coupe, Concept XC Coupe and Concept Estate), each of which was a demonstration of the essentials of the three elements. In addition, the concept cars showcased our new design language, highlighting signatures of the next generation of cars and demonstrating what Volvo cars would deliver in the future.

The core of our design strategy is human care, which is brought to our customers through our detailed attention to premium factors and our modern Scandinavian design philosophy.



Proportions are essential

Our product development platform – the Scalable Product Architecture (SPA) – enables our designers to control one of the most essential elements in car design – proportions. Creating the right design proportions is crucial for people's perception of a car design and SPA provides our designers with ultimate flexibility.

Light has a significant role

Light also plays an important role in our new design language, inspired by the dark winters and the related importance of light in the Scandinavian lifestyle. Our design strategy draws inspiration from Scandinavians' unique affection for light, not only in terms of profiles of the exterior, but also in the interior environment.

In the all-new XC90 and the S90, we introduced the floating elements in the driver and passenger space as well as a lit crystal gear shifter from Orrefors to capture the importance of interior lighting. Our T-shaped 'Thor's Hammer' daytime running lights, together with the expressive floating grille, establish a highly recognisable brand identity.

Our new direction is credited

In March 2015, we were awarded the prestigious Red Dot Design 'Best of the Best' Product Design Award for our work on the all-new XC90, beating almost 5,000 other product designs across 31 product categories.

The all-new XC90 represents a new beginning for us in terms of design philosophy and has been credited by one of the most prestigious design awards in the world. The recognition reassured our confidence in our new design strategy, as it paves the way for future Volvo car designs with these signature design elements.

Interior – Scandinavian simplicity

A part of our interior design philosophy is about leaving things out. This is to make the design as pure and clean as possible, in order to put focus on functionality and high quality materials. We regard Scandinavian simplicity as something that resonates very well with premium car design.

Thanks to the flexibility of our SPA platform, we removed almost all buttons in the center console and replaced them with a big touch screen, opening up a lot of space. The XC90 and S90 both offer high-end luxury interiors and the most advanced connected infotainment system on the market, which together promise control and comfort.

In November, we revealed Concept 26, the driving experience reimagined by our interior designers for the future of autonomous driving. Concept 26 is based around a patented seat design that actively cradles the driver, during three modes: Drive, Create or Relax.

THOR'S HAMMER

Thor is the major Norse god. He is associated with thunder, lightning, storms, strengths, fertility and the protection of mankind. The name of the god 'Thor' is also the origin of 'Thursday'. The hammer, called Mjölnir, is Thor's weapon. It is depicted in Norse mythology as one of the most fearsome weapons, capable of levelling mountains.

A NEW FLEET IS EMERGING

With the launch of the new XC90 and S90, the renewal of Volvo Cars' entire product portfolio is well under way. By 2019, the revitalisation will result in a complete fleet of new vehicles, full of in-house developed technologies.

Volvo Cars develops, produces and sells premium cars of a wide range. We place our customers at the centre of everything we do and we believe this sets us apart from all other car companies.

Our product portfolio

Our product matrix describes how our products are related to each other and also how they differentiate from each other. Our vehicle models are clustered by model range (40, 60, 90) as well body type (Sedan, Estate and SUV). In addition, for each vehicle model, we offer variants such as R-Design, Inscription, Cross Country and Long Wheelbase to address customer demand in terms of driving experience and exterior styling.

New platforms lay the foundation

The development of the new Scalable Product Architecture (SPA) and the Compact Modular Architecture (CMA) has formed the foundation of our product renewal and growth strategy. This strategy involves the replacement of every single car in our line-up in the next four years and an annual sales volume of up 800,000 cars in the medium term.

SPA – sophisticated and versatile

The development of SPA is one of the cornerstones in Volvo Cars product strategy. It was first introduced with the all-new XC90 in 2014 and it will be the modular architecture on which all 60 and 90 cars will be based on in the future.

SPA is highly flexible and allows our engineers to enhance technological features such as drivability, safety, connectivity and interior space. Furthermore, SPA facilitates the vertical integration and thus economies of scale for our product development: a wide range of cars, powertrains, electrical systems and technologies of differing complexity can be fitted on the same architecture.

CMA – innovative and advanced

The Compact Modular Architecture (CMA) is a smaller yet equally advanced platform as SPA. Economies of scale are realized by developing CMA together with our sister company Geely, while at the same time allowing for clear brand differentiation between the CMA-based cars developed by both companies. For Volvo Cars, CMA will be the underpinning for all new cars in the 40 cluster. The first of these is expected to be launched in 2017.

CMA allows us to offer customers the same type of premium engineering benefits as offered on the larger cars built on SPA. Shared technologies between SPA and CMA will include power-trains (both conventional and new plug-in hybrid variants) as well as the infotainment, climate and safety systems.

"By 2019, Volvo Cars will have replaced its entire product portfolio."

Product Matrix
Volvo Cars has developed three model ranges: 40, 60 and 90. Within each model range there are three body types: S (Sedan), V (Estate) and XC (SUV). Some of the Sedans and Estates also come in an off-road variant called Cross Country.

	S	V	XC	PLAT-FORM
90		+ CROSS COUNTRY		SPA
60	+ CROSS COUNTRY	+ CROSS COUNTRY		SPA
40		+ CROSS COUNTRY		CMA

COMPACT MODULAR ARCHITECTURE (CMA)
CMA shares technologies with SPA, including powertrains, infotainment, climate and safety systems, offering the same type of premium engineering benefits.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Navigation
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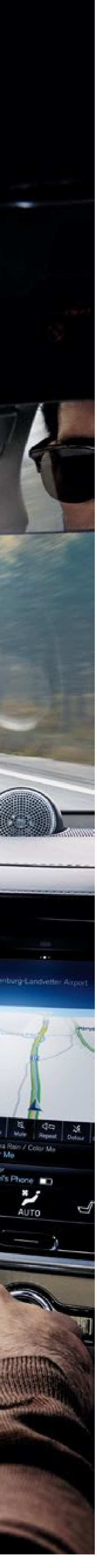


MAKING PEOPLE'S LIVES EASIER, SAFER & BETTER

The all-new XC90 and the S90 are hallmarks of the new technological direction of Volvo Cars: full of in-house developed technologies that set new standards in efficient power, autonomous driving, connectivity and safety.

Our growing Drive-E engine family
In 2013 we introduced a new family of energy-efficient engines that make no compromise on driving pleasure, based on our own Volvo Engine Architecture (VEA). The VEA engines, marketed as Drive-E, replace the previous generation of Volvo engines and are prepared for electrification.

3-and 4-Cylinder engines
Our new 4-cylinder Drive-E Powertrains consist of one common rail diesel and one direct-injected petrol version. The diesels range 120 to 235 hp, while petrol versions start at 140 hp and go all the way up to 320 hp. This allows us to cover the whole range of customer demands, from fuel-efficient derivatives to high power and torque variants.

The 3-cylinder Drive-E engine, which will be launched in 2017, is designed to ensure performance and fuel efficiency. Like its 4-cylinder brethren, it offers a wide range of performance levels up to approximately 180 hp. Both the 3-cylinder and 4-cylinder engines can be built on the same production lines, offering flexible and demand-based production.

Electrification
In October 2015, we launched our comprehensive Electrification Strategy. The focus point of this strategy is the introduction of plug-in hybrid variants across the entire range of SPA- and CMA-based cars. A fully electric car will be launched by 2019. The first cars to be launched as part of this strategy are the top-of-the-range XC90 and S90 T8 Twin Engine variants.

The SPA and CMA platforms are prepared for electrification at all levels, without intruding on interior space or load space. With SPA, we overcome the industry challenge of combining the bulk of a battery pack with a luxurious and spacious interior.

Connectivity in all models
Sensus is our advanced in-car control system that offers an industry-leading connectivity system – Sensus Connect, which provides our customers with integrated applications, smartphone integration and a navigation system with lifetime map updates.

Volvo On Call was one of the first car-based telematics systems in the world when it was launched in 2001. Through Sensus Connect, Volvo On Call offers comprehensive connected car services such as setting precondition timings to heat up or cool down the car, sending destinations to the navigation system, locking and unlocking the doors, locating your car in a crowded parking place and much more. Volvo On Call is available in 21 markets and counting.

Future applications
Going forward, we are investigating a whole range of new connected car services, based on Sensus Connect and the Volvo Cloud ecosystem developed with Ericsson. Our cars will not only communicate with their drivers, but they can also be used for broader applications within the society.

For instance, traffic flow could be improved by optimizing traffic lights and speed limits and by offering re-routing suggestions based on real-time traffic information. Connected cars could lead to safer driving conditions, as drivers are alerted in real time of dangerous weather and treacherous road conditions. The Cyclist Helmet, developed together with POC and showcased at the 2015 CES fair in Las Vegas, is an example of how proximity alerts can reduce accidents involving cars and cyclists.

Another good example of the possibilities of connected car services is the Volvo In-Car Delivery service, launched in November 2015. This convenient concept allows delivery companies to deliver goods ordered online directly to the Volvo cars.

Autonomous Driving (AD) technology and safety leading the way

Safety leadership is a key strength for Volvo Cars, from the invention of the 3 point safety belt to the latest efforts in autonomous driving technology. Rather than just a technological showcase, we see autonomous driving as a key enabler towards our Vision 2020: the vision that by that year, no one should be killed or seriously injured in a new Volvo.

Since 2012, we have taken gradual steps bringing our (semi)-autonomous driving technologies from concepts and test environments to reality.

> *"Autonomous driving is a key enabler for Volvo Cars' continued safety leadership."*

Today's AD features

Our latest semi-autonomous features were introduced with our all-new XC90 and S90. Pilot Assist enables safe and comfortable driving by following the vehicle in front in slow-moving queues. When activated, acceleration, braking and steering are controlled by the car automatically. On the S90, Pilot Assist gives gentle steering inputs to keep the car properly aligned within lane markings up to motorway speeds of around 130 km/h and no longer needs to follow another car.

Other features include Lane Keeping Aid, which applies extra steering torque when the car is about to leave the lane unintentionally, and Autonomous Emergency Braking, which automatically brakes when the driver turns in front of an oncoming car.

Drive Me Project

The Pilot Assist is another step towards full autonomous drive – a key innovation area for Volvo Cars. The Drive Me Project, a public pilot, and a one-of-a kind collaboration between legislators, transport and city authorities, a car manufacturer and customers, is the first project in the world where AD cars are made available to members of the public for their daily use. Starting in 2017, up to 100 self-driving Volvos XC90s will be used by families and commuters on public roads in everyday driving conditions around Gothenburg.

Holistic approach to safety

The driver is the core of our holistic approach, which is based on real traffic situations. Drivers of Volvo cars are surrounded by 360° protection zones, extending from connectivity, autonomous driving features to technology cushioning.

THE HOLISTIC APPROACH TO SAFETY

Seeing around the corner
To exchange communication with other vehicles, the infrastructure extends the driver's theoretical field of vision beyond the capacity of the camera, radar and sensors with Car2Car and Car2Infrastructure technology.

Enhancing the driving experience
Adaptive Cruise Control with Queue Assist, was introduced with the all-new XC90. When in queue, Volvo cars would automatically follow the vehicle ahead.

Crash avoidance
Camera, radar and sensor technologies are extended to detect more objects around the car and to offer support at higher speeds. Focus areas are crossings and collision-avoidance.

Embracing the driver
Intelligent absorption of energy in various types of collisions is the main focus which is achieved by safety technologies – such as safety belts, pre-tensioners, whiplash protection system, airbags and inflatable curtains.

Advanced vehicle engineering
Our patented safety cage, with its mix of different steel grades, has been made stronger and smarter. The superior strength is achieved by more extensive use of boron steel. The structure in the all-new XC90 features over 35 per cent hot-formed boron steel, which translates into significantly improved strength without adding mass or weight.

In addition, our new platforms include a ground-breaking new electrical architecture and are designed to make it easy to add sophisticated functions and implement new safety technology.

Kangaroo detection
We are developing the world-first kangaroo detection and collision avoidance system, based on our sophisticated City Safety technology. According to the National Roads & Motorists' Association (NRMA), there are over 20,000 kangaroo strikes on Australian roads each year, costing over AU $75 million in insurance claims. The human cost of serious injuries and fatalities from animal collisions is incalculable. We are leveraging our world-class knowledge in safety to help improve the situation.

SEVERAL HIGH-PROFILE AWARDS

In 2015 Volvo Cars has been the recipient of many high-profile awards, recognising our innovative approach to design, in-car control, connectivity and safety. Here we list some of these awards:

XC90

- North American Truck of the Year
- Auto Express Car of Year
- Motor Trend SUV of the Year
- Women's World Car of the Year

CONNECTIVITY

- Most Innovative HMI System at the 2015 Car HMI Concept & Systems conference
- Car Maker of the Year by TU Automotive

T6 DRIVE-E

- Engine of the Year by Digital Trends
- One of 10 Best Engines in 2015 by WardsAuto

SAFETY

- XC90 awarded Top Safety Pick+ rating from the American Insurance Institute for Highway Safety (IIHS)
- XC90 named Euro NCAP Best in Class 2015, for both Large Off-road and Overall Performance categories

TRULY GLOBAL

2015 marks the year in which the Purchasing & Manufacturing (P&M) organisation of Volvo Cars became truly global.

A global manufacturing footprint requires a globally-integrated supply chain, based on the overall principle 'build where we sell and source where we build'. This strategy allows for just-in-time delivery, production flexibility and secures responsiveness to meet market and business demands.

Expanding our industrial footprint

US – building a new plant

With the decision of establishing our industrial footprint in the United States (US), including building a new plant, we are investing in the future, to secure manufacturing capacity in the coming years and to support the long-term growth targets. This investment fulfils our ambition of becoming a truly global car maker and also showcases our long-term commitment to the US market.

