Annual Report and Consolidated Financial Statements for the 2016 fiscal year

The Board of Directors and the President of Volvo Treasury AB (publ), (556135-4449) hereby submit the following Annual Report and consolidated financial statements.

Content

AV KAMMARKOLLEGIET AUKTORISERAD TRANSLATOR * NR 862 *

This is a true and accurate translation of the original document
(Certified): ....
John Lightowler
Authorized Translator

Amounts are shown in millions of Swedish kronor (SEK M) unless otherwise stated. The amounts within parentheses refer to the preceding year.

Board of Directors' report

Volvo Treasury AB (publ) is a wholly owned subsidiary of AB Volvo (publ) Gothenburg (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").

The "Volvo Treasury Group" is a unit within the Volvo Group that provides the Volvo Group with services related to treasury and cash management. All financial transactions with companies within the Volvo Group are carried out on market terms. Most of the financial transactions of the Volvo Group are conducted through the Volvo Treasury Group or one of the Volvo Group's other Treasury companies in North America or Asia, which, jointly with the Volvo Treasury Group comprise the "Volvo Treasury Unit." The Volvo Treasury Unit is responsible for all interest-bearing assets and liabilities, foreign exchange, as well as funding operations within the Volvo Group. Consolidated financial management offers better potential to utilize the Volvo Group's financial assets and cash flow and professionally manage risks related to financial management.

The Volvo Treasury Group operations are carried out according to centrally determined risk mandates and limits designed to minimize the currency, interest-rate, credit and liquidity risks to which the Volvo Group is exposed. Risks are followed up, monitored and recognized daily. Risk limits are set by the Board of Volvo Treasury AB or in certain cases by the Board of AB Volvo. These risks and the manner in which they are managed are presented in more detail in Note 3 Financial risks.

Further description of financial risks and how the Volvo Group and the Volvo Treasury Unit manage them are presented in the Annual Report for the Volvo Group. See also the Annual Report for the Volvo Group regarding employee policies in the Volvo Group.

Corporate Governance Report

Volvo Treasury AB has prepared a Corporate Governance Report that is separate from the Report presented in the Annual Report, which can be found after the Annual Report in this document.

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Operations during 2016

Volvo Treasury Group – Summary

The Group's operating income by company is presented in the table below.

	2016	2015	2014	2013	2012
Volvo Treasury AB	1,010.3	728.3	1,863.3	855.9	1,122.6
Volvo Treasury Asia Ltd	70.8	63.5	40.1	61.7	59.1
Group total	**1,081.1**	**791.8**	**1,903.4**	**917.6**	**1,181.7**

During the year, net lending to Group companies within the Volvo Group increased by 7.9 billion, compared to preceding year, net lending decreased by approximately 5.5 billion. To meet the Volvo Group's raised funding need, the Volvo Treasury Group has increased borrowing in the external bond market by SEK 8 billion.
Net interest income for the year amounted to SEK 1,055.9 M, compared with income of SEK 1,141.3 M for the preceding year. The SEK 85.4 M decrease was attributable to a decline of

SEK 418.5 M in interest income from companies in the Volvo Group and a SEK 333.1 M increase in the market value of financial derivatives which were positively impacted by lower market interest rates, primarily for EUR. The earnings impact of the market valuation of financial derivatives is included under Financial instruments measured at fair value through profit and loss.

The Volvo Group's hedging of commercial cash flows is managed by and reported in Volvo Treasury AB, and earnings amounted to SEK 65 M. The effect of the hedge is included under Profit/loss from other financial transactions.

Income derived from loan commitments issued to Volvo Financial Services totaled SEK 123 M and were included under the item Other operating income and expenses.

The prepared Annual Report states that a Group contribution totaling SEK 1,500.0 M was paid to AB Volvo, while a Group contribution totaling SEK 550.0 M was received from Sotrof AB.

Proposed disposition of unappropriated earnings
According to the Volvo Treasury Group's balance sheet, the Annual General Meeting has at its disposal the following earnings of SEK 15,011.5 M. The Board of Directors and the CEO propose that the above earnings of SEK 15,011.5 M be carried forward. Read more in Note 31, Proposed disposition of unappropriated earnings.

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Consolidated statement of comprehensive income

	Note	2016	2015
Interest income	4	2,871.8	3,692.5
Interest expense	5	(2,101.0)	(2,503.2)
Financial instruments measured at FVTPL	2, 24	285.1	(48.0)
Net interest income		**1,055.9**	**1,141.3**
Net result of other financial transactions	24	130.0	(272.7)
Gross income		**1,185.9**	**868.6**
Administrative expenses	6, 26	(199.0)	(189.8)
Other operating income and expenses		94.2	113.0
Operating income		**1,081.1**	**791.8**
Allocations	16	(950.0)	(627.3)
Income before tax		**131.1**	**164.5**
Tax on income for the year	7, 8	(25.1)	(30.8)
Net income		**106.0**	**133.7**

Other comprehensive income

	2016	2015
Net income	**106.0**	**133.7**
Items that will not be reclassified to profit and loss:		
Remasurement of defined-benefit pensions	(3.6)	12.9
Items that may be subsequently reclassified to profit and loss:		
Exchange-rate differences on translation of foreign operations	41.8	(3.2)
Comprehensive income for the year	**144.2**	**143.4**
Total net income attributable to Parent Company shareholders	106.0	133.7
Total comprehensive income attributable to Parent Company shareholders	144.2	143.4

