

VOLVO TREASURY GROUP

INTERIM REPORT

January-June 2018

All amounts are shown in millions of Swedish kronor (SEK M). The preceding year's figures are shown within parentheses in the text.

INTERIM REPORT JANUARY 1 – JUNE 30 2018

Volvo Treasury AB (publ) is a wholly owned subsidiary of AB Volvo (publ) Göteborg (556012-5790). The Company is the Parent Company of Volvo Treasury Asia Ltd, which in turn is the Parent Company of Volvo Treasury Australia Pty Ltd (“Volvo Treasury Group”).

Condensed statements of income and balance sheets, according to financial statements not reviewed by the auditors, are displayed below.

Consolidated income statements

	First six months 2018	First six months 2017	Full Year 2017
Interest income	1,406.5	1,416.7	2,753.2
Interest expense	(1,162.3)	(1,079.5)	(2,161.4)
Financial instruments measured at FVTPL	(39.0)	(211.7)	(261.8)
Net interest income	205.2	125.5	330.0
Net result of other financial transactions	(350.6)	201.9	291.8
Gross income	(145.4)	327.4	621.8
Other operating income	64.3	62.8	126.2
Administrative expenses	(90.9)	(96.1)	(201.6)
Other operating expenses	(17.0)	(15.1)	(31.8)
Operating income	(189.0)	279.0	514.6
Tax on income for the year	37.5	(65.3)	(113.3)
Net income	(151.5)	213.7	401.3
Other comprehensive income			
Net income	(151.5)	213.7	401.3
<i>Items that will not be reclassified to profit and loss:</i>			
Remeasurement of defined-benefit pensions	(0.4)	-	(6.5)
<i>Items that may be subsequently reclassified to profit and loss:</i>			
Exchange differences on translation of foreign operations	48.4	(17.0)	(15.6)
Comprehensive income for the year	(103.5)	196.7	379.2
Total net income attributable to Parent Company shareholders	(151.5)	213.7	401.3
Total comprehensive income attributable to Parent Company shareholders	(103.5)	196.7	379.2

Consolidated balance sheet

	June 30, 2018	June 30, 2017	Dec. 31, 2017
ASSETS			
Intangible assets	-	2.3	0.9
Tangible assets	0.5	0.5	0.5
Financial assets	66,527.5	59,006.2	64,395.5
Tax assets	58.1	12.3	14.7
Current receivables	107,243.2	108,630.7	98,610.1
Cash and cash equivalents	22,328.1	14,364.9	22,447.0
TOTAL ASSETS	196,157.4	182,016.9	185,468.7
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16,060.2	16,299.4	16,162.9
Non-current provisions	42.9	32.0	41.4
Non-current liabilities	67,622.5	66,176.6	57,154.7
Current liabilities	112,431.8	99,508.9	112,109.7
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	196,157.4	182,016.9	185,468.7

Changes in shareholders' equity, Group

	First six months 2018	First six months 2017	Full Year 2017
Total equity at end of previous period	16,162.9	16,102.7	16,102.7
Net income for the period	(151.5)	213.7	401.3
<i>Other comprehensive income</i>			
Translation differences on foreign operations	48.4	(17.0)	(15.6)
Remeasurement of defined-benefit pensions	(0.4)	-	(6.5)
Total comprehensive income for the year	(103.5)	196.7	379.2
<i>Transactions with shareholders/related parties</i>			
Group contributions granted and received	-	-	(409.0)
Tax effect of Group contributions granted and received	-	-	90.0
Total transactions with shareholders/related parties	-	-	(319.0)
Total equity at end of the period	16,059.4	16,299.4	16,162.9

Parent Company income statements

	First six months 2018	First six months 2017	Full Year 2017
Interest income	1.355,3	1.354,5	2.641,1
Interest expense	(1.131,6)	(1.044,3)	(2.099,4)
Financial instruments at FVTPL	(35,5)	(207,7)	(264,9)
Net interest income	188,2	102,5	276,8
Net result of other financial transactions	(359,3)	195,2	278,3
Gross income	(171,1)	297,7	555,1
Other operating income	64,3	62,8	123,9
Administrative expenses	(80,0)	(84,5)	(176,9)
Other operating expenses	(14,6)	(14,3)	(28,0)
Operating income	(201,4)	261,7	474,1
Allocations	-	-	(409,0)
Earnings before taxes	(201,4)	261,7	65,1
Tax on income for the year	43,9	(57,3)	(13,3)
Net income	(157,5)	204,4	51,8
Other comprehensive income			
Total comprehensive income for the year	(157,5)	204,4	51,8

Parent Company balance sheet

	June 30, 2018	June 30, 2017	Dec. 31, 2017
ASSETS			
Intangible assets	-	2.3	0.9
Tangible assets	0.4	0.4	0.4
Financial assets	65,999.7	58,495.0	63,878.8
Tax assets	49.5	4.7	5.6
Current receivables	104,846.6	103,873.3	96,412.8
Cash and cash equivalents	22,320.7	14,352.5	22,436.7
TOTAL ASSETS	193,216.9	176,728.2	182,735.2
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	15,505.8	15,815.9	15,663.3
Provisions	1.5	1.2	-
Non-current liabilities	66,949.9	62,473.1	55,354.5
Current liabilities	110,759.7	98,438.0	111,717.4
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	193,216.9	176,728.2	182,735.2