Sweden – increasing capacity

The first series-produced all-new XC90 rolled off the production line in January. A third shift was introduced at our Torslanda plant to meet the increased demand. This decision led to the creation of approx. 1,500 new jobs and further strengthened Volvo Cars' position as one of the largest employers in Sweden.

Our car body component plant in Olofström added 350 new jobs, due to strong demands. In addition, Olofström also started the in-house production of hot-formed body components.

Belgium – will produce compact premium cars

Our Ghent plant celebrated its 50-year anniversary in October, together with 13,000 employees and their families. One of the celebration events was attended by King Filip of Belgium. In connection to the anniversary, it was announced that Volvo Car Gent would be producing our future compact cars based on the CMA platform.

China – producing premium cars for export

More than 100,000 cars have already been built in our Chengdu plant, since its inauguration in 2013. An additional variant of the S60L – the S60L Petrol Plug-in Hybrid – was added to the Chengdu production line in 2015. It is one of the first premium plug-in vehicles manufactured and sold in China. In June, the first units of the S60 Inscription produced by our Chengdu plant were exported to the US. This made Chengdu the first automotive plant in China that could produce premium cars for export to the US. This illustrates that our efforts on implementing global standards on production quality management paid off.

In Daqing, preparations for producing cars based on the SPA platform are well underway.

Producing all Volvo Car engines

We are phasing out externally produced engines from our products. The vast majority of Volvo cars produced in 2015 were equipped with engines produced in our own Skövde Engine Plant. We have also prepared our engine plant in Zhangjiakou to become a full-scale engine plant, adding machining of engine components to the already existing assembly operations.

Focus on quality and environment

All Volvo Cars' plants adhere to Volvo Cars' global Volvo Car Manufacturing System (VCMS), utilising Volvo Cars' global technology and ensuring Volvo Cars' global quality standards.

Volvo Cars' manufacturing plants around the world also follow the Volvo Cars Global Environmental Standard, which ensures that all of Volvo Cars' manufacturing operations limit their environmental impact as much as possible. Upon establishing new plants, Volvo Cars does not compromise on environmental performance and our factories tend to operate better than what is legally required.

Energy efficient operations

Volvo Cars is working actively to improve energy efficiency by having energy saving targets for each plant as well as periodic energy audits. This ensures that we receive clear guidance for energy measures and policy making. Over the years, the energy efficiency work has been refined and developed to be a crucial part of our daily operations.

Lean logistics operations

In 2015 we completed the insourcing of the complete logistics chain, including inbound and outbound transports as well as packaging. This has equipped Volvo Cars with a lean logistics operations offering lower costs and higher efficiency.

Suppliers involved in specification

Throughout the process of developing a new Volvo car model, purchasing, manufacturing and R&D work closely together. By involving the suppliers in the product specification process, we gather insights from our supplier network and identify the suppliers best positioned to meet our specific requirements. This practice improves the total cost of ownership and optimises the supply value chain to meet our customer's expectations.

Assessment programme for suppliers

Volvo Cars' has around 4,000 suppliers, which have all gone through the company's supplier assessment programme. Our 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 also need to meet social and environmental standards and are subject to a sustainability review of their supply chain. The supplier assessment process also includes on-site audits by Volvo Cars' representatives.

Supplier sustainability self-assessments and audits

Since 2014, we have been sending out Sustainability Self-Assessment Questionnaires (SAQ) to our suppliers, covering the social, environmental and sub-supplier responsibilities as well as business ethics. Based on the 2014 results, several follow-up procedures were implemented in 2015, which included cooperation with suppliers to strengthen their performances within prioritised areas in accordance to Volvo Cars' requirements. In 2015, 320 suppliers completed the SAQ.

In addition to the SAQ, we also conduct audits. Our supplier sustainability audit assessment criteria are based on Volvo Cars' Working Condition & Environment Audit Checklist. Areas covered are labour conditions, business ethics, health and safety (including risk management and emergency preparedness), environmental protection, compliance and management system.

WESTERN EUROPE

New organisation established
Western Europe is now organised under a newly established region – Europe, Middle East and Africa (EMEA). We have established the EMEA headquarter in Gothenburg, to stay close with the largest markets in EMEA. Due to the various maturity level of the markets, Volvo Cars encourages the bottom-up approach, when developing the future growth plans for Western Europe, and our major markets continued to deliver positively in 2015.

Germany
We continued the positive momentum and retail sales increased by 13 per cent. We initiated various activities to expand our service offerings. Volvo Car Financial Services established a new joint venture to strengthen our financing solutions. We also started offering an individually designed premium mobility concept for car leasing and sharing.

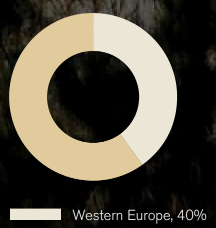
UK
Sales in the UK delivered the market's best result for 21 years. Our sales success was also mirrored in the used car programme - Volvo Selekt, which saw an 8 per cent increase, and the aftersales area, which saw a 5.6 per cent rise in service visits. The Volvo Retail Experience was rolled out, with the first seven retail sites fully implementing the new brand image.

Spain
We grew sales by 31 per cent, outperforming the local industry development and increasing our market share. Our aftersales business continued to increase and we also improved the residual value of Volvo cars in Spain, proven by the strong performance in our leasing channel, which represented 25 per cent of our total sales.

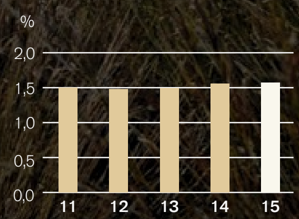
Industry development
During 2015, Western European passenger car sales continued to grow at a robust pace of 9 per cent, driven by positive economic development in major markets. Key markets such as Germany, France, Italy and Spain showed strong new-car sales. The UK passenger car market reached full-year record volume of 2.63 million cars sold in 2015, an 8 per cent growth compared to 2014. The positive sales development in Western Europe was mainly attributable to an increase in the SUV segment, as well as an increased demand for Sedans.

Volvo Cars sales development
In 2015, Western Europe delivered an 8.7 per cent increase in sales and reported retail sales of 198,049 (182,157) units. Several key markets, including Germany, UK, Italy and France all showed solid growth. Spain saw a remarkable sales increase of 31 per cent compared to 2014. The V40/V40 Cross Country remained the best-selling model in Western Europe with retail sales of 67,411 (68,282), followed by the XC60 with 56,077 (46,325) units.

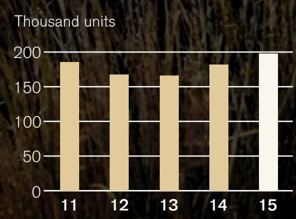
SHARE OF VOLVO CARS RETAIL SALES 2015 – WESTERN EUROPE



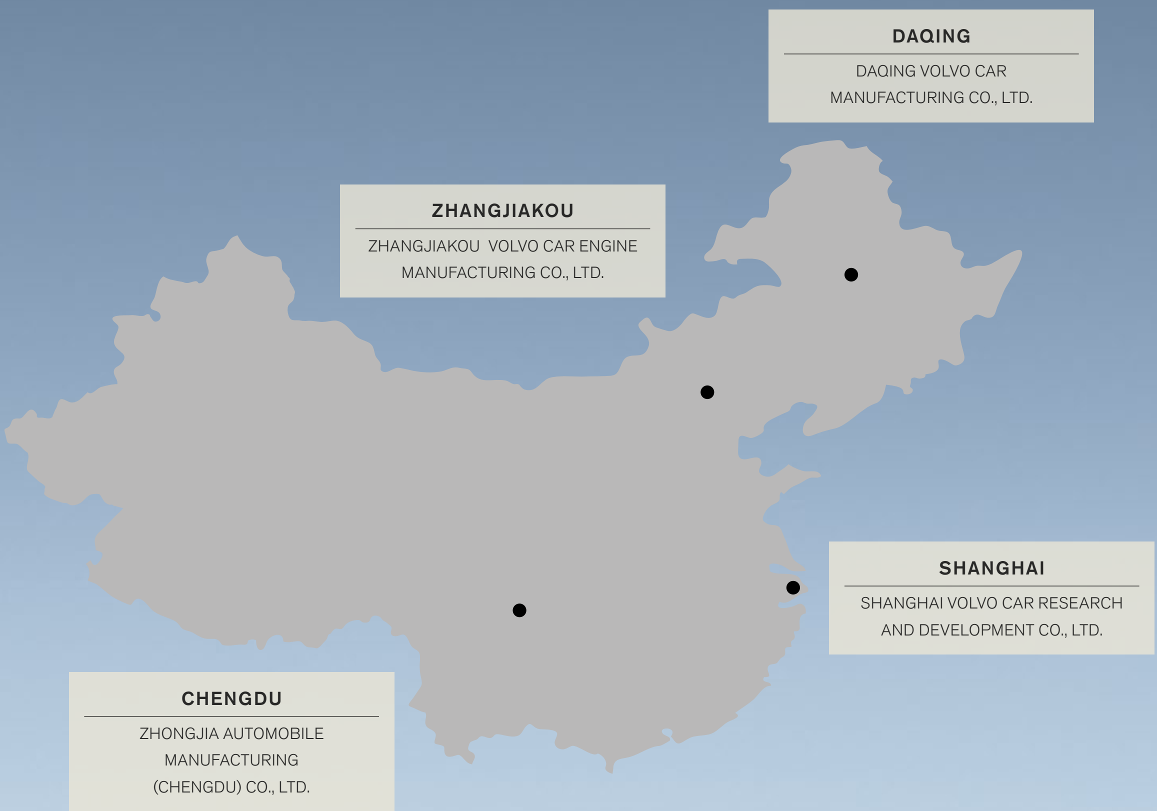
MARKET SHARE DEVELOPMENT – WESTERN EUROPE



SALES DEVELOPMENT – WESTERN EUROPE



"Western Europe is Volvo Cars' largest sales region, representing over one third of total sales"



THESE ARE THE CHINESE INDUSTRIAL ENTITIES THAT ARE NOW CONSOLIDATED INTO VOLVO CAR GROUP

CHINA

Consolidation of Chinese entities

Following the strategy to become truly global and in order to reflect our growing presence in the world's largest car market, we have taken control of our Chinese industrial entities. Volvo Cars is the first OEM to do so.

Volvo Cars now holds 50 per cent of the Chinese industrial entities. By incorporating the Chinese industrial entities we are now, consolidating the Chinese operations into our group, Volvo Car Group, thus providing a more accurate financial and operational picture of Volvo Cars as we continue to expand in China. In recent years, we have established our manufacturing footprint and strengthened our dealer network in China.

The incorporation of the Chinese industrial entities is an important step towards our long term objectives of capturing growth and sourcing potential in China whilst simplifying the legal structure.

The Chinese industrial entities include our car manufacturing facilities in Chengdu and Daqing, the engine manufacturing facility in Zhangjiakou and the research and development centre in Shanghai.

Focusing on branding and R&D

In China we focus our branding on the Scandinavian and Swedish heritage, clean air technologies and simple, elegant and functional design. Our fuel-efficient cars equiped with the best-in-class air filters are well-received among our Chinese customers. We take pride in implementing the Volvo Car Manufacturing System in all our plants to ensure the high quality standards of our products. In 2015, we also opened a new test centre in Shanghai. The test centre strengthens Volvo Cars' R&D capabilities in China and in Sweden, carrying out emission tests as well as conducting development work on powertrains, active safety and interior air quality.

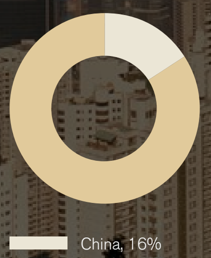
Industry development

In China, the car industry is adjusting to a lower growth rate in the passenger car market, but still sees a strong demand for SUV's and compact crossovers. In 2015, the demand for passenger vehicles in China increased by 7 per cent, mainly related to a late increase in sales triggered by the government's purchase tax cut on small cars.

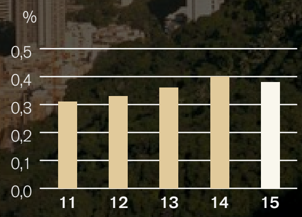
Volvo Cars sales development

The pickup in the latter part of 2015 meant Volvo Cars' full year retail sales in China remained flat compared to 2014, thus reaching 81,588 (81,574) units. The XC60 was the best-selling model with retail sales of 37,469 (32,935) followed by the S60L with 25,772 (23,368) units. The modest sales increase was mainly due to weaker demand for the V60, the V40 and the discontinued S80L.

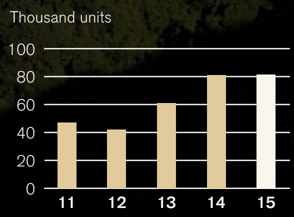
SHARE OF VOLVO CARS RETAIL SALES 2015 – CHINA



MARKET SHARE DEVELOPMENT – CHINA



SALES DEVELOPMENT – CHINA



THE UNITED STATES

Dealers

As sales increased by more than 24 percent in 2015, Volvo Cars is back on track towards reaching sales volume of 100,000 cars and more. The return to solid growth in the US indicates also positive development for our dealer network, after several tough years. We have seen an increased engagement from our dealers supporting the very positive sales development. The sales increase was driven by new focus on revitalising the brand and the improved product lineup, with the all-new XC90 being the crown jewel.

To explain the strategy and boost the commitment, the year of 2015 was kicked off by a dealer conference in Vail, Colorado. Positive messages regarding our ambitious product renewal plan and our determination to secure a comeback in the US were delivered to our dealer network. Our American dealers, after years of receiving very limited new car models in their showrooms, applauded our plan and anticipated a successful revival for our brand in the US.