Consolidated balance sheet

	Note	Dec. 31, 2016	Dec. 31, 2015
ASSETS			
Non-current assets			
Intangible assets			
Software development	9	3.7	6.4
Tangible assets			
Equipment	10	0.5	0.5
Financial assets			
Receivables from Group companies (within the Volvo Group)	29	61,125.2	56,171.4
Other non-current receivables	12	1,537.2	1,001.3
Total financial assets		**62,662.4**	**57,172.7**
Deferred Tax	8	**11.7**	**10.2**
Total non-current assets		**62,678.3**	**57,189.8**
Current assets			
Current receivables			
Receivables from Group companies (within the Volvo Group)	29	103,569.9	108,185.7
Other current receivables	13	1,859.2	2,513.2
Total current receivables		**105,429.1**	**110,698.9**
Marketable securities	14	**1,021.4**	**3,163.8**
Cash and cash equivalents	15	**10,670.4**	**7,965.6**
Total current assets		**117,120.9**	**121,828.3**
TOTAL ASSETS		**179,799.2**	**179,018.1**

	Note	Dec. 31, 2016	Dec. 31, 2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		500.0	500.0
Reserves		146.0	104.2
Retained earnings		15,350.7	15,220.6
Net income		106.0	133.7
Total shareholders' equity		**16,102.7**	**15,958.5**
Non-current provisions			
Provision for post-employment benefits	17	30.9	25.1
Other provisions		5.5	-
Total non-current provisions		**36.4**	**25.1**
Non-current liabilities	18, 19, 24		
Bond loans		60,653.5	47,775.7
Other liabilities to credit institutions		8,602.1	11,844.6
Other non-current liabilities		169.1	155.3
Liabilities to Group companies (within the Volvo Group)	29	0.7	106.5
Total non-current liabilities		**69,425.4**	**59,882.1**
Current liabilities			
Liabilities to credit institutions	20	33,107.7	34,859.6
Accounts payable – trade		4.4	3.4
Liabilities to Group companies (within the Volvo Group)	29	59,806.0	67,226.5
Other current liabilities	21	1,316.6	1,062.9
Total current liabilities		**94,234.7**	**103,152.4**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**179,799.2**	**179,018.1**

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Changes in shareholders' equity, Group

	Share capital	Reserves (translation differences)	Retained earnings	Total shareholders' equity
Balance at December 31, 2014	**500.0**	**107.4**	**15,207.7**	**15,815.1**
Net income for the year	-	-	133.7	133.7
Other comprehensive income				
Translation differences	-	(3.2)	-	(3.2)
Remasurement of defined-benefit pensions	-	-	12.9	12.9
Total comprehensive income for the year	-	***(3.2)***	***146.6***	***143.4***
Balance at December 31, 2015	**500.0**	**104.2**	**15,354.3**	**15,958.5**
Net income for the year	-	-	106.0	106.0
Other comprehensive income				
Translation differences	-	41.8	-	41.8
Remasurement of defined-benefit pensions	-	-	(3.6)	(3.6)
Total comprehensive income for the year	-	***41.8***	***102.4***	***144.2***
Balance at December 31, 2016	**500.0**	**146.0**	**15,456.7**	**16,102.7**

Consolidated cash-flow statement

ACTIVITIES DURING THE YEAR	2016	2015
Interest received	2,732.5	3,743.7
Interest paid	(2,158.9)	(2,336.6)
Income tax paid	(21.6)	(41.5)
Payments to suppliers and employees	(90.5)	(74.7)
	461.4	**1,290.9**
Increase (-)/decrease (+) in marketable securities	2,144.1	3,606.0
Increase (-)/decrease (+) in current receivables	551.9	(352.1)
Increase (+)/decrease (-) in current liabilities	(4.2)	(2.0)
Increase (-)/decrease (+) in lending to Group companies	5,575.2	(10,470.8)
Increase (+)/decrease (-) in borrowing from Group companies	(7,777.9)	17,400.6
Increase (-)/decrease (+) in non-current receivables	(2.1)	3.4
Cash-flow from operating activities	**948.4**	**11,476.0**
Capitalized development costs	-	-
Cash-flow from investing activities	-	-
Group contributions received	772.7	862.0
Group contributions granted	(1,400.0)	(2,500.0)
Issue of interest-bearing securities	52,951.3	21,196.0
Repayment of interest-bearing securities	(43,448.6)	(35,336.2)
Increase in other borrowing	18,976.1	11,686.0
Decrease in other borrowing	(26,097.6)	(13,850.9)
Cash-flow from financing activities	**1,753.9**	**(17,943.1)**
Cash-flow during the year	2,702.3	(6,467.1)
Cash and cash equivalents, January 1	7,965.6	14,434.6
Exchange-rate differences in cash and cash equivalents	2.5	(1.9)
Cash and cash equivalents, December 31	**10,670.4**	**7,965.6**

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Total comprehensive income, Parent company

	Note	2016	2015
Interest income	4	2,766.5	3,586.3
Interest expense	5	(2,069.3)	(2,485.6)
Financial instruments at FVTPL	2, 24	281.9	(51.2)
Net interest income		**979.1**	**1,049.5**
Net result of other financial transactions	24	117.0	(267.1)
Gross income		**1,096.1**	**782.4**
Administrative expenses	6, 26	(175.0)	(165.5)
Other operating income and expenses		95.9	114.8
Operating income		**1,017.0**	**731.7**
Allocations	16	(950.0)	(627.3)
Income before tax		**67.0**	**104.4**
Tax on income for the year	7, 8	(15.0)	(20.5)
Net income		**52.0**	**83.9**