Changes in shareholders' equity, Parent Company

	First six months 2018	First six months 2017	Full Year 2017
Total equity at end of previous period	15,663.3	15,611.5	15,611.5
Net income for the period	(157.5)	204.4	51.8
<i>Other comprehensive income</i>	-	-	-
<i>Total comprehensive income for the year</i>	<i>(157.5)</i>	<i>204.4</i>	<i>51.8</i>
Total equity at end of period	15,505.8	15,815.9	15,663.3

ACCOUNTING PRINCIPLES

This interim report has been prepared in accordance with IAS 34, *Interim Financial Reporting* and the Swedish Annual Accounts Act (1995:1554). The accounting principles applied are described in the Volvo Treasury Group Annual Report 2017 note 1.

When preparing the consolidated financial statements at June 30, 2018 Volvo Treasury Group applies the following new accounting standard: IFRS9 Financial instruments. A description of the new accounting policies are presented in the Volvo Treasury Group Annual Report 2017.

RISKS AND UNCERTAINTIES

All business operations involve risk – managed risk-taking is a condition of maintaining a sustained favourable profitability. Risk may be due to events in the world and can affect a given industry or market. Risk can be specific to a single company. The Volvo Treasury Group works continuously to identify measure and manage risk, and in some cases the Volvo Treasury Group can influence the likelihood that a risk-related event will occur. In cases in which such events are beyond Volvo Treasury Group's control, the aim is to minimize the consequences. The risks to which the Volvo Treasury Group is exposed mainly under the Financial risks category – such as currency risk, interest risk, credit risk and liquidity risk. For a more elaborated account for these risks and the management of these, please refer to *note 3 – Financial risks* on pages 21-25 in the Volvo Treasury Group Annual Report 2017 and *note 4 – Goals and policies in financial risk management* on pages 124-129 in the Volvo Group Annual Report 2017.

COMMENTS CONSOLIDATED ACCOUNTS

The operating income for the first six months of 2018 amounted to SEK -189.0 M (279.0). The negative operating income is primarily a consequence of negative market valuation of both interest and currency derivatives.

The market valuation of derivatives has affected income with SEK -39.0 M (211.4).

During the first six months and the same period last year there were no investments in intangible and tangible assets.

Cash and cash equivalents amounted to SEK 22,328.1 M, a decrease since year-end of SEK 118.9 M.

The average number of employees for the first six months was 41 (42).

Financial instruments reported at fair value through profit and loss consist of interest- and currency derivatives. Derivatives with positive fair values amounted to SEK 3,508.5 M and derivatives with negative fair values amounted to SEK 1,590.0 M. The derivatives are accounted for on gross-basis.

Financial liabilities valued at amortized cost, reported as current and non-current liabilities, amounted to SEK 66,852.8 M respectively SEK 31,595.0 M with a fair value of SEK 69,214.6

M respectively SEK 31,659.4 M. On the balance sheet, current and non-current liabilities, included derivative contracts valued at fair value and financial liabilities valued at amortized cost.

Further details regarding accounting principles or fair value and carrying amounts are presented in the Volvo Treasury Group Annual report 2017.

COMMENTS PARENT COMPANY

Interest income for the period amounted to SEK 1,355.3 M (1,354.5).

Earning before tax for the first six months of 2018 amounted to SEK -201.4 M (261.7). The negative earning before tax is primarily a consequence of negative market valuation of both interest and currency derivatives.

The market valuation of derivatives in accordance with IAS39 has affected income with SEK -35.5 M (-207.4).

During the first six months and the same period last year there were no investments in intangible and tangible assets.

Cash and cash equivalents amounted to SEK 22,320.7 M, a decrease since year-end of SEK 116.0 M.

The average number of employees for the first six months was 32 (31).

Financing is obtained both through loans to external and internal counterparties. The main part of the internal borrowing is obtained through cash pools. The total lending has increased with SEK 10,383.6 M since year-end.

Financial instruments reported at fair value through profit and loss consist of interest- and currency derivatives. Derivatives with positive fair values amounted to SEK 3,503.3 M and derivatives with negative fair values amounted to SEK 1,576.3 M. The derivatives are accounted for on gross-basis.

Financial liabilities valued at amortized cost, reported as current and non-current liabilities, amounted to SEK 65,370.0 M respectively SEK 28,733.0 M with a fair value of SEK 67,723.9 M respectively SEK 28,790.8 M. On the balance sheet, current and non-current liabilities included derivative contracts valued at fair value and financial liabilities valued at amortized cost.

Further details regarding accounting principles or fair value and carrying amounts are presented in the Volvo Treasury Group Annual report 2017.

EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after the end of the second quarter 2018 that are expected to have a substantial effect on the Volvo Treasury Group.

The Board of Directors and the President certify that the half-yearly financial report gives a fair review of the performance of the business, position and profit or loss of the Company and the Group, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Gothenburg, August 28, 2018

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President

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Chairman of the board

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