US plant

Volvo Cars has been doing business in the US since 1955 and is determined to re-establish in this major automotive market. As a firm sign of our commitment to the market, in May we announced the plan to build a new car plant in Berkeley County, South Carolina, our first ever manufacturing facility in the US. In September, the construction work already started. The new plant will produce the next-generation Volvo cars, based on the SPA platform, with a capacity of up to 100,000 cars per year.

The decision to choose Berkeley County was taken as a result of its easy access to international ports and infrastructure, a well-trained labour force, an attractive investment environment and experience in the high tech manufacturing sector.

The US is a cornerstone in Volvo Cars' global expansion plan. Together with a whole range of new cars in the coming years, this new plant will play a vital role in establishing and growing our global presence.

With the new US plant in place, we will be able to manufacture cars on three continents, underscoring our position as a truly global car maker.

Industry development

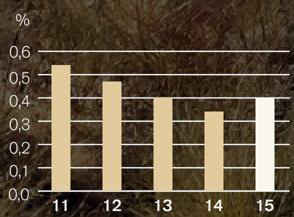
Following the upward market trend set out in the summer, the demand for light-vehicles remained strong in the second half of the year. The passenger car market increased by 6 per cent in 2015. For most brands, growth was driven by strong SUV and compact crossover sales.

Volvo Cars sales development

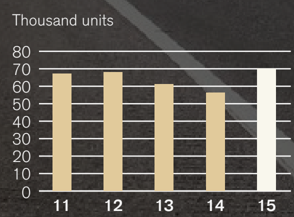
Volvo Cars' sales in the US market started to show strong signs of recovery in 2015, compared to the decreasing sales development in recent years. In 2015, retail sales increased by 24.3 per cent to 70,047 (56,371) units. The increase was driven by strong demand for the all-new XC90 and the XC60. The XC90 reached a sales volume of 12,664 (0) units while the XC60 was the best-selling model with sales of 26,134 (19,278) units, an increase of 35.6 per cent.

SHARE OF VOLVO CARS RETAIL SALES 2015 – US

MARKET SHARE DEVELOPMENT – US



SALES DEVELOPMENT – US



"Volvo Cars' performance in the US showed strong signs of recovery in 2015"

S90 INSCRIPTION, PERFORATED NAPPA LEATHER BLOND IN BLOND INTERIOR (WC00),
LINEAR WALNUT TRIM, PREMIUM SOUND SYSTEM WITH BOWERS & WILKINS

WITH TRADITIONAL THINKING IN THE REAR VIEW MIRROR

In 2015, we saw the fruits from our go-to market strategy – The Volvo Way to Market – with a series of campaigns and events.

Our way to market

The Volvo Way defines our direction from balancing our brand campaigns, our work with sponsorship and events, our digital strategy, to our customers' retail and ownership experiences.

A new beginning with the all-new XC90

Our all-new XC90 was launched with a global marketing campaign 'A new beginning'. We teamed up with Swedish artist Avicii and Chinese artist Li Jian to create the campaign. The videos in which the artists performed their adaptation of the well-known track "Feeling Good" were widely shown on TV and on social media channels. During the launch weekend, more than 10 million people viewed the Avicii video and record numbers of cars were configured on our homepage in many European countries.

Successful reveal of the S90

The S90 continued the momentum we have gained from the all-new XC90. The S90 was revealed at an exclusive media event in Gothenburg in early December, and made its first appearance to the general public at the Detroit Auto Show in January, 2016. The S90 was well received and enjoyed broad coverage at various prestigious business, automotive and technology media channels. Production of the S90 and the most recently revealed V90 will start in 2016.

Success stories from our major markets

While The Volvo Way aims to establish a solid brand base with a global brand strategy and global brand campaigns, we encourage our local teams to develop the brand and to be creative. This practice led to many success stories for our brand in 2015.

Volvo Pop-up Stores

Inspired by the roadshow concept, we presented ourselves in mobile brand showrooms at recreational, cultural and athletic events in Germany, with the goal of increasing public interest in our brand and attracting more visitors outside of the regular setup of showrooms. In addition to the exhibition of cars and technology, our pop-up stores were also supplemented with a modern Scandinavian living room, to anchor the Scandinavian elements of our brand.

Launch of Life Paint for safe cycling

In the UK, we launched the highly successful Life Paint campaign, which focused on a product aimed at increasing the visibility and safety of cyclists on the road. The reflective spray was designed to react to a car's headlights, alerting drivers to the presence of cyclists in the dark. It is transparent by daylight and can be washed off.

The Vintersaga campaign paved way for sales record

Our Vintersaga Campaign helped Sweden to kick off 2015 in the strongest possible way by outperforming the XC60 sales record from 2014 and establishing XC/V70 as the most sold car in Sweden. Among other achievements, the music track made it to the number one spot on the Swedish music charts, and helped making Volvo Cars the strongest brand in Sweden according to the Yougov BrandIndex.

A new beginning in China

Our all-new XC90 launch campaign 'A new beginning' re-launched the Volvo Car brand in China and established the all-new XC90 as an innovative and luxury product. For the campaign, Volvo Cars collaborated with the Chinese singer and songwriter Li Jian and the campaign video received more than 260 million views.

US – high-profile awards for campaign

As part of the Super Bowl we launched 'The Greatest Interception Ever' campaign in the US, calling for participants to tweet #VolvoContest, and nominate a friend to win a new Volvo XC60, during other car brands' Super Bowl commercials. The campaign received seven Lions from the international advertising festival in Cannes and contributed to a 70.7 per cent increase in XC60 sales in the month of February.

Digital Leadership

Our objective is to make life easy for our customers and we are determined to provide the most innovative and user-friendly digital experiences for our customers throughout our journey together.

During 2015, Volvo Cars implemented a responsive web platform that works equally well on all devices such as tablets, mobile phones and desktop. One of the key features of Volvo Cars' digital experiences is the car configurator which enables our customers to customise their unique Volvo car online. During the web platform makeover, it was improved and also adopted for mobile use.

Digital commerce continues to be one of Volvo Cars strategic change themes. We successfully took the first step in selling 1,927 first-edition XC90s in 2014, and started selling Polestar cars online in selected markets in 2015.

We also highly regard our presence at various social media channels as a means of providing responsive and effective Customer Relationship Management (CRM).

Sponsorships representing core values

We actively participate in sponsoring events that best represent our core values – safety, quality and environmental care. Among many of our sponsorship initiatives, Volvo Ocean Race is the one that is of the largest scale and the most well-known.

Volvo Ocean Race since 1973

Volvo Ocean Race, started from 1973, is sailing's biggest offshore race and one of the most coveted prizes in the sport. It lasts for nearly nine months – the longest sport event in the world. The race is sponsored jointly by Volvo Car Group, Volvo Group and the hosting ports.

The 12th edition of the Volvo Ocean Race started in Alicante, Spain, where seven boats departed in October, 2014. They visited 11 ports on five continents and raced approx. 39,000 nautical miles on their way to the final stopover at the hometown of Volvo – Gothenburg, Sweden, in June 2015.

In addition to showcasing our cars and technologies at each stopover port's Race Village, we also released a special Volvo Ocean Race Edition for our V40, V40 Cross Country, V60 and XC60 cars.

Welcoming retail experience

Our Volvo Retail Experience concept aims to embrace well-being and create a "living room" rather than just a "waiting room" at our dealerships. Our concept is influenced by Scandinavian design elements to illustrate our roots and create an environment that is uniquely Volvo Cars.

So far, we have refurbished approx. 380 dealerships globally. We aim to have 90 per cent of our dealerships worldwide to offer Volvo Retail Experience by the end of 2018.

In November, Volvo Cars and Microsoft revealed how Microsoft HoloLens, the world's first wearable holographic computer, might be used to redefine how our customers first encounter and explore a car. HoloLens also gave an indication as to how Volvo cars might be bought and sold in future.

Volvo Car Financial Services

Volvo Car Financial Services manages and develops Volvo Cars' financing and insurance offers globally. In most of our markets, we provide branded financing and insurance offers through our partner

banks and insurance companies. We have also improved our leasing offers for the markets where attractive leasing plans play an important role in buying decisions and increased customer loyalty.

Best in Class ownership

We want customers to enjoy owning a Volvo. We strive to offer personalised technical support and secure the efficient distribution of spare parts required for repair and servicing, throughout the vehicles' lifecycle. In addition, we also operate a used car program globally, extending our excellent ownership management to the used Volvo cars as well.

Volvo Personal Services

We take pride in offering personalised technical support to our customers. Volvo Personal Services strives to offer a Personal Service Technician for each and every Volvo Car customer, who will also take care of the customer and his or her Volvo car throughout the entire ownership.

This program requires an extensive training and development program for our dealer network, which is already underway. We have piloted Volvo Personal Services in some countries, where we have seen a significant increase in both customer satisfaction and workshop efficiency. We are planning to roll out Volvo Personal Services to all of our markets by 2018.

Volvo Selekt

Volvo Selekt is our global used car program, offered by over 1,000 certified dealers across 30 countries. The Volvo Selekt vehicles are prepared to the highest standards across the globe and our customers benefit from 12 months warranty, roadside assistance and 30-day exchange guarantee.

A principle objective of the program is to offer a more affordable entry point to our brand and provide the opportunity for our customers to trade in their Volvo cars during the lifecycle. Since the launch in 2011, the annual sales of Volvo Selekt cars have grown from 26,600 to more than 75,000 in 2015.

Spare parts

We have established a comprehensive logistics network to ensure parts availability at our dealer workshops, which secures the timely repair and servicing for our customers worldwide and supports the sales of our spare parts. We are currently operating 46 warehouses around the world, which are supplied and supported by the Central Distribution Centre in Gothenburg. The biggest markets for our spare parts business are the US, Sweden and China.

PASSION MAKES OUR WHEELS TURN

We believe that Volvo Cars' future success is shaped by our passionate colleagues.

Volvo Cars is a global employer of 28,000 people. Our global presence and ambitious goals offer great opportunities for talents to grow and thrive. We work hard to create an engaging work place that enables every individual to reach their full potential.

The Volvo Cars Culture

The Volvo Cars Culture embraces everything we do and it starts with our commitment to making a difference in people's lives. These are our cultural values, which are carried out by our colleagues in their daily work:

- Passion for customers and cars: Being curious and customer oriented in everything we do.
- Move fast and aim high: Seeing and seizing opportunities.
- Real challenge and respect: Taking initiative and acting on your experience.

Creating jobs world wide

Volvo Cars started the third shift at Torslanda Plant in May, creating nearly 1,500 new jobs in the Gothenburg region. The additional night shift was introduced as we started production of the all-new XC90. Furthermore, our expansion of operations is expected to generate even more jobs for Gothenburg and Western Sweden, at our suppliers and other local businesses.

In China the expansion continued with a new R&D centre and the continuous ramp up of local production, which resulted in 1,000 new employees joining Volvo Cars during the year.

Volvo Experience Programme

The Volvo Experience Programme (VEP) is an internship programme open to long-term unemployed people in Sweden between the ages of 18 and 24. By providing the opportunity to carry out a seven-month internship at Volvo Cars, VEP aims to provide relevant work experiences that can help the young unemployed people to get a job or inspire them to enter further education in the future.

Employer of choice

We firmly believe in the importance of attracting top talents supporting us to continuously innovate and develop cutting-edge technologies. Therefore, we have made it a strategic corporate objective to become Employer of Choice. We participate in various employer branding events, to meet with our future employees and introduce them to our company. In 2015, we launched Volvo Cars Career website as well as several social media channels, to improve the interactions with people that are interested in pursuing a career at Volvo Cars.

Volvo Cars is recognized as an attractive employer globally and has been credited with several awards. In 2015, Volvo Cars was recognised as the 46th most attractive employer in the world amongst engineering MSc students (Universum), and the 3rd most attractive employer amongst Swedish professionals (Randstad Awards). Notably, Volvo Cars also made a strong leap amongst business professionals in Sweden, moving from 43rd to 10th place (Universum).

Talent development

We operate in 34 countries, and offer a dynamic international environment and various opportunities for our people to grow. With our ambitious growth plans and global presence, we seek to attract new talent as well as actively develop our existing talent base. To enforce this ambition, we have established the following development programs:

Graduate programme

Volvo Cars Graduate Programme is one of our most extensive recruitment campaigns and attracts applicants from all over the world. The objective of the programme is to globally recruit and develop top talents with the potential to become future leaders.

Global Leadership Development Programmes

Global Leadership Development Programmes were developed in 2015 to empower our leaders to become role models of our corporate culture and cultivate leadership behaviours.

Employee development

Our goal is for each employee to have a personal development plan, developed in dialogue with their direct managers.

Employee engagement

Our goal by year 2020 is to build an organisational culture based on performance and health, and we are well on our way to do this in a fast, smart and nimble way. Many activities were initiated to ensure our progress and finally achieve this goal.

Bonus scheme for employees

We highly value the engagement of our employees. In 2011, a bonus scheme for employees was initiated. Upon reaching the targets for 2015, our employees, regardless of location and position, will receive a bonus.

S90 T6 AWD INSCRIPTION,
721 MUSSEL BLUE METALLIC

Design around you@work (DAY@work)

DAY@work is a global change programme, introduced to create an attractive and efficient workplace designed around our employees to support their activities, promoting cross-functional cooperation and learning. It encourages creativity and flexibility from our employees.

Health and safety

We pay close attention to ensure our workplace is free from health and safety hazards. The same tools and health and safety structures apply to all of Volvo Cars' operations globally.