Other comprehensive income

Total comprehensive income for the year		**52.0**	**83.9**

Balance sheet, Parent company

	Note	Dec. 31, 2016	Dec. 31, 2015
ASSETS			
Non-current assets			
Intangible assets			
Software development	9	3.7	6.4
Tangible assets			
Equipment	10	0.4	0.4
Financial assets			
Participations in subsidiaries	11	224.6	224.6
Receivables from Group companies (within the Volvo Group)	29	60,499.9	55,811.6
Other non-current receivables	12	1,531.7	1,000.0
Total financial assets		**62,256.2**	**57,036.2**
Deferred tax	8	**4.7**	**4.3**
Total non-current assets		**62,265.0**	**57,047.3**
Current assets			
Current receivables			
Receivables from Group companies (within the Volvo Group)	29	98,718.2	104,930.4
Other current receivables	13	1,786.3	2,490.4
Total current receivables		**100,504.5**	**107,420.8**
Marketable securities	14	**1,021.4**	**3,163.8**
Cash and cash equivalents	15	**10,654.0**	**7,927.4**
Total current assets		**112,179.9**	**118,512.0**
TOTAL ASSETS		174,444.9	175,559.3

	Note	Dec. 31, 2016	Dec. 31, 2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity			
Share capital (5,000,000 Series A shares, quota value SEK 100)		500.0	500.0
Legal reserves		100.0	100.0
Total restricted equity		**600.0**	**600.0**
Unrestricted equity			
Retained earnings brought forward		14,959.5	14,875.6
Net income		52.0	83.9
Total unrestricted equity		**15,011.5**	**14,959.5**
Total shareholders' equity		**15,611.5**	**15,559.5**
Non-current provisions			
Provision for post-employment benefits	17	-	1.4
Other provisions		5.5	-
Total non-current provisions		**5.5**	**1.4**
Non-current liabilities	18, 19, 24		
Bond loans		60,653.5	47,775.7
Other liabilities to credit institutions		6,060.7	9,195.1
Other non-current liabilities		165.9	150.4
Liabilities to Group companies (within the Volvo Group)	29	0.7	106.5
Total non-current liabilities		**66,880.8**	**57,227.7**
Current liabilities			
Liabilities to credit institutions	20	30,899.7	32,740.1
Accounts payable – trade		4.1	3.3
Liabilities to Group companies (within the Volvo Group)	29	59,805.0	68,980.6
Other current liabilities	21	1,238.3	1,046.7
Total current liabilities		**91,947.1**	**102,770.7**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**174,444.9**	**175,559.3**

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Changes in shareholders' equity, Parent company

	Share capital	Reserves	Retained earnings	Total shareholders' equity
Balance at December 31, 2014	**500.0**	**100.0**	**14,875.6**	**15,475.6**
Net income for the year	-	-	83.9	83.9
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	*83.9*	*83.9*
Balance at December 31, 2015	**500.0**	**100.0**	**14,959.5**	**15,559.5**
Net income for the year	-	-	52.0	52.0
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	*52.0*	*52.0*
Balance at December 31, 2016	**500.0**	**100.0**	**15,011.5**	**15,611.5**

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Cash-flow statement, Parent company

ACTIVITIES DURING THE YEAR	2016	2015
Interest received	2,627.5	3,637.4
Interest paid	(2,135.0)	(2,316.5)
Income tax paid	(12.1)	(25.5)
Payments to suppliers and employees	(72.0)	(52.3)
	408.4	**1,243.1**
Increase (-)/decrease (+) in marketable securities	2,144.1	3,606.0
Increase (-)/decrease (+) in current receivables	519.8	(350.8)
Increase (+)/decrease (-) in current liabilities	(0.7)	(1.3)
Increase (-)/decrease (+) in lending to Group companies	6,644.3	(9,514.0)
Increase (+)/decrease (-) in borrowing from Group companies	(9,346.1)	16,422.6
Increase (-)/decrease (+) in non-current receivables	(2.8)	2.5
Cash-flow from operating activities	**366.9**	**11,408.1**
Capitalized development costs	-	-
Cash-flow from investing activities	**-**	**-**
Group contributions received	772.7	862.0
Group contributions granted	(1,400.0)	(2,500.0)
Issue of interest-bearing securities	52,951.3	21,196.0
Repayment of interest-bearing securities	(43,208.2)	(35,085.1)
Increase in other borrowing	17,597.8	10,294.9
Decrease in other borrowing	(24,353.9)	(12,672.3)
Cash-flow from financing activities	**2,359.7**	**(17,904.5)**
Cash-flow during the year	2,726.6	(6,496.4)
Cash and cash equivalents, January 1	7,927.4	14,423.8
Cash and cash equivalents, December 31	**10,654.0**	**7,927.4**

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Notes – Group and Parent Company

Note 1 Accounting and valuation policies

The consolidated financial statements for Volvo Treasury AB and its subsidiary (Volvo Treasury) have been prepared in accordance with IFRS, International Financial Reporting Standards, issued by IASB, the International Accounting Standards Board, as adopted by the EU. This annual report is prepared in accordance with IAS 1, *Presentation of Financial Statements*, and in accordance with the Swedish Annual Accounts Act. The income statement has been adapted to provide a relevant presentation of the results of the operations. In addition, RFR 1 *Supplementary Rules for Groups* has been applied, issued by the Swedish Financial Reporting Board.

As far as is possible, Volvo Treasury describes its accounting policies in connection with each note to provide increased understanding of the respective accounting area. In some cases, when no note is referred to, the accounting policies are detailed in Note 1.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company and subsidiaries in which Volvo Treasury AB has a controlling influence. The consolidated financial statements have been prepared in accordance with the policies set forth in IFRS 10, *Consolidated Financial Statements*. Intra-Group transactions are eliminated.