We have been recording incidents and accidents since 2003. The lost time case rate (LTCR) has been reduced over the years from 2.3 in 2003 to 0.34 in 2015.

Diversity and inclusion

We believe that an inclusive and welcoming climate embraces differences and offers respect in words and actions. This enables all people to fully participate in our organisation and support our vision and mission.

Diversity governance

Volvo Cars People Policy outlines the values and expectations that we have for diversity and equal opportunities within our organisation. Volvo Cars Diversity and Inclusion Council was established in all functions, with the aim of securing continuous improvement of diversity work and formulated targets, such as having 35 per cent of the leadership positions being held by female by 2020.

Fair and equal treatment

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

Collective bargaining

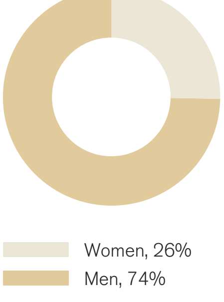
All employees of Volvo Cars have the right to form or join associations of their own choosing concerning the relationship between the employer and the employees and to bargain collectively. We do not accept disciplinary or discriminatory actions against employees who choose to peacefully and lawfully organise or join an association.

Compliance and ethics

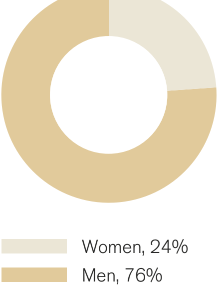
We believe that conducting business in an ethical manner and taking responsibility as regards social and environmental sustainability is a natural part of being successful as a company. This commitment to responsible business is described in the Volvo Car Group Code of Conduct. The Code of Conduct consist of important corporate policies aiming to secure adherence to all relevant legislation and ethical commitments. It rests on international conventions for human rights and labour rights and is aimed at all employees.

All suppliers that the company does business with, all dealers that sell the products of Volvo Cars and all other representatives that conduct business on behalf of the company are also expected to adhere to the relevant parts of the Code of Conduct. Our Compliance and Ethics programme include continuous trainings and communications of the Code of Conduct. The Code of Conduct is available both on the intranet and publicly at:
http://www.volvocars.com/sustainability

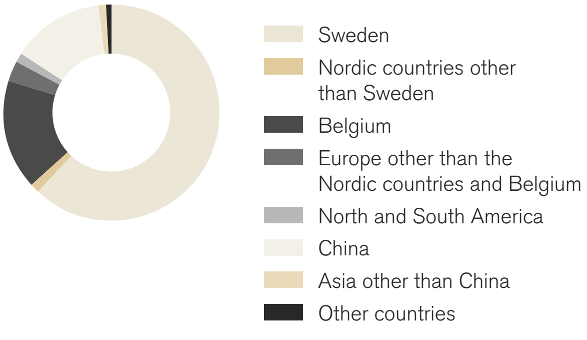
PROPORTION OF WOMEN IN LEADING POSITIONS



GENDER DISTRIBUTION ALL EMPLOYEES



AVERAGE NUMBER OF EMPLOYEES BY REGION



EMPLOYEE INTERVIEWS

Carlos/Ren Zhi

TECHNICAL SPECIALIST

Carlos, or Ren Zhi in Chinese, supported the Torslanda Body Shop in programming robots on measuring stations – a unique knowledge from our Chengdu plant.

When the Torslanda plant needed assistance with programming of the robots on measuring stations, the knowledge was to be found in Chengdu. A global team for knowledge sharing was then set up.

"It is a great honour for me to come here and be a part of this project. It has been a tough challenge, but I've had great support from my colleagues," says Carlos (Ren Zhi).

Carlos is 31 years old, grew up in the city of Nanchang around 250 kilometres from Chengdu and has always been interested in technology. He has a seven-year engineering education from the University of Sichuan.

The project kicked off more collaboration opportunities for the future, as Carlos transferred some of his knowledge to the colleagues in Torslanda and Ghent. "I joined Volvo Cars in 2012 and I'm currently working as Technical Specialist. I've been to Sweden once before and I like it here. I think that the installation work has gone well," says Carlos.

Helena Bergström Pilo

VICE PRESIDENT, HEAD OF DEVELOPMENT, VEHICLE LINE 40

The Swedish magazine Ny Teknik ranks Helena Bergström Pilo, Head of Development, Vehicle Line 40, as the most influencial and inspiring female engineer in Sweden.

Helena Bergström Pilo has been with Volvo Cars since 1988. She is working as Head of Development, Vehicle Line 40, and previously held the position of Vice President, Body & Trim Engineering.

She describes herself as a curious person, who wants to understand how things work. During her years at Volvo Cars she had the opportunity to work in different areas within engineering, several attribute areas, verification and supplier quality.

"Developing cars is such an interesting combination of challenges, complex tasks and problem solving with a constant increased need for technology development and innovations. Key is of course also the good team work and all the very skilled people I have met and worked with over the years, which has made it even more interesting and inspiring", Helena says.

Her experience of being a woman in a traditionally male dominated environment she describes like this:

"I like to see myself as a person and an engineer working for Volvo Cars. However, different perspectives are important, as well as having the courage to state a different point of view. My drive has its base in developing cars, which are better for both men and women. It is possible if we are courageous to bring in different opinions and views into the development of solutions".

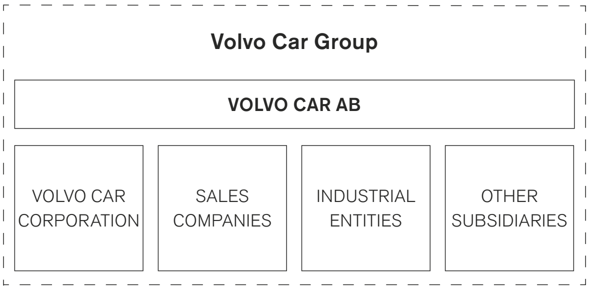
BOARD OF DIRECTORS REPORT

The Volvo Car Group

Volvo Car AB, with its registered office in Gothenburg, is 100 per cent owned by Geely Sweden Holdings AB, owned by Shanghai Geely Zhaoyuan International Investment Co., Ltd., registered in Shanghai, China, with ultimate majority ownership held by Zhejiang Geely Holding Group Ltd., registered in Hangzhou, China.

Volvo Car AB does not conduct any direct business other than holding shares in its subsidiary Volvo Car Corporation. Volvo Car AB indirectly, through Volvo Car Corporation and its subsidiaries operate in the automotive industry with business relating to the design, development, manufacturing, marketing and sales of cars. Volvo Car Group and its global operations are normally referred to as “Volvo Cars”.

The new corporate structure is as described below.



Passenger car market development

Western Europe

During 2015, Western European passenger car sales continued to grow at a robust pace of 9 per cent, driven by positive economic development in major markets. Key markets such as Germany, France, Italy and Spain showed strong new-car sales. The UK passenger car market reached full-year record volume of 2.63 million cars sold in 2015, an 8 per cent growth compared to 2014, and the growth rate in Sweden was 14 per cent. The positive sales development in Western Europe was mainly attributable to an increase in the SUV segment, as well as an increased demand for Sedans.

China

In China, the car industry is adjusting to a lower growth rate in the passenger car market, but still sees a strong demand for SUV’s and compact crossovers. In 2015, the demand for passenger vehicles in China increased by 7 per cent, mainly related to a late increase in sales triggered by the government’s purchase tax cut on small cars.

US

Following the upward market trend set out in the summer the demand for light-vehicles remained strong in the second half of the year. The passenger car market increased by 6 per cent in 2015. For most brands, growth was driven by strong SUV and compact crossover sales.

Other Markets

In 2015, the macroeconomic conditions in Russia showed little signs of recovery, which continued to impact the light-vehicle market. The Russian passenger vehicle market fell by

Key ratios, MSEK	Full year 2015	Restated Full year 2014[1]	Full year 2013[2]	Full year 2012[2]	Full year 2011[2]
Net revenue	164,043	137,590	122,245	124,547	125,678
Operating income, EBIT	6,620	2,128	1,919	66	2,017
Net Income	4,476	508	960	–542	1,024
EBITDA	16,019	9,491	9,057	8,082	10,130
Operating & investing cash flow	7,234	–4,766	109	–4,929	2,502
EBIT margin, %	4.0	1.5	1.6	0.10	1.6
EBITDA margin, %	9.8	6.9	7.4	6.5	8.1
Equity ratio, %	26.2	27.8	28.1	28.5	28.1
Net debt	–7,721	856	2,607	2,240	9,120

1) The comparative figures for 2014 are restated to include the new Volvo Car Group structure including the acquired Chinese industrial entities. For further descriptions and information see paragraph “Significant Events”, Note 32 – Business combinations under common control and Note 34 – Restatement.
2) Not restated after the acquisitions of the Chinese industrial entities.

36 per cent. The downward sales trend in Japan continued with a market decrease of 10 per cent while positive market conditions were present in both Australia and Turkey, with market development of 4 and 26 per cent respectively.

Volvo Cars sales development

In 2015, Volvo Cars reported a retail sales record of 503,127 (465,866) units and an increase of 8 per cent. The US and Sweden both showed substantial growth throughout the year. The sales increase was mainly driven by the all-new XC90 and the XC60. The all-new XC90 received more than 88,000 placed factory orders since launch. China, however, was flat on a full year basis, but picking up in the later part of the year, and Russia reported a decrease in retail sales following the negative market development.

Volvo Cars' XC model range continues to deliver. The XC60 was the best-selling model with 159,617 (136,993) units sold, an increase of 17 per cent. The largest market for the XC60 was China, followed by the US and Sweden. During 2015, the all-new XC90 contributed with 40,621 (0) units, and was the main driver behind the sales increase in most markets.

The second best-selling car line was the V40/V40 Cross Country with sales of 106,631 (110,864) units, followed by the S60/S60L/S60 Cross Country with 64,078 (67,623) units.

Western Europe

Western Europe delivered an 8.7 per cent increase in sales and reported retail sales of 198,049 (182,157) units. Several key markets, including Germany, UK, Italy and France all showed solid growth. Spain saw a remarkable sales increase of 31 per cent compared to 2014. The V40/V40 Cross Country remained the best-selling model in Western Europe with retail sales of 67,411 (68,282), followed by the XC60 with 56,077 (46,325) units.

China

The pickup in the latter part of 2015 meant Volvo Cars' retail sales in China remaining flat compared to 2014, thus reaching 81,588 (81,574) units. The XC60 was the best-selling model with retail sales of 37,469 (32,935) followed by the S60L with 25,772 (23,368) units. The modest sales increase was mainly due to weaker demand for the V60, the V40 and the discontinued S80L.

Sweden

Sales in Sweden experienced a double-digit increase of 16.0 per cent to 71,200 (61,357) units and Volvo Cars kept its leading market position with a market share of 20.6 per cent. Strong demand for Volvo Cars' XC carlines continued to support a positive sales performance in Volvo Cars' home market. Sales of the XC carlines accounted for 43.4 per cent of the sales and recorded a substantial increase of 35.1 per cent to 30,916 (22,879) units.

US

Volvo Cars' sales in the US market started to show strong signs of recovery in 2015, compared to the decreasing sales development in recent years. Retail sales increased by 24.3 per cent to 70,047 (56,371) units. The increase was driven by strong demand for the all-new XC90 and the XC60. The XC90 reached a sales volume of 12,664 (0) units while the XC60 was the best-selling model with sales of 26,134 (19,278) units, an increase of 35.6 per cent.

Other Markets

In 2015, the total sales for Other Markets was still 2.6 per cent behind the level of the previous year, reaching 82,243 (84,407) units, mainly due to the 49.2 per cent decline in Russia. The sales decrease in Russia followed the turbulent local macroeconomic and market conditions. The decrease was partially offset by positive sales development trends in Korea, Brazil, Poland and Turkey.

The XC60 and the V40/V40 Cross Country were the most popular models and their performance remained stable, compared to 2014.

Retail Sales, number of cars sold	2015	2014	Change %
Western Europe*	198,049	182,157	8.7
China	81,588	81,574	0.0
Sweden	71,200	61,357	16.0
US	70,047	56,371	24.3
Other Markets	82,243	84,407	–2.6
Total	**503,127**	**465,866**	**8.0**

*) Excluding Sweden

Retail sales by model (units)	2015	2014
S60	35,962	44,255
S60L	27,352	23,368
S60 Cross Country	764	—
S80	6,761	7,668
S80L	3,569	4,821
V40	83,357	84,771
V40 Cross Country	23,274	26,093
V60	51,333	61,977
V60 Cross Country	10,008	—
V70	27,841	27,795
XC60	159,617	136,993
XC70	30,175	29,092
XC90 (Classic)	2,481	17,869
XC90 (All-new)	40,621	—
Other models	12	1,164
Total	**503,127**	**465,866**

Top 10 Retail sales by market (units)	2015	2014
China	81,588	81,574
Sweden	71,200	61,357
US	70,047	56,371
UK	43,211	41,022
Germany	35,604	31,575
Netherlands	23,182	21,660
Belgium	18,125	16,846
Italy	16,230	14,254
France	14,095	12,611
Japan	13,493	13,264

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.

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.

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.

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.

Significant events after the reporting period

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.

Research and development

Volvo Car Group continues to invest steadily in research and development in order to strengthen the product portfolio to meet customer demand and stricter legislation. The technical centre for research and development is located in Gothenburg, where about 5,000 people work, most of them qualified engineers. Thanks to world-leading R&D capabilities Volvo Cars has developed its own platform technology and four-cylinder engine family.

Volvo Cars is leading in safety and autonomous driving technology and is introducing several of these safety features as standard in the coming cars as a step towards the vision that no one shall be killed or seriously injured in a new Volvo car by 2020. In co-operation with other companies and institutions Volvo Cars is also developing a new platform for the C-segment, a three-cylinder engine, new connectivity and on-demand solutions and starting in 2017 the first self-driving cars will be introduced to the market in Gothenburg.

Cooperations

Common development activities with CEVT

In 2014, Volvo Car Corporation 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 CEVT (China – Euro Vehicle Technology AB), 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.

Environment

Volvo Cars has a longstanding commitment in being a responsible corporation with a clear focus on sustainable development. Volvo Cars publishes annual sustainability reports in line with the international reporting guidelines of the Global Reporting Initiative (GRI). The sustainability reports are available at www.volvocars.com. All businesses have permits covering their operations and the environmental impact of noise, emissions to air and water, waste produced and the usage of energy and chemicals. Continuous reporting is done to both local and national environmental authorities.

Employees

Volvo Car Group employed on average 28,119 (26,101) full time employees in 2015 which is an increase of 2,379 employees compared with 2014. The group employed on average 3,380 (2,442) consultants in 2015. The increased number of consultants and employees are mainly related to higher production volumes and the continuing development of future models.

Enterprise Risk Management

All business activities require decisions. Every decision creates opportunities and risks. Opportunities can create value to our company and risks handled well can minimize the potential negative impact of the business.

Risks are a natural element in all business activities. In order to achieve Volvo Cars' short and long term objectives, according to our business plan, enterprise risk management is part of the daily activities at Volvo Cars.

Volvo Cars ambitious growth plan, our product renewal plan in the years to come, our ongoing market restructuring, the expansion of our production foot print, an ever changing global market and the transformation of the whole auto industry generate a lot of opportunities and risks.

During 2015 continuous risk identification as well as risk mitigation activities have taken place and the process for risk management has evolved. The aim with these risk activities is to reach our objectives by spending our resources as efficiently as possible and to be well prepared in the event a risk, that could not be mitigated, would materialize.

Risk	Risk description	Comment
Our future success depends on our continued ability to introduce our next generation of cars.	We plan to totally renew our product line up within the coming years. Our ability to realise expected returns on these investments will depend in large part on our ability to complete our car launch schedule.	In order to meet our sales goals, we have invested heavily in car and powertrain design, engineering and manufacturing. 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, some of which are outside of our control and require us to anticipate consumer preferences and competitive products several years in advance.
Privacy concerns are increasing, which may result in new legislation, negative public perception and/or user behaviour that negatively affect our business.	Some of our cars are designed, and most of our future cars will be designed, with built-in data connectivity, such as Apple CarPlay, Android Auto and Volvo on Call. Our collection, use, retention, security and transfer of information of our customers is subject to consumer and data protection laws in the jurisdictions in which we operate. The consumer and data protection laws in the United States, Europe and elsewhere are subject to change and difficult to interpret and apply.	Given that this is an evolving and unsettled area of regulation, any new significant restrictions or technological requirements could subject us to obligations 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, increase our operating costs, or subject us to inquiries or investigations, claims or other remedies, including fines or demands that we modify or cease existing business practices. We therefore follow the development closely.
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. The demand for cars is influenced by a variety of factors: 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, Swedish, Chinese and American markets. The economic conditions in each of these markets are different and subject to changes from diverse and different causes. Plans and activities are in place, the development in the market is monitored continuously and closely to be prepared to act upon opportunities and to minimize risks, to reach the Volvo Cars objectives.
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. Our revenues and costs are also subject to fluctuations in exchange rates with reference to countries in which we operate. We generate revenue, 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, US dollar and Euro relative to the Swedish krona.	Management revisit the financial and interest rate arrangements in light of changes to the size or nature of our operations and the debt market situation. 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. For further information see Note 21 – Financial risks and financial instruments.
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 throughout the world to comprehensive and constantly changing 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 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, which may affect our revenue.	To comply with future environmental regulations, we may have to incur additional capital expenditure and research and development expenditure, which could 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 be forced to restrict product offerings drastically to remain in compliance.

CORPORATE GOVERNANCE REPORT

Executive summary of Volvo Car Group's corporate governance

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

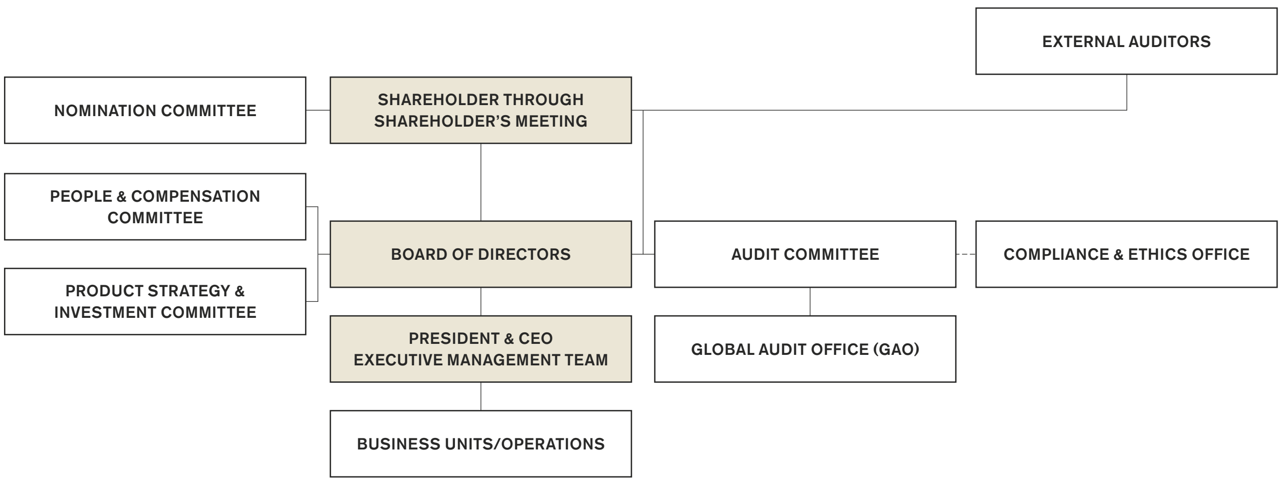
The shareholder executes its influence at the Shareholder's Meetings, the highest decision-making body of the company, where an annual general meeting shall be held at least once a year within six months after the end of the financial year. The shareholder's meeting (among other things) (i) elects a Nomination Committee which nominates members to the Volvo Cars Board, (ii) decides upon members of the Board, based on suggestions by the Nomination Committee (iii) elects external auditors (iv) decides the distribution of dividends and (v) decides upon amendments to the Articles of Association.

The Board of Volvo Car AB, hereinafter referred to as Volvo Cars Board, is responsible for the organisation of Volvo Cars and the management of its business worldwide and is obliged to follow directives provided by the Shareholder's Meetings. The Volvo Cars Board may appoint committees with specific areas of responsibility. The Volvo Cars Board may authorise such committees to decide specific matters in accordance with directives and guidelines established by the Volvo Cars Board. The Volvo Cars Board currently has established the Audit Committee, the People & Compensation Committee and as from January 1, 2016 it will have a Product and Investment Committee. The Chairman of the Board shall with the support of the Vice Chairman direct the work of the Board and monitor that the Board fulfils its obligations. The Board annually adopts the Regulations for the work of the Volvo Cars Board, which sets out the principles as regards the governance of the Board, see below under the heading "Board" for further information.

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

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

Volvo Car Group corporate governance



Nomination Committee

The shareholder has elected a Nomination Committee, which shall nominate members to the Volvo Cars Board, set the appropriate remuneration principles for the Volvo Cars Board and on a yearly basis propose the remuneration and other terms for the Volvo Cars Board. Please see the table under Board, regards relevant remuneration for 2015. Any changes to the Nomination Committee's duties are subject to approval at a Shareholder's Meeting. Appointment or removal of a Director of Volvo Cars Board shall be proposed by the Nominations Committee but subject to the approval of the Shareholders Meeting. The Nominations Committee shall consist of at least two representatives. Currently Li Shufu and Mikael Olsson are members of the Nomination Committee.

The Nomination Committee has adopted a framework for nomination of members 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 Volvo Cars, supports a sustainable development and meets the independency requirements of the company. It is Volvo Cars' goal to have a balanced composition when it comes to gender and by 2020 it is the ambition that each gender shall have a share of at least some 40% of the Board members elected by the Shareholders' meeting. The Unions represented in the Volvo Car Board shall be encouraged to apply the corresponding goal when appointing their representatives.

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

Board

At the end of 2015, the Volvo Cars Board moved from Volvo Car Corporation to Volvo Car AB as it was decided to introduce a new consolidation structure of Volvo Car Group. The current Board of Volvo Car AB has therefore only held a statutory meeting after the Extraordinary Shareholder's meeting when the new structure was adopted.

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

The Regulations of the work of the Board stipulates that the majority of Volvo Cars Board members shall be independent of Volvo Cars and at least two of these independent members shall also be independent of the Shareholder. At the end of December, the Board (excluding the employee representatives) consisted of 9 members and as from January 1, 2016, 10 members as further detailed below as well as in Note 9 - Employees and remunerations. No member of the management other than the CEO is a member of the Board and the board members shall immediately disclose to the Chairman and/or the vice chairman if they find themselves to have a conflict of interest.

The table below shows the Board members' independence according to the requirements of the Code in relation to (i) the company and (ii) major shareholders. Details of the remunerations provided to the board in 2015, can be found in Note 9 – Employees and remunerations.

Name of the Board members	Independence in relation to the company/senior management	Independence in relation to the major shareholder of the company
Members elected by the Shareholder's Meeting		
Li Shufu	*	
Mikael Olsson	*	*
Winnie Fok	*	*
Lone Fönss Schröder	*	*
Håkan Samuelsson		
Peng Zhang	*	
Li Donghui	*	
Carl-Peter Forster	*	
Thomas Johnstone	*	*
Betsy Atkins (appointed as of January 1, 2016)	*	*

The Volvo Cars Board is according to the Regulations of the work of the Board expected to meet four to eight times per year at venues to be agreed by the Volvo Cars Board. The Volvo Cars Board will meet the statutory auditor at least once a year without the CEO or any members of EMT present.

The Board continuously monitors Volvo Cars performance, evaluates Volvo Cars strategic direction and business plan and other aspects such as Volvo Cars business conduct in a responsible manner, sustainability and Code of Conduct adherence.

The Board conducts a yearly survey regarding its board work. Based on the result of the survey the Board will evaluate the performance and identify possible areas of improvements.

Audit Committee

The Board of Volvo Cars has assigned an Audit Committee to oversee the corporate governance, financial reporting, risks and the compliance with external and internal regulations.

The Audit Committee is responsible for identifying and reporting relevant issues to the Volvo Cars Board within the Audit Committee's areas of responsibility. The Audit Committee shall monitor the integrity of Volvo Cars' financial reporting system, internal controls, operation procedure and risk management framework, recommend to the Volvo Cars Board the appointment, removal and remuneration for the Statutory Auditors (subject to approval at the Shareholder's Meeting) in accordance with the Companies Act, monitor the independence of the Statutory Auditors and review the effectiveness of the internal audit and compliance function. Lone Fönss Schröder (Chairman), Winnie Fok and Li Donghui are currently members of the Audit Committee.

People & Compensation Committee

The Board has assigned a People & Compensation Committee to determine the remuneration to the CEO and the EMT members. The duties of the People & Compensation Committee are to prepare, propose and/or decide and present to the Volvo Cars

Board matters related to remuneration, remuneration principles, performance and succession planning of the CEO and the executive management and other thereto related matters. Mikael Olsson (Chairman), Li Shufu, Peter Zhang and Thomas Johnstone are currently members of the People & Compensation Committee.

Product Strategy & Investment Committee
The Board of Volvo Cars has decided to implement a Product Strategy and Investment Committee as from January 1, 2016. The new committee shall oversee Volvo Car Group's product strategy and the investments linked to it. The Committee ensure that the changes in society, peoples view on mobility and cars as well as changes in the automotive market are reflected in the Group's strategic product plans and when choosing technologies. Thomas Johnstone (Chairman), Carl- Peter Forster, Betsy Atkins together with Håkan Samuelsson are part of the Product Strategy and Investment Committee.

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

Corporate Compliance & Ethics Office
Volvo Cars has a Compliance and Ethics Office that supports the business operations in conducting business in a responsible and ethical manner, in line with the Volvo Cars' Code of Conduct and Corporate Policies. Volvo Cars has a formal and operational Compliance and Ethics program addressing the most material legal and ethical risks, for example corruption. The Volvo Cars' Compliance and Ethics program framework is based on best practice standards for "effective compliance program" and "adequate procedures" by for example FCPA (US Foreign Corrupt Practices Act), US sentencing Guidelines, UK Bribery Act Guidance SCCE (Society of Corporate Compliance & Ethics) and Anti-Trust Offices throughout Europe. All compliance activities should be risk based; everything starts with a compliance risk assessment, which is done at least yearly.

The Chief Compliance and Ethics Officer reports to the SVP Group Legal & Corporate Governance and further continuously reports on compliance issues to the Global Compliance Committee. The Chief Compliance & Ethics Officer also reports to the Audit Committee of the Board of Directors.

External Auditors
Volvo Car Group's external auditors are elected by the Annual General Meeting. Deloitte AB was appointed auditors in Volvo Car Group in the financial year 2010. The Annual General Meeting has then re-elected Deloitte AB, and the current audit engagement period is ending at the 2017 Annual General Meeting. Lead Audit Partner is the authorised public accountant Jan Nilsson. The external auditors discuss the external audit plan, audit findings and risk management with the Audit Committee. The auditors present their findings from their review for the period January 1 to September 30 to the Audit Committee, and their findings from the financial year audit to the Audit Committee and the Board of Directors at meetings after year-end. The auditors review the interim report for the period January 1 to September 30 and audit the Annual Report of the parent company and the consolidated financial statements. When Deloitte is asked to provide services other than the external audit, it is done in accordance with general independency rules. Annually Deloitte assures its impartiality and independence in writing to the Audit Committee in accordance with the Swedish Companies Act and ISA 260.