Translation to Swedish kronor when consolidating companies using foreign currencies

The functional currency of each Group company is determined based on the primary economic environment in which the company operates. The primary economic environment is normally the one in which the company primarily generates and expends cash and cash equivalents. Volvo Treasury AB's functional currency is Swedish kronor. In most cases, the functional currency is the currency of the country where the company is located. In preparing the consolidated financial statements, all items in the income statements of foreign subsidiaries are translated to Swedish kronor at monthly exchange rates. All assets and liabilities items in the balance sheet are translated at exchange rates at the respective year-ends (closing-day rate). The changes in consolidated shareholders' equity arising as a result of year-on-year variations between closing-day exchange rates are recognized in Other comprehensive income and cumulative differences in provisions under Shareholders' equity..

Valuation, depreciation, amortization and impairments of intangible and tangible fixed assets

Volvo Treasury recognizes intangible and tangible fixed assets at cost less depreciation. Depreciation is based on the historical cost of the assets, adjusted in appropriate cases by impairments, and estimated useful lives.

Depreciation periods

Software development	5 years
Equipment	5 years

Receivables and liabilities in foreign currency
Receivables and liabilities in currencies other than the functional currency are translated to the functional currency at the closing-day exchange rates, both in the individual Group company and in the Group's financial statements. Translation differences pertaining to financial assets and liabilities are classified to Profit/loss from other financial transactions.
Financial instruments used to hedge currency and interest-rate risk are measured at market value. Foreign exchange gains are recognized as receivables and losses are recognized as liabilities. Depending on the maturity of the financial instrument, these items are recognized as current or non-current in the balance sheet. The impact on earnings on remeasurement is reported under the item Profit/loss from other financial transactions.

The exchange rates used in the consolidated financial statements are as follows:

Country	Currency	Average rate 2016	Average rate 2015	As per Dec. 31 2016	As per Dec. 31 2015
Singapore	1 SGD	6.20082	6.13388	6.28740	5.90800

Financial instruments
Volvo Treasury applies the accounting policies contained in IAS 39, Financial instruments: Recognition and Measurement as well as IFRS 13, Fair value measurement. Depending on the maturity of the financial instrument, these items are recognized as current or non-current in the balance sheet. Gains and losses on financial instruments are recognized in profit and loss.

Buying and selling of financial assets and liabilities are recognized on the settlement date, and subsequent re-valuation between the contract date and the settlement date is recognized through profit and loss. Transaction costs are included in the fair value of the assets except where the value changes are recognized in profit and loss. Transaction costs in connection with borrowing are amortized over the period of the loan as a financial expense using the effective-interest-rate method.

A financial asset is derecognized from the balance sheet when all significant risks and benefits linked to the asset have been transferred to an external party. Financial liabilities are derecognized from the balance sheet when the obligation has been met, annulled or has ceased to exist.

Fair values are established for assets based on quoted market prices where these are available. If market prices are not available, fair values are established for individual assets using different valuation techniques.
Financial instruments are classified based on the extent to which market data has been used in the calculation of fair value. All of Volvo Treasury's financial instruments that are measured at FVTPL are classified as held for trading in accordance with level 2. The valuation of level 2 instruments is based on market conditions using quoted market data for similar instruments available in the active market at each balance-sheet date. Volvo Treasury has primarily used official capital market quoted rates or prices. The basis for the interest is the zero-coupon-curve in each currency which calculates the present value of all the estimated future cash-flows. Currency forwards use the forward rate for each currency's spot price and future date at balance-sheet date. As per the balance-sheet date, a present-value calculation is carried out based on the applicable forward rates.

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Financial instruments measured at fair value through profit and loss

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

All of Volvo Treasury's financial instruments that are measured at fair value through profit and loss are classified as held for trading. These comprise derivative instruments used to hedge interest rates, currencies and marketable securities. Marketable securities mainly consist of interest-bearing financial instruments and are reported in Note 14.

Realized and unrealized interest gains/losses pertaining to current investments and derivatives used to hedge interest-bearing assets and investments, and unrealized interest gains/losses pertaining to derivatives held to hedge financial assets and liabilities are recognized in Net interest income. Financial instruments used to hedge currency risk in contracted commercial cash flows are recognized in Gross profit.

Volvo Treasury has decided not to apply hedge accounting for these financial instruments, and gains or losses on these are recognized in profit and loss.

Loan receivables and accounts receivable

Loan receivables and accounts receivable are non-derivative financial assets with fixed or determinable payment plans that are not traded in an active market. After initial recognition, loan receivables and accounts receivable are measured at amortized cost according to the effective interest method. Gains and losses are recognized through profit and loss when the loans or receivables are divested or impaired, as well as in pace with the accrued interested being recognized.

Financial liabilities measured at amortized cost

Financial liabilities other than derivatives are measured at amortized cost. Transaction costs in connection with raising financial liabilities are amortized over the loan's duration as a financial expense using the effective interest method. Issued hybrid bonds are categorized as liabilities in the accounts since they entail a contractual obligation to make interest payments to the holder. For more information, see Note 24, Financial instruments.

Pensions and similar commitments

The Volvo Treasury Group, including the Parent Company, applies IAS 19, *Employee Benefits*, for pensions and similar commitments. In accordance with IAS 19, actuarial calculations must be made for all defined-benefit plans in order to determine the present value of the Volvo Treasury Group's commitments pertaining to unvested benefits for current and former employees. The actuarial calculations are prepared annually and are based on actuarial assumptions that are determined close to the balance-sheet date. Changes in the present value of commitments due to revised actuarial assumptions and experience-based assumptions comprise remeasurements.

Provisions for pension benefits and similar commitments in Volvo Treasury Group's balance sheet correspond to the present value of the commitments at the balance-sheet date, less fair value of plan assets. According to the revised IAS 19, the discount rate of interest is applied in calculating the net interest income/expense on the net pension liability (the asset). All changes in the net pension liability (the asset) are recognized as they occur; service costs and net interest expense (revenue) are recognized in profit and loss, while remeasurements, such as actuarial gains and losses are recognized in Other comprehensive income. The special employers' contribution is included in the pension liability and pertains to the Swedish plan.