Internal control over financial reporting
The purpose of internal control over financial reporting is to ensure that the financial reporting is reliable and that the financial reports follow generally accepted accounting principles and otherwise follow applicable laws and regulations applicable for a private company.

According to the Swedish Companies Act, the Board is ultimately responsible for ensuring that an effective internal control system exists within the Group. Volvo Cars builds its internal control on the framework for internal control issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and its five components; Control Environment, Risk Assessment, Control Activities, Information & Communication and Monitoring activities.

The foundation of Volvo Cars control environment is the Volvo Cars' Code of Conduct, which is the guiding principle of Volvo Cars and consists of the Group's corporate policies, directives and guidelines, it describes what it means to be an employee at Volvo Cars. A Delegation of Authorities provides the framework for the authority levels for operative business decisions, such as investments and expenses. In addition to above, in the area of financial reporting, functional policies and procedures and the Volvo Cars Finance Manual provide the foundation of the internal control process. Policies and procedures and the internal control program relating to financial reporting are updated and communicated on a regular basis through formal and informal channels. Each entity and function perform risk assessments. Identified risks are consolidated and reported within the Enterprise Risk Management process. Each entity and function carries out control activities and monitors the local internal control environment within its area of responsibility, in order to manage risk and to detect and correct errors in the financial processes. Group functions are monitoring from a group level perspective.

The Internal Control function at Volvo Cars assists the Board and Management in performing its internal control responsibilities. The overall purpose of the Internal Control function is to provide reasonable assurance for accurate and reliable financial reporting in accordance with International Financial Reporting Standards (IFRS) and applicable laws and regulations. On a yearly basis, the internal control function performs a risk assessment in order to determine scope for the internal control activities the coming year. The Internal Control function performs specific reviews and coordinates evaluation activities in the Internal Control Program through self-assessments on process controls at transaction level and for IT controls. Risk, focus areas and result from the Internal Control Program are reported to the Audit Committee.

CONTENTS FINANCIAL REPORT

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.

JANUARY – DECEMBER 2015 INCOME AND RESULT

For the full year 2015, Volvo Car Group generated net revenue of MSEK 164,043 (137,590), an increase of 19.2 per cent compared to 2014, primarily related to higher sales volumes and a strong sales mix, mainly driven by the all-new XC90 and the XC60, and positive exchange rate development.

Cost of sales increased by MSEK 14,219 to MSEK –128,238 (–114,019), an increase of 12.5 per cent compared to 2014. This increase is primarily attributable to increased production volumes due to higher sales volumes and the sales mix. This has resulted in higher material costs, which is partially offset by freight and distribution cost reductions through localised production in China.

Research and development expenses recognised in the income statement increased to MSEK –8,803 (–7,193), including amortisation of capitalised development expenses of MSEK –2,263 (–1,378). The increase is related to higher product development costs and higher amortisation expenses. Capitalised development expenses decreased by MSEK 254 to MSEK –4,494 (–4,748), see table below.

Selling expenses increased by MSEK 2,243 to MSEK –10,951 (–8,708) due to increased salary expenses, marketing and event expenses in all regions.

Administrative expenses increased by MSEK 1,291 to MSEK –7,234 (–5,943), due to increased salary expenses, increased number of consultants, and increased IT expenses.

Other operating income and expense, net, has increased to MSEK –2,427 (210) compared to the same period in 2014. The net change is explained by a negative result from realised cash flow hedges which in turn implies a positive currency effect in the underlying business.

Operating income (EBIT) increased to MSEK 6,620 (2,128), resulting in an operating margin of 4.0 (1.5) per cent. Net financial items amounted to MSEK –1,231 (–973). This increase is due to higher interest charges, as a result of the increase in liabilities to credit institutions, as well as the net foreign exchange result on financing activities. Tax expense increased based on the increase in EBIT. Net income amounted to MSEK 4,476 (508).

Research and development spending, MSEK	2015	2014
Capitalised development costs	4,494	4,748
Research and development expenses	–8,803	–7,193
whereof amortised development costs	*–2,263*	*–1,378*

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**

NET FINANCIAL POSITION AND LIQUIDITY

Cash flow from operating activities amounted to MSEK 22,576 (8,839), an increase of MSEK 13,737 for the year. The increase is mainly related to the positive change in EBIT, as well as positive working capital development. The change in working capital is mainly related to the increase in accounts payables, provisions and other current liabilities due to increased production volumes. This is slightly offset by the increase in inventories as a result of the increased production volumes during the year.

Cash flow from investing activities amounted to MSEK –15,342 (–13,605), which includes the acquisition of the Chinese joint venture companies of MSEK –2,197. Investments in tangible assets is primarily due to special tool investments related to the all-new XC90 and the SPA platform, amounting to MSEK –8,677. Investments in intangible assets includes the investments in upcoming car models on the SPA platform, amounting to MSEK –4,715.

Cash flow from financing activities amounted to MSEK 1,445 (3,641) and is mainly attributable to the received capital contribution from Shanghai Geely Zhaoyuan International Investment Co., Ltd of MSEK 3,992 (1,555). Liabilities to credit institutions amounted to MSEK 21,414 (18,905). Through the incorporation of the Chinese industrial entities Volvo Car Group obtained the funding responsibility, which resulted in replacing liabilities to the parent company with external bank loans of MSEK 5,395 (7,270), explaining the majority of the increase in liabilities to credit institutions. Liabilities to the parent company have accordingly decreased by MSEK 2,794 to zero. Repayment of liabilities to credit institutions amounted to MSEK 6,626 (5,101) during the year. Net cash at the end of the year amounted to MSEK –7,721 (856). Cash flow from financing activities also includes investments in marketable securities resulting in a cash outflow of to MSEK –2,488 (–978).

Cash and cash equivalents including marketable securities increased by MSEK 11,085 to MSEK 29,134 (18,049). The revolving credit facility of MEUR 660 remains undrawn.

Total equity has increased by MSEK 367 to MSEK 34,635 (34,268), resulting in an equity ratio of 26.2 (27.8) per cent. The change in equity is partly due to a decrease of MSEK –8,767 related to the group contribution made to Geely Sweden Holdings AB at year end, offset by an increase related to the positive effects included in other comprehensive income related to revaluation of post-employment benefits and cash flow hedge reserves. The positive effects related to revaluation of post-employment benefits result from increased discount rates. Total equity also increased due to received shareholders' contribution, offset by the purchase price for the acquisition of the additional 20 per cent in Volvo Cars' Chinese joint ventures. For further information see changes in consolidated equity.

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

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 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 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

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.

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.

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 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 intangible assets, reflecting the relevant proportion of Volvo Car Group interests, to the extent they are: part of the asset controlled by the Volvo Car Group, are incurred in the product development phase and the conditions for capitalisation are met.

Development costs that are incurred on behalf of another party, charged to the other party including a margin, and do not constitute the share of the developed product controlled by the Volvo Car Group are accounted for as service revenue. The revenue is presented as Other operating income in the income statement since it is not considered part of the course of the ordinary activities of the Group, such as are presented in the item Net revenue. Development costs that will be charged to another party as other operating income are accounted for as 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 useful life and are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period for contractual rights such as licenses does not exceed the contract period. All intangible assets are considered to have a definite useful life, with the exception of goodwill and trademarks. Trademarks are assumed to have indefinite useful lives since the Volvo Car Group has the right and the intention to continue to use the trademarks for the foreseeable future, while generating net positive 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 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.

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.

Other financial liabilities, loans & receivables

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

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 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.

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.

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 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 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.

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.

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

Impairment, amortisation and depreciation of non-current assets

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 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 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.

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 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**

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**

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%**

	Dec 31, 2015	Of whom women	Dec 31, 2014	Of whom women
Number of Board members and senior executives[1]	Board members (Chief Executive Officers and senior executives)		Board members (Chief Executive Officers and senior executives)	
Parent company	10	30%	4	(0%)
Subsidiaries	85 (209)	14% (22%)	84 (217)	20 % (20 %)
Total	**95** **(209)**	**16%** **(22%)**	**88** **(217)**	**20%** **(20%)**

	2015		2014	
Salaries and other remunerations, total	Wages and salaries, other remune-rations	Social security expenses (of which pension expenses)	Wages and salaries, other remune-rations	Social security expenses (of which pension expenses)
Parent company	—	— (—)	—	— (—)
Subsidiaries	13,479	5,507 (2,662)	12,041	4,686 (2,073)
Total	**13,479**	**5,507** **(2,662)**	**12,041**	**4,686** **(2,073)**

	2015		2014	
Salaries and other remuneration to the Board[2], CEO, Executive management team (EMT)[3] and other employees	Wages and salaries, other remunera-tions (of which variable salaries)	Social security expenses (of which pension expenses)	Wages and salaries, other remunera-tions (of which variable salaries)	Social security expenses (of which pension expenses)
Board, Chief Executive Officers and EMT	260 (82)	105 (29)	214 (54)	96 (29)
Other employees	13,219	5,402 (2,633)	11,827	4,590 (2,044)
Total	**13,479** **(82)**	**5,507** **(2 662)**	**12,041** **(54)**	**4,686** **(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.

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. 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.

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
Machinery & equipment	–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**

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% shareholding in Volvofinans Bank AB and thereby have joint control with Volverkinvest AB. The investment will therefore continuously 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.

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**

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**

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 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 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.

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).

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, 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.

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

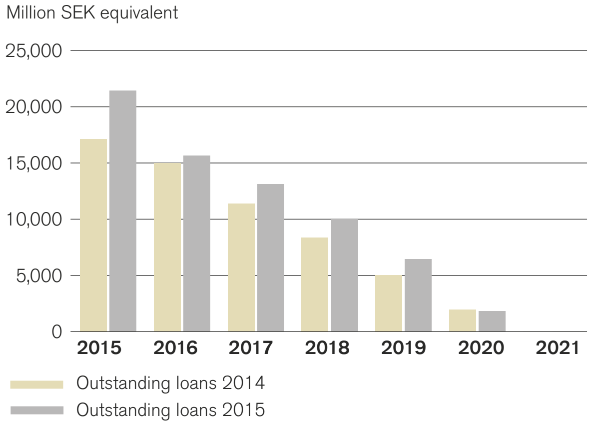
All draw down on new loans is evaluated against future liquidity needs and investment plans. Volvo Car Group should for the coming twelve months at any given time have available committed financing for investments and maturing loans. To limit the risk of refinancing, debt maturing over the next twelve 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**

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 acquistion see Note 32 – Business combinations under common control. The total outstanding amount of liabilites 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.

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 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 cent change 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 counterparties used for investments and derivative transactions have credit rating A- or better from one of the well-established credit rating institutions and ISDA agreements is required for counterparties with which derivative contracts are entered according to Volvo Car Group 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 follow-up and repossession. In cases where the credit risk is considered unsatisfactory a letter of credit or other instruments are used. The maximum amount exposed to credit risk is the carrying amount of accounts receivable, see table 'Financial assets and liabilities by category' in this note. For quantification of credit risk in accounts receivable refer to Note 20 – Accounts receivable and other current assets.

Financial Instruments – Classification

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, 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 contracts is calculated by discounting the difference between the contracted forward price and the contracted forward price that can be obtained on the balance sheet date for the remaining contract period.

The fair value of a financial asset or liability reflects non-performance risk including the counterparty's credit risk for an asset and an entity's own credit risk for a liability. Volvo Car Group has chosen to use Default Probability 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.

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**

Financial assets and liabilities by category	Financial instruments at fair value through the income statement: 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.

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 Nominal amount	Dec 31, 2015 Fair value	Dec 31, 2014 Nominal amount	Dec 31, 2014 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.

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 Recognised in operating income	2015 Gains/ losses	2015 Interest income	2015 Interest expenses	2014 Gains/ losses	2014 Interest income	2014 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	–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**

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).

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 %).

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 benefits	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 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.

	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
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.

The actuarial assumptions are annually reviewed by Volvo Car Group and modified when deemed appropriate to do so.

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
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**

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.

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 activitites 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 Mangement 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 Development 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 Investment 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 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.

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 separete 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	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**

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**

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**

INCOME STATEMENTS AND COMPREHENSIVE INCOME – PARENT COMPANY

TSEK	Note	2015	2014
Administrative expenses	4	–85	–52
Operating income	3,5	**–85**	**–52**
Financial income	6	—	547
Financial expenses	6	–16	–15
Income before tax		**–101**	**480**
Income tax	7	22	–106
Net income		**–79**	**374**

Other comprehensive income and net income are consistent since there are no items in other comprehensive income.