For defined-contribution plans, premiums are expensed as incurred.

Under RFR 2, the provisions contained in IAS 19 that apply to defined-benefit pension plans do not need to be applied in legal entities. However, disclosures must be made regarding the relevant parts of IAS 19. RFR 2 refers to the provisions in the Swedish Pension Obligations Vesting Act regarding provisions to pensions and similar obligations, and to the recognition of plan assets in pension foundations.

Share-based payments
Volvo Treasury applies IFRS 2, *Share-based Payments for share-based incentive programs.* The principal distinguishes between "cash-settled" and "equity-settled," remuneration, in Volvo Treasury's case, shares in Volvo AB. Volvo Treasury AB's President and two senior executives of the Volvo Treasury Group are included in the Volvo Group's incentive program, which encompasses both cash and equity-settled remuneration.

Based on the fair value of the benefit at the allocation date, the cost of this program is recognized in accordance with IFRS 2 over the vesting period and is expensed in profit or loss. The market value of this compensation is determined by taking the share price at the allocation date of the right and reducing this with the present value of expected dividends for the period until the issuance of the shares. AB Volvo will invoice for the cost of the issued shares when the shares are issued.

The long-term incentive program covers senior executives and encompasses the years from 2011–2013 and 2014–2016. The program comprises three annual programs where the measurement periods are the respective fiscal years. The program is conditional upon participants investing part of their salary in Volvo shares, keeping the shares and remaining as employees of the Volvo Group for at least three years after making the investment. The allocation of rights to shares is carried out in the respective calendar year. After the end of the three-year period, the main rule is that one matching share is issued for each share in the investment, and if the return on equity in the Volvo Group for the specific year amounts to between 10 and 25 percent, a number of performance shares are issued.

In 2016, the Volvo Group's Board decided to approve a new long-term incentive program encompassing 300 of the senior executives in the Volvo Group. This program will replace the previous long-term share-based incentive program and is reported in accordance with IAS 19, Employee Benefits. For further information regarding the Volvo Group's incentive programs, please refer to the Volvo Group's Annual Report, Note 27 Employees. The cost of the incentive programs are recognized in profit and loss as Administrative expenses. Refer also to Note 6 Administrative expenses.

The company also pays a benefit to all employees, a jubilee awards plan, whereby employees are allocated a certain number of shares based on the employee's length of service: 25, 35 and 45 years. This plan is recognized in accordance with IFRS 2.

Group contributions
Under certain circumstances, profits may be transferred in the form of Group contributions between companies within the same group. Contributions paid are normally a tax-deductible cost for the giver and taxable income for the receiver. Recognition of Group contributions is in accordance with the alternative rule in RFR2 for the Parent Company. Group contributions are recognized among appropriations.

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Income taxes

Tax on income for the year comprises current and deferred tax. Taxes are recognized in profit and loss, except when the tax relates to items recognized in other comprehensive income or directly in shareholders' equity. In such cases, the tax is also recognized in other comprehensive income and shareholders' equity.

Tax legislation in Sweden and other countries sometimes contains rules other than those identified in generally accepted accounting policies, with respect to the timing of taxation and measurement of certain commercial transactions. Deferred taxes are recognized for the differences that arise between the taxable value and carrying amount of assets and liabilities, so-called temporary differences, as well as on tax loss carryforwards. However, with regard to the measuring of deferred tax assets, that is, the value of future tax reductions, these items are recognized provided that it is probable that the amounts can be utilized against future taxable surplus.

Cash-flow statement

The cash-flow statement is prepared in accordance with IAS 7, *Cash-flow statement*, applying the direct method showing recognized changes in operating receivables and liabilities during the period. The cash-flow statements of foreign Group companies are translated at the average rate.

Cash and cash equivalents include cash, bank balances, as well as marketable securities, with a maturity date within three months of the acquisition date. Other marketable securities comprise interest-bearing securities, with terms exceeding three months. However, these securities have high liquidity and can easily be converted to cash. According to IAS 7, certain investments in market-listed securities are exempted from the definition of cash and cash equivalents if the maturity of such an instrument occurs later than three months after the investment has been made.

Segment reporting

Volvo Treasury's operations are conducted within a single line of business and consequently do not give rise to segment reporting. Geographically, the operations are conducted primarily in two countries – Sweden and Singapore. Since the operations in Singapore are limited in scope, segment reporting as per IFRS 8, *Operating Segments*, is not applied. The Parent Company represents the Swedish operations. The difference between the Group and the Parent Company is mainly the Singapore operations.

Parent Company

The Parent Company applies the Swedish Annual Accounts Act and RFR 2, *Accounting for legal entities*. This recommendation entails that as a rule legal entities whose securities are listed on a Swedish exchange or an authorized marketplace should apply the IFRS/IASs that are applied in the consolidated financial statements.

New accounting policies in 2016

When preparing the consolidated financial statements at December 31, 2016, no new standards or interpretations had been published that were considered to potentially have a material impact on Volvo Treasury's financial statements.

New accounting policies 2017 and later

When preparing the consolidated financial statements at December 31, 2016, a number of standards and interpretations had been published and come into effect. The following is a description of the future policy amendments that are considered to potentially have a material impact on Volvo Treasury's financial statements.

IFRS 9 Financial instruments

IFRS 9 has been published in three parts: Classification and Measurement, Impairment and Hedge accounting, which will replace the current IAS 39 *Financial Instruments: Recognition and Measurement.*

The Volvo Group is currently estimating the effects of IFRS 9. The Volvo Treasury Group is participating in this study and the standard is not expected to have a major impact on operating profit. The date of compulsory application is January 1, 2018 and earlier adoption is permitted. IFRS 9 Financial Instruments has been adopted by the EU.

Note 2 Key sources of estimation uncertainty

See below for key sources of estimation uncertainty. In the preparation of these financial statements, the company management has made certain estimates and assumptions that affect the carrying amounts of assets and liabilities, as well as contingent liabilities at the balance-sheet date and recognized income and expenses. The actual future outcome of certain transactions may differ from the estimated outcome when these financial statements were prepared. Any such differences will affect the financial statements for future accounting periods.

The preparation of Volvo Treasury's consolidated financial statements requires the use of a number of estimates and assumptions that may affect the recognized amounts of assets, liabilities and provisions at the date of the financial statements. In preparing these financial statements, Volvo Treasury had to make its best possible assessments of certain amounts included in the financial statements, giving due consideration to relevance and significance. The application of the accounting policies mentioned in Note 1 involves making a number of estimates and assumptions, but since future results are currently uncertain, these assessments may result in a difference between the actual outcome and these estimates. In accordance with IAS 1, the company must provide specific information about the accounting policies that may have a significant impact on the estimates and assumptions made and which, if actual results are different, may have a material impact on the financial statements. The accounting policies applied by Volvo Treasury that are deemed to meet these criteria are presented below.

Measurement of financial instruments

In establishing the fair values of financial instruments, Volvo Treasury has primarily used official rates or prices quoted on the capital markets. In their absence, the measurement was made by discounting future cash flows at the market interest rate for each maturity. The starting point for the interest rate is the zero coupon curve for each currency, from which a present value computation is made of anticipated future cash flows. For foreign exchange contracts, the starting point is the forward surcharge based on the applicable spot rate for each currency and the future timing of balance-sheet date. Based on the applicable forward rates, a present value computation is then made on the balance-sheet date. All recognized fair values represent values that may not necessarily be realized. Note 24 describes the policy for matching assets and liabilities and how derivatives are used. Note 3 contains a sensitivity analyses for changes in interest rates on the Company's cash and cash equivalents and

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liabilities for the Volvo Group's industrial operations. Assets and liabilities held for the Volvo Group's customer finance operations are matched in accordance with the Volvo Group's policy.

Pensions and other similar commitments

Provisions and costs for post-employment benefits, mainly pensions and health-care benefits, are dependent on assumptions made in calculating the amounts. The appropriate assumptions and actuarial calculations are made separately for each country in which AB Volvo has operations. The assumptions include discount rates, health-care cost trends, inflation, salary growth, retirement rates, mortality rates and other factors. The actuarial assumptions are reviewed by the Volvo Group on an annual basis and modifications are made to them when deemed appropriate. The Volvo Treasury Group is included in this annual review. See Note 17 for applied assumptions in actuarial calculations.

Note 3 Financial risks

The Volvo Treasury Group's operations are carried out primarily in order to reduce the currency, interest-rate, credit and liquidity risks to which the Volvo Group is exposed. Volvo Treasury is exposed, through its operations, to various financial risks.

The following section describes the implication of different financial risks and the goals and policies involved in managing these risks. For further information, see the Volvo Group's Annual Report, Note 4, *Goals and policies regarding financial risk.*

Currency risk

Financial currency exposure

The contents in the recognized balance sheet may be impacted by fluctuations in various exchange rates. Currency risks in Volvo Treasury's operations are related to changes in the value of loans and investments (financial currency exposure) and changes in the value of assets and liabilities in foreign subsidiaries (currency exposure of shareholders' equity). Loans and investments occur in different currencies, partly on the capital markets and partly with companies in the Volvo Group. Investments and borrowing occur mainly in SEK, EUR, USD and JPY. Different types of derivatives are used to minimize financial currency exposure. Using derivative instruments such as currency swaps, currency forwards enables Volvo Treasury to meet the borrowing and lending requirements of Group companies in different currencies, without increasing the Group's own risk.

In accordance with the Volvo Group's currency risk policy, Volvo Treasury uses currency derivatives to minimize the risk of currency effects on the Volvo Group's consolidated income. For commercial currency exposure Volvo Treasury has a mandate to enter currency derivatives with external counterparties on behalf of the Volvo Group without entering corresponding contracts with Group companies (within the Volvo Group).

The Volvo Group hedges only contracted flows, of which the largest portion is realized within six months.

Outstanding derivatives hedging commercial currency risks Dec 31, 2016

Due date	AUD/SEK	GBP/SEK	USD/SEK	USD/KRW	Market value
2017	8.7	101.2	256.0	78.7	
2018	-	-	-	-	
Total local currency	**8.7**	**101.2**	**256.0**	**78.7**	
Average contract rate	**5.8**	**11.3**	**9.1**	**1,103.7**	
Market value of forward contracts outstanding	**(6.4)**	**10.1**	**(0.6)**	**(58.0)**	**(54.9)**
The impact on gross income in SEK if currency strengthened by 10%*	**(5.0)**	**(114.3)**	**(231.8)**	**(64.3)**	

* Sensitivity analyses for currency risks are based on simplified assumptions. It is not unreasonable to assume that the SEK will appreciate by 10% in relation to other currencies. In reality, however, exchange rates do not normally change at the same date and in the same direction, and the real effect can deviate from the sensitivity analysis. The sensitivity analysis pertains to the change in the market value that is calculated based on the nominal value.

Currency exposure of shareholders' equity
The consolidated value of assets and liabilities in foreign subsidiaries is influenced by exchange rates in conjunction with translation into Swedish kronor. Net assets in foreign subsidiaries amounted to SEK 472.0 M at year-end 2016. Net assets in foreign subsidiaries were not hedged through loans in foreign currencies, in line with the policy established by the Volvo Group's Board of Directors.

Interest-rate risk
Interest-rate risk refers to the risk that changes in interest rates will influence the consolidated earnings and cash flow (cash-flow risk) or the fair value of financial assets and liabilities (price risk). Lending to the Volvo Group's customer finance operations involves a range of maturities and interest-fixing terms. This lending is financed through short and long-term borrowing via the capital markets at floating and fixed interest rates. Within the framework of established limits, financing must match lending in terms of maturities. Interest-fixing terms between borrowing and lending are matched through the use of such derivative instruments as interest-rate swaps, currency interest-rate swaps, forward contracts and standardized interest-rate forward contracts. Financial assets and liabilities related to the Volvo Group's customer finance operations are matched so as to minimize the exposure to cash-flow risk and price risk. For practical and business reasons, Volvo Treasury AB has a mandate to a match rate of 80%. At the end of 2016, this match rate was 91.6% (91%).

Borrowing and lending from and to the industrial operations of the Volvo Group primarily takes place through the Volvo Group's accounts in various currencies. Volvo Treasury administrates the Volvo Group accounts, which implies that surpluses and deficits with respect to external banks are offset through short-term currency transactions and that any excess liquidity is invested in short-term and long-term money and capital markets.

Financing for the Volvo Group's industrial operations involves a fixed as well as a floating interest rate. Short and long-term borrowing is carried out via the capital markets and through bilateral loans. The use of such derivative instruments as interest swaps and currency interest swaps creates an interest-fixing term corresponding between one to three months. After taking derivative instruments into account, the average effective interest rate at year-end on financing outstanding for the Volvo Group's industrial operations was 3.35%.

Surplus liquidity within the Volvo Group is managed by Volvo Treasury AB. This management involves investment in bank accounts and in interest-bearing securities on the money and capital markets. At the end of 2016, the Volvo Treasury Group's interest-bearing assets mainly comprised cash and cash equivalents invested in interest-bearing securities with short maturities. The objective for cash and cash equivalents invested in interest-bearing securities is to achieve a return corresponding to a three month fixed-income instrument. Taking derivatives into account, the average interest rate on these cash and cash equivalents at December 31, 2016, was non-existent, due to the interest rate scenario in Sweden.

Sensitivity analysis
The table below shows the impact on the Volvo Treasury Group's profit after financial items should interest rates strengthen by one percentage point from the rates applying on 31 December 2016. The table also shows the market value of the various portfolios, and the portfolio's risk exposure.

Interest risk	Market value	Impact on gross income if interest rates appreciates with 1%
Industrial operations	(16,906.3)	83.0
Customer financing	1,050.9	52.7
Marketable securities	1,020.9	(0.2)

*The sensitivity analysis includes all financial assets and liabilities, as well as derivative instruments, but not deposits and lending to/from Volvo companies via Group accounts.

It should be noted that the above assessment of profit sensitivity with regard to changes in market interest rates ignores the possible impact of short-term effects of profit arising when all derivatives are marked to market in profit or loss. Volvo Treasury's accounting policies for derivatives are described in Note 1.

The carrying amounts in the balance sheet, fair values and other specifications pertaining to derivative instruments used for managing currency and interest-rate risks related to financial assets and liabilities are shown in Note 24.

Credit risks

Credit risks are defined as the risk that Volvo Treasury does not receive payments for recognized loans (commercial credit risk), that Volvo Treasury's investments are unable to be realized (financial credit risk) and that potential profit is not realized due to the counterparty not fulfilling its part of the contract when using derivative instruments (financial counterparty risk).

Volvo Treasury has no financial assets that are due for payment or impaired at year-end.

Financial credit risk

The Volvo Group's surplus liquidity is managed by Volvo Treasury and invested in the money and capital markets. All investments must meet the requirements of low credit risk and high liquidity. In accordance with Volvo's credit policy, counterparties for both investments and derivative transactions must have achieved a rating of A or better from one of the well-established credit rating institutions.

Commercial credit risk

Lending to companies within the Volvo Group complies with the limits established for the particular counterparty. Lending to Group companies is not considered to have any credit risk and no assets are therefore pledged for the receivables. The Volvo Treasury Group's receivables from Group companies on December 31, 2016 amounted to 164,695.1 (164,357.1).

Financial counterparty risk

The use of derivative instruments leads to a counterparty risk, meaning that a potential loss cannot be settled (in part or in full) against a potential gain if the counterparty does not fulfill its part of the contract. To minimize this exposure, the Volvo Treasury Group enters into netting agreements (ISDA agreements) with all counterparties that could potentially be involved in derivative transactions. The netting agreements entail that receivables and liabilities can be offset against each other in certain situations, such as in the event of the counterparty's insolvency. These agreements are often accompanied by CSA (Credit Support Annex) terms and conditions. CSAs establish the terms and conditions for when the parties are liable to execute cash transfers between each other to reduce exposure to open net positions. However, these netting agreements have no impact on the Volvo Treasury Group's recognized profit and balance sheet, since the derivative transactions are recognized in gross amounts. The Volvo Treasury Group's gross exposure of derivatives with positive values (outside the Volvo Group) amounts to SEK 2,892.7 M (3,186.2). Through netting agreements and liquidity transfers, gross exposure was reduced 67% (55%) to SEK 945.5 M (1,447.7). The Volvo Group works actively with limits per counterparty to reduce risk for high net amounts toward individual counterparties. For further information regarding gross exposure per type of derivative instrument, see Note 24 Financial instruments.

Liquidity risks

Liquidity risk is defined as the risk that Volvo Treasury would be unable to finance or refinance its assets or fulfill its payment obligations.

The Volvo Treasury Group's net of cash and cash equivalents and current investments at December 31, 2016 amounted to 11,691.8 (11,129.4). Read more about the Group's Current investments and Cash and cash equivalents in Note 14 and Note 15, respectively. In addition, there were committed but unutilized credit facilities of SEK 42.5 billion.

The Volvo Group endeavors is to maintain good financial preparedness by constantly maintaining liquid assets and credit facilities to provide for the anticipated liquidity requirements for between 12 and 18 months ahead, in the event that the Volvo Group does not have access to external capital markets. Volvo Treasury has reduced liquidity risks by diversifying its financing to various borrowing sources, retaining a good balance between short- and long-term borrowing and by securing borrowing preparedness through credit facilities; read more about this in Note 18 Non-current liabilities.

Some of Volvo Treasury's long-term loan agreements contain clauses stipulating a right for the lender to request early repayment following a change of the control of the company. It has been deemed necessary in certain cases to accept these conditions to receive financing on acceptable terms.

In 2014, AB Volvo issued a EUR 1.5 billion hybrid bond through Volvo Treasury AB with the aim of strengthening the Volvo Group's balance sheet and extending the maturity profile of the debt portfolio. The bond was issued in two components: EUR 0.9 billion with the first redemption occasion in 2020 and final maturity in 2075, and EUR 0.6 billion, with the first redemption occasion in 2023 and final maturity in 2078. The hybrid bond is recognized as a loan and has an average maturity structure of 61.6 years, and is subordinated to other existing financial liabilities.

The following list shows expected future cash flows including derivatives related to financial liabilities based on short-term interest rates and the foreign exchange rates on the balance-sheet date. Expected capital flow refers to payments of loans and derivatives. Expected interest flow is based on future market interest rates and pertains to receipts and payments of interest on loans and derivatives. The interest flow is recognized in the cash flow from operating activities. Future cash flows in foreign currency are based on the respective exchange rates at the balance-sheet date. Current liabilities to Group companies (within the Volvo Group) pertain to borrowing through group accounts, which are not included in capital flow.

Future cash flows including derivatives related to non-current and current financial liabilities

Group

Capital flow				Interest flow			
	Loans	Derivatives (liability)	Derivatives (asset)		Loans*	Derivatives (liability)	Derivatives (asset)
2017	(32,394.8)	(712.5)	726.0	2017	(1,628.0)	(354.3)	660.2
2018	(35,644.8)	(125.7)	149.0	2018	(1,062.9)	(172.0)	222.7
2019	(14,943.6)	(55.4)	346.0	2019	(965.4)	(60.8)	181.0
2020	(1,042.2)	(149.0)	31.0	2020	(771.3)	(12.3)	147.0
2021	(591.5)	(8.3)	15.0	2021	(354.8)	(1.0)	55.4
2022	-	(1.1)	1.0	2022	(350.2)	(0.3)	23.5
2023-	(16,693.9)	(0.5)	1.5	2023-	(534.7)	0.1	89.5
Total	**(101,310.8)**	**(1,052.5)**	**1,269.5**	**Total**	**(5,667.2)**	**(600.4)**	**1,379.3**

Parent Company

Capital flow				Interest flow			
	Loans	Derivatives (liability)	Derivatives (asset)		Loans*	Derivatives (liability)	Derivatives (asset)
2017	(30,210.5)	(689.2)	712.2	2017	(1,591.2)	(349.7)	657.5
2018	(34,238.2)	(126.1)	149.2	2018	(1,038.9)	(171.0)	221.1
2019	(13,914.8)	(55.5)	346.1	2019	(951.0)	(60.6)	178.0
2020	(955.0)	(148.5)	31.7	2020	(769.4)	(12.3)	146.1
2021	(591.4)	(8.0)	14.8	2021	(354.8)	(0.1)	55.4
2022	-	(1.2)	1.2	2022	(350.2)	(0.3)	23.5
2023-	(16,675.0)	(0.5)	1.5	2023-	(534.7)	0.1	89.5
Total	**(96,584.9)**	**(1,029.0)**	**1,256.6**	**Total**	**(5,590.2)**	**(593.9)**	**1,371.1**

* The interest payments on the hybrid bond are included in a total amount of SEK 3,399 M, which pertains to the period through the first redemption occasion, which is 2020, as well as 2023.

Note 4 Interest income

Interest income pertains to accrued and realized interest on interest-bearing assets and investments.

	Group		Parent Company	
	2016	2015	2016	2015
Interest	2,871.8	3,692.5	2,766.5	3,586.3
Total	**2,871.8**	**3,692.5**	**2,766.5**	**3,586.3**

Of the above stated amount, SEK 2,866.7 M (3,666.1) pertains to interest received for the Group from other companies within the Volvo Group. The corresponding amounts for the Parent Company are SEK 2,761.6.1 M (3,560.1).

Note 5 Interest expense

Interest expenses pertain to accrued and realized interest on interest-bearing liabilities and derivatives held to hedge loan receivables and financial liabilities.

	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
Interest	(2,101.0)	(2,503.2)	(2,069.3)	(2,485.6)
Total	**(2,101.0)**	**(2,503.2)**	**(2,069.3)**	**(2,485.6)**

Of the above stated amount, SEK 140.0 M (217.0) pertains to interest expense for the Group from other companies within the Volvo Group. The corresponding amounts for the Parent Company are SEK 173.8 M (259.9).

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Note 6 Administrative expenses

Wages, salaries, other remuneration and social security expenses

	2016 Salaries and remuneration	2016 Social security