BALANCE SHEETS – PARENT COMPANY

TSEK	Note	Dec 31, 2015	Dec 31, 2014
ASSETS			
Non-current assets			
Participation in subsidiary	8	10,267,470	10,202,382
Deferred tax assets	7	2,032,822	—
Receivables from group companies	3	—	547
Total non-current assets		**12,300,292**	**10,202,929**
Current assets			
Cash and cash equivalents		51	51
Total current assets		**51**	51
TOTAL ASSETS		**12,300,343**	**10,202,980**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (100,000 shares with par value of 1 SEK)		100	100
		100	**100**
Non-restricted equity			
Share premium reserve		6,509,200	6,509,200
Retained earnings		–3,514,068	3,692,758
Net income		–79	374
		2,995,053	**10,202,332**
Total equity		**2,995,153**	**10,202,432**
Non-current liabilities			
Other non-current liabilities		65,088	—
Liabilities to group companies	3	9,239,454	—
Total non-current liabilities		**9,304,542**	—
Current liabilities			
Liabilities to group companies	3	561	496
Other current liabilities		87	52
Total current liabilities		**648**	**548**
TOTAL EQUITY AND LIABILITIES		**12,300,343**	**10,202,980**

CHANGES IN EQUITY – PARENT COMPANY

TSEK	Restricted equity	Non-restricted equity			
	Share capital	Share premium reserve	Other contributed capital	Retained earnings	Total
Balance at January 1, 2014	**100**	**6,509,200**	**3,198,783**	**—**	**9,708,083**
Net income for the year	**—**	**—**	**—**	**374**	**374**
Transactions with owners					
Unconditional shareholders' contribution	—	—	493,975	—	493,975
Balance at December 31, 2014	**100**	**6,509,200**	**3,692,758**	**374**	**10,202,432**
Net income for the year	**—**	**—**	**—**	**–79**	**–79**
Transactions with owners					
Group contribution[1]	—	—	–7,207,200	—	–7,207,200
Balance at December 31, 2015	**100**	**6,509,200**	**–3,514,442**	**295**	**2,995,153**

1) Group contribution before tax amounted to TSEK 9,240,000 .

STATEMENT OF CASH FLOWS – PARENT COMPANY

No transactions affecting cash flow have occurred during the current and previous year.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

All amounts are in TSEK unless otherwise stated.
Amounts in brackets refer to the preceding year.

NOTE 1 – ACCOUNTING PRINCIPLES

Basis of preparation

The Parent Company has prepared its financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR 2, Accounting for Legal entities. According to RFR 2, the Parent Company shall apply all the International Financial Reporting Standards endorsed by the EU as far as this is possible within the framework of the Swedish Annual Accounts Act. Changes in RFR 2 applicable to the fiscal year beginning January 1, 2015, have had no material impact on the financial statements of the Parent Company.

RFR 2 in the Parent Company has been implemented in 2015. This has had no material impact on the financial statements, neither in 2015 nor for the comparative figures in 2014.

The accounting principles applied by the Volvo Car Group are described in Note – 1 to the consolidated financial statements. The main deviations between the accounting policies applied by the Volvo Car Group and the Parent Company are described below.

Shares and participations in Group companies

Shares and participations in Group companies are recognised at cost in the Parent Company's balance sheet and test for impairment is performed annually. Dividends are recognised in the income statement. All shares and participations are related to business operations and profit and loss from these are reported within Operating income.

Transaction costs directly attributable to acquisitions of shares and participations in Group companies are accounted for as an increase in the carrying amount of the shares.

Distributed group contributions to subsidiaries are reported as an increase of investments in these subsidiaries. A review is made whether or not there is an impairment need on the shares of the subsidiaries having received the group contributions. Tax effect of these distributed group contributions are reported in accordance with RFR 2 IAS 12 in the income statement. Distributed group contributions to parent company are recorded in equity, along with the tax effect.

Received group contributions from subsidiaries are recorded as financial income. Tax effect on these received group contributions are reported in accordance with RFR 2, IAS 12 in the income statement. Received group contributions from parent company are recorded in equity, along with the tax effect.

Distributed shareholders' contributions are recognised in shares in subsidiaries and as such they are subject to impairment testing. Mergers of subsidiaries (100 % ownership) are recorded according to BFNAR 1999:1 (recommendation 1999:1 from the Swedish Accounting Standards Board). Downstream mergers are recorded in accordance with RedR9 (recommendation 9 from the Swedish Institute of Authorised Public Accountants).

Financial guarantees

The Parent Company applies the exception in the application of IAS 39 which concerns accounting and measurement of financial contracts of guarantee in favour of subsidiaries and associated companies. The Parent Company recognises the financial contracts of guarantee as contingent liabilities.

Post-employment benefits

According to RFR 2, application of the regulations in IAS 19 regarding defined-benefit plans is not mandatory for legal entities. However, IAS 19 shall be adopted regarding supplementary disclosures when applicable. RFR 2 refers to the Swedish law on safeguarding of pension commitments ("tryggandelagen") regarding recording of "Provisions for post employment benefits" in the balance sheet and of plan assets in pension foundations. In neither 2015 nor 2014 are there any employees in the parent company.

Income taxes

Deferred tax liability on untaxed reserves are included in untaxed reserves in the parent company.

Equity

In accordance with the Swedish Annual Accounts Act, equity is split-between restricted and non-restricted equity.

NOTE 2 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of the financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR 2 requires the company's executive management and Board of Directors to make estimations and assessments as well as to make assumptions that affect application of the accounting policies and the reported assets, liabilities, income and expenses. Critical accounting estimates and judgements applied by the Volvo Car Group are described in Note – 2 to the consolidated financial statements. None of these critical accounting estimates are applicable to the parent company, with the exception of impairment. Shares and participations in Group companies recognised at cost in the Parent Company are being tested for impairment annually.

NOTE 3 – RELATED PARTIES

During the year, the parent company entered into the following transactions with related parties:

	Sales of goods, services and other		Purchase of goods, services and other	
	2015	2014	**2015**	2014
Companies within the Volvo Car Group	100 %	100 %	100 %	100 %

	Receivables from		Payables to	
	2015	2014	**2015**	2014
Companies within the Volvo Car Group	—	—	9,240,015	496
Related companies	—	547	—	—
whereof short-term	—	—	*561*	—

Business transactions between the parent company and related parties all arise in the normal course of business and are conducted on the basis of arm's length principles.

During 2014, the company received an unconditional share-holders' contribution from Geely Sweden Holdings AB amounting to MSEK 494. The contribution was initially received by Geely Sweden Holdings AB from Shanghai Geely Zhaoyuan International Investment Co., Ltd and was then given to Volvo Car AB.

Volvo Car AB has during 2015 distributed a group contribution in the amount of TSEK 9,240,000 to Geely Sweden Holdings AB.

Volvo Car Group does not engage in any transactions with Board members or senior executives except remunerations for services. For further information regarding remunerations, see Note 9 – Employees and remuneration in the consolidated statements.

NOTE 4 – AUDIT FEES

	2015	2014
Deloitte		
Audit fees	–81	–52
Total	**–81**	**–52**

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.

NOTE 5 – REMUNERATION TO THE BOARD OF DIRECTORS

Information on remuneration to Board members by gender is shown in Note 9 – Employees and remuneration, in the consolidated statements.

NOTE 6 – FINANCIAL INCOME AND EXPENSES

	2015	2014
Financial income		
Received group contribution	—	547
Total	**—**	**547**
Financial expenses		
Interest expenses to subsidiaries	–16	–15
Total	**–16**	**–15**

NOTE 7 – TAXES

Income tax recognised in income statement	**2015**	2014
Deferred taxes	22	–106
Total	**22**	**–106**
Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate		
Income before tax for the year	–101	480
Tax according to applicable Swedish tax rate, 22%	22	–106
Total	**22**	**–106**

Income tax recognised directly in equity	**2015**	2014
Deferred tax		
Tax effect on group contribution	2,032,800	0
Total	**2,032,800**	**0**

Total deferred tax asset TSEK 2,032,822 (—) relates to loss-carry forward. Deferred tax assets are only accounted for to the extent there are taxable temporary differences or other factors that convincingly indicate there will be sufficient future taxable profit. The tax loss carry-forward has an indefinite period of utilisation.

NOTE 8 – PARTICIPATION IN SUBSIDIARY

	Dec 31, 2015	Dec 31, 2014
At beginning of the year/acquired acquisition value	10,202,382	9,708,407
Other contributed capital	65,088	—
Shareholders' contribution	—	493,975
Total	**10,267,470**	**10,202,382**

Volvo Car AB's investments in subsidiaries:	Corp. ID no.	Registered office	No. of shares	% interest held	Book value Dec 31, 2015	Book value Dec 31, 2014
Volvo Personvagnar AB[1)]	556074-3089	Gothenburg	1,000,000,000	100	10,267,470	10,202,382

Details of Volvo Car Corporation's direct wholly owned subsidiares at the end of the reporting period are presented in below table.

Legal entity:	Corp. ID no.	Registered office	% interest held
Sweden			
VCG Investment Management AB	556955-7118	Gothenburg / Sweden	100
Volvo Bil i Göteborg AB	556056-6266	Gothenburg / Sweden	100
Volvo Car Australia Holding AB	556152-2680	Gothenburg / Sweden	100
Volvo Car Investment and Borrowing AB	556130-4246	Gothenburg / Sweden	100
Volvo Car NSC Holding AB	556754-8283	Gothenburg / Sweden	100
Volvo Car Overseas Corporation AB	556223-0440	Gothenburg / Sweden	100
Volvo Car PHEV Holding AB	556785-9375	Gothenburg / Sweden	100
Volvo Car Real Estate and Assets 1 AB	556205-7298	Gothenburg / Sweden	100
Volvo Car Försäkrings AB[2)]	556877-5778	Gothenburg / Sweden	100
Volvo Car Services 2 AB	556877-5760	Gothenburg / Sweden	100
Volvo Car Services 3 AB	556955-6441	Gothenburg / Sweden	100
Volvo Car Sverige AB	556034-3484	Gothenburg / Sweden	100
Volvo Personvagnar Norden AB	556413-4848	Gothenburg / Sweden	100
Volvo Car Center Uddevalla AB	556651-0193	Uddevalla / Sweden	100
Volvo Car Uddevalla AB	556232-0142	Uddevalla / Sweden	100
Europe			
Volvo Car Austria GmbH		Austria	100
Volvo Car Czech Republic s.r.o.		Czech Republic	100
Volvo Car Denmark A/S		Denmark	100
Volvo Car Finland Oy Ab		Finland	100
Volvo Car France SAS		France	100
Volvo Car Germany GmbH		Germany	100
Volvo Car Hellas Anonymous[3)]		Greece	100
Volvo Car Hungary Trading and Service Ltd		Hungary	100
Volvo Car Ireland Ltd		Ireland	100
Volvo Car Italia S.p.A.		Italy	100
Volvo Car Nederland B.V.		The Netherlands	100
SNEBE Holding B.V.		The Netherlands	100
SNITA Holding B.V.		The Netherlands	100
SWENE Holding B.V.		The Netherlands	100
Volvo Car Norway AS		Norway	100
Volvo Car Poland Sp Z.o.o.		Poland	100
Volvo Car Portugal S.A.		Portugal	100
Volvo Car Espana S.L		Spain	100
Volvo Car Switzerland AG		Switzerland	100
Volvo Car UK Ltd		United Kingdom	100
North and South America			
Volvo Car Brasil Importacao e Comercia de Veiculos Ltda		Brazil	100
Volvo Car do Brasil Automoveis Ltda		Brazil	100
Volvo Car of Canada Ltd[4)].		Canada	100
Volvo Car Mexico S.A. de C.V.[5)]		Mexico	100
Volvo Car Financial Services US LLC		USA	100
Volvo Cars of North America, LLC		USA	100

Legal entity:	Registered office	% interest held
Africa and Asia		
Volvo Cars (China) Investment Co., Ltd.[6)]	China	100
Volvo Cars Technology (Shanghai) Co., Ltd.	China	100
Volvo Auto India Pvt. Ltd	India	100
Volvo Car Japan Ltd	Japan	100
Volvo Car Korea Co., Ltd	Korea	100
Volvo Car Manufacturing Malaysia Sdn Bhd	Malaysia	100
Volvo Car Taiwan Ltd	Taiwan	100
Volvo Car Turkey Otomobil Ltd Sirketi	Turkey	100
Volvo Car Asia Pacific (PTE) Ltd	Singapore	100
Volvo Car South Africa Pty Ltd	South Africa	100

1) Referred to as Volvo Car Corporation
2) Prior name: Volvo Car Services 1 AB
3) Legal name in full: Volvo Car Hellas Anonymous and Industrial company of car and spare parts imports and trade

The Executive Management has made the decision to create a coherent name structure globally in order to build the brand and corporate identity around Volvo Car. As a consequence some subsidiaries has changed name during the year. Below is the prior name stated.
4) Prior name: Volvo Cars of Canada Corp. Ltd.
5) Prior name: Volvo Auto de Mexico S.A de C.V

The share of voting power corresponds to holdings in per cent as per above. The countries where the subsidiaries are registered are also where their main operations are carried out.

Significant restrictions

For some subsidiaries there are restrictions on the Volvo Car Group's ability to access or use cash from these subsidiaries, for more information on cash that is not available or with other limitations, see Note 22 – Marketable securities and cash and cash equivalents in the consolidated financial statements.

Details of non-wholly owned subsidiaries that have material non-controlling interests[6)]

On June 25, Volvo Car Group has, through one of its wholly owned subsidiaries, Volvo Cars (China) Investment Co., Ltd, acquired an additional 20 per cent in Volvo Cars' Chinese joint venture companies. In the consolidated financial statements, these joint venture companies are classified as subsidiaries and fully consolidated with a non-controlling interest of 50%, since Volvo Car Group has the decision-making power over the operations. Additionally, Daqing Volvo Car Manufacturing Co., Ltd has acquired 100 per cent of the shares in Volvo Car (Asia Pacific) Investment Holding Co., Ltd[7)] which holds 100 per cent of Zhongjia Automobile Manufacturing (Chengdu) Co., Ltd and Shanghai Zhawo Auto Sales Co., Ltd. For further information regarding this business combination under common control, see Note 32 – Business combinations under common control

7) Prior name: Zhongjia Automobile Manufacturing (Shanghai) Co., Ltd.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests.

	Registered office	% held by Zhejiang Geely Holding Group Co., Ltd.		Profit allocated to non-controlling interests[8)]		Accumulated non-controlling interest[8)]	
Legal entity:		**2015-12-31**	2014-12-31	**2015-12-31**	2014-12-31	**2015-12-31**	2014-12-31
Daqing Volvo Car Manufacturing Co., Ltd.	China	50	50	1,301	–51	1,135	585
Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd.	China	50	50	45	19	849	782
Shanghai Volvo Car Research and Development Co., Ltd.	China	50	50	0	0	101	97
Total non controlling interests				**1,346**	**–32**	**2,085**	**1,464**

8) The comparative figures refer to the restated consolidated income statements and balance sheets of December 31, 2014.

NOTE 9 – PLEDGED ASSETS

	Dec 31, 2015	Dec 31, 2014
Shares in Volvo Car Corporation	10,267,470	10,202,382
Total	**10,267,470**	**10,202,382**

Pledged shares in subsidiaries per December 31, 2015 refer to a loan in Volvo Car Corporation.

PROPOSED DISTRIBUTION OF NET INCOME

The parent company

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

Share premium reserve	SEK	6,509,200,000
Group contribution	SEK	–7,207,200,000
Net income brought forward	SEK	3,693,131,900
Net income for the year	SEK	–78,406
At the disposal of the AGM	**SEK**	**2,995,053,494**

The Board proposes the following allocations of funds:

Carried forward	**SEK**	**2,995,053,494**

Gothenburg, March 16, 2016

Shufu Li
Chairman of the board

Håkan Samuelsson
Board member and CEO

Mikael Olsson
Board member

Dr Peng Zhang
Board member

Donghui Li
Board member

Lone Føns Schrøder
Board member

Carl Peter Forster
Board member

Betsy Atkins
Board member

Winnie K.W. Fok
Board member

Thomas Johnstone
Board member

Marko Peltonen
Employee representative

Sören Karlsson
Employee representative

Glenn Bergström
Employee representative

Our audit report was submitted on March 16, 2016
Deloitte AB

Jan Nilsson
Authorized Public Accountant

AUDITOR'S REPORT

To the annual meeting of the shareholders of Volvo Car AB
Corporate identity number 556810-8988
This is a direct translation of the Swedish Audit Report

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Volvo Car AB for the financial year 2015-01-01 – 2015-12-31. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 49–105.

Responsibilities of the Board of for the annual accounts and consolidated accounts

The Board of Directors are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors of Volvo Car AB for the financial year 2015-01-01 – 2015-12-31.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examinedwhether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors is liable to the company. We also examined whether any member of the Board of Directors has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors discharged from liability for the financial year.

Gothenburg, March 16, 2016
Deloitte AB

Signature on Swedish original

Jan Nilsson
Authorized Public Accountant


VOLVO
XC90
MLB 090

BOARD OF DIRECTORS

BOARD OF DIRECTORS IN VOLVO CAR AB

Volvo Car AB is the parent company of Volvo Car Group. The Board of Directors of Volvo Car AB currently consists of ten members.

Li Shufu

Chairman of the Board of Directors, since August 2010. Born 1963.
Master of Science, Mechanical Engineering and Bachelor of Science, Management Engineering

Other assignments:
Founder and Chairman, Zhejiang Geely Holding Group

Mikael Olsson

Vice Chairman of the Board of Directors, since November 2015 and Member of the Board of Directors, since October 2013. Born 1957.
Industrial economy

Other assignments:
Member of the Board of Directors: Ikano S.A., Tesco PLC, Lindengruppen AB, The Schiphol Group and Global Child Forum

Winnie Kin Wah Fok

Member of the Board of Directors, since August 2010. Born 1956.
Bachelors Degree in Commerce

Other assignments:
Member of the Board of Directors: G4S Plc., Kemira Oyj, Skandinaviska Enskilda Banken AB

Senior Advisor of Wallenberg Foundation AB

Li Donghui

Member of the Board of Directors, since April 2011. Born 1970.
MBA and Master of Management Engineering

Other assignments:
Member of Board of Directors: Zhejiang Geely Holding Group

Lone Fønss Schrøder

Member of the Board of Directors, since August 2010. Born 1960.
Master of Science, Law and Bachelors Degree, Economics

Other assignments (a selection):
Chairman of the Board of Directors: SAXO Bank

Vice Chairman of the Board of Directors and Chairman of the Audit Committee: Akastor ASA

Member of the Board of Directors and Chairman of the Audit Committee: Valmet Oy

Dr. Peter Zhang

Member of the Board of Directors, since December 2010. Born 1966.
PhD in Economics

Other assignments:
Member of the Board of Directors: Carbon Recycling International

Håkan Samuelsson

CEO and Member of the Board of Directors, since August 2010. Born 1951.
Master of Science, Mechanical Engineering

Other assignments:
Member of the Board of Directors: Teknikföretagen

Carl-Peter Forster

Member of the Board of Directors, since January 2013. Born 1954.
Master of Science, Economics, Aeronautical Engineering

Other assignments (a selection):
Chairman of the Board of Directors: Friedola Tech GmbH and Lead Equities AG

Member of the Board of Directors: Geely Automobile Holdings, Gordon Murray Design Ltd., The Mobility House AG, IMI PLC, Rexam PLC

BOARD OF DIRECTORS IN VOLVO CAR AB CONT.

Thomas Johnstone CBE

Member of the Board of Directors, since January 2015. Born 1955. Master of Arts

Other assignments (a selection):
Chairman of the Board of Directors: Husqvarna AB, Combient AB

Member of the Board: Investor AB, Wärtsilä Corporation

Betsy Atkins

Member of the Board of Directors, since January 2016. Born 1953. Bachelors Degree, Liberal Arts

Other assignments:
Chief Executive Officer, Baja Corp

Chairman of Advisory Board: SAP AG

Member of the Board: Home Depot Supply, Schneider Electric and SL Green

Advisor of HIG

UNION REPRESENTATIVES

Glenn Bergström

Union representative in The Board of Directors appointed by IF Metall, since 2009.

Employed by Volvo Cars: 1974
Born 1955

Marko Peltonen

Union representative in The Board of Directors, appointed by IF Metall, Since 2006.

Employed by Volvo Cars: 1984
Born 1965

Sören Carlsson

Union representative in The Board of Directors, appointed by Unionen, Since 2010.

Employed by Volvo Cars: 1985
Born 1964

Björn Ohlsson

Deputy union representative, appointed by IF Metall, since 2009.

Employed by Volvo Cars: 1981
Born 1963

Magnus Sundemo

Deputy union representative, appointed by Akademikerna Volvo Cars, since 2008.

Employed by Volvo Cars: 1979
Born 1954

EXECUTIVE MANAGEMENT TEAM

EXECUTIVE MANAGEMENT TEAM IN VOLVO CAR CORPORATION

Volvo Car Corporation is a subsidiary of Volvo Car AB. Volvo Car Corporation is managed by the Executive Management Team, (EMT) with 13 members, led by the CEO and overseen by the Board of Directors of Volvo Car AB. Besides from managing Volvo Car Corporation the Executive Management Team also set out the directions for the operations in the rest of the businesses in Volvo Cars.

Håkan Samuelsson

President & CEO, since October, 2012. Born 1951.
Master of Science, Mechanical Engineering

Previous positions:
Chairman & CEO, MAN AG

Chairman & CEO, MAN Nutzfahrzeuge AG

Executive Board Member, Scania Group

Hans Oscarsson

Senior Vice President & Chief Financial Officer, since August 2013. Born 1965.
Master Degree, Finance

Previous positions:
Deputy CFO and Group Controller, Volvo Cars

Vice President and Controller, Marketing, Sales & Services, Volvo Cars

Lars Danielson

Senior Vice President, Asia Pacific Region, since March, 2015. Born 1949.
B.A. in Mathematics and Computer Science

Previous positions:
Senior Vice President, Volvo Cars China Operations

Vice President, Volvo Cars Manufacturing Asia
General Manager, Volvo Cars Torslanda

Jonathan Goodman

Senior Vice President, Corporate Communications, since November, 2014. Born 1964.
Degree in Combined Honours in French, English Literature and International Politics, Diploma in Business Administration

Previous positions:
Executive Vice President Communications at PSA Peugeot Citroën

Director of Worldwide Press Relations, PSA Peugeot Citroën

Maria Hemberg

General Counsel & Senior Vice President, Group Legal and Corporate Governance, since March 2012. Born 1964.
Master of Law

Previous positions:
Legal Counsel, AB SKF

Lawyer and Senior Associate, Mannheimer Swartling

Legal Counsel, SCA Hygine Products AB

Thomas Ingenlath

Senior Vice President, Design, since July, 2012. Born 1964.
Master of Arts

Previous positions:
Director of Design, Volkswagen Group
Head of Design, Skoda Design Studio
Head of Exterior Design, Volkswagen

Lex Kerssemakers

Senior Vice President, Americas Region, since March 2015. Born 1960.
Degree in Automotive Business Management

Previous Positions:
Senior Vice President, Product Strategy & Vehicle Line Management

President, Volvo Car Overseas Corporation

Senior Vice President, Brand, Business & Product Strategy

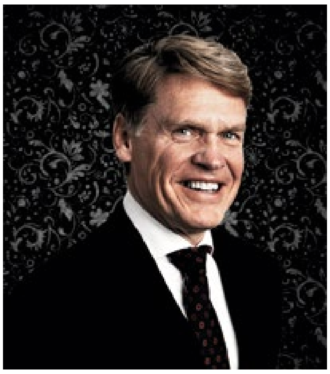
Peter Mertens

Senior Vice President, Research & Development, since April, 2011. Born 1961.
PhD in Production and Industrial Engineering

Previous positions:
Head of Corporate Quality and member of the Management Board, Jaguar/Land Rover and Tata Motors India

Global Vehicle Line Executive, Executive Director, General Motors worldwide

EXECUTIVE MANAGEMENT TEAM IN VOLVO CAR CORPORATION CONT.



Paul Welander

Senior Vice President, Human Resources, Quality and Product Strategy & Vehicle Line Management, since August, 2014. Born 1958. Master of Science, Mechanical Engineering

Previous positions:
Senior Vice President, Quality and Customer Satisfaction, Volvo Cars

Acting Senior Vice President, Product Development, Volvo Cars

Vice President, Engineering, Volvo Cars

Lars Wrebo

Senior Vice President, Purchasing & Manufacturing, since April, 2012. Born 1961. Master of Science, Mechanical Engineering

Previous positions:
Executive Vice President, Production & Logistics and Member of the Executive Board, MAN Trucks & Bus AG

Senior Vice President, Chassis and Cab Production, Scania Group

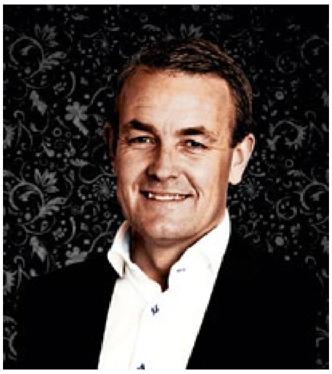
Anders Gustafsson

Senior Vice President, Europe, Middle East and Africa (EMEA) Region, since April, 2015. Born 1968.

Previous positions:
President, Volvo Cars Sweden

Chairman of the Board of Directors: Hertz First Rent A Car

Member of the Board of Directors: Volvofinans Bank AB



Klas Bendrik

Senior Vice President & Group Chief information Officer since March, 2015.
Born 1969.
Lieutenant Captain, Swedish Naval Academy

Previous positions:
Group CIO, Volvo Cars

CIO, Assa Abloy AB

IT Director & CIO, Mölnlycke Health Care

Björn Annwall

Senior Vice President Marketing, Sales and Customer Service, since October, 2015.
Born 1975.
Master of Science, Business Administration

Previous positions:
Partner, McKinsey & Co.
Management Consultant, McKinsey & Co.

LOOKING BACK HELPS US LOOK FORWARD

1927 Volvo was founded by Assar Gabrielsson and Gustaf Larson

1959 Volvo engineer Nils Bohlin invented the three-point safety belt

70's

1972 'Environment' was added to our existing core values 'Safety and Quality'. Volvo invented the rearward-facing child safety seat

1976 Volvo 240 and 260 were nominated as 'the standard for safety' in the US. Volvo presented the world-first catalytic, exhaust control with the Lambda Sond. It reduces harmful exhaust emissions by 90 per cent

INFORMATION AND CONTACT

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SE-405 31 Gothenburg, Sweden
www.volvocars.com

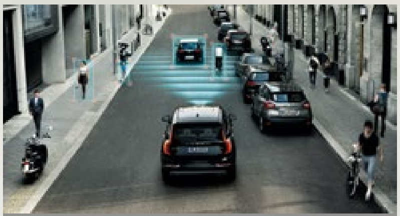
DEFINITIONS

Comparative figures:
The equivalent period is shown in brackets

Retail Sales:
Sales to end customers

Equity ratio:
Total equity divided by total assets

Net debt:
Liabilities to credit institutions minus cash and cash equivalents and marketable securities



2008 Volvo Cars presented the collision avoidance system that could auto brake – City Safety

2010 Volvo Cars were acquired by Zhejiang Geely Holding Group

2013 Industrial entities in China were established

1990 2008 2010 2013 2014 2015

80's, 90's

1984 The sales of Volvo 740 and 760 was a great success

1991 Volvo presented Volvo 850 – the largest product investment then Volvo introduced the Side Impact Protection System

1998 Volvo developed the Inflatable Curtain

1999 Volvo Cars were acquired by Ford Motor Company

2014 Volvo Cars unveiled the first product developed on the SPA platform – the all-new XC90

2015 Volvo Cars started the construction of a plant in the US Volvo Cars acquired control of the industrial entities in China Volvo Cars achieved a record sales of 503,127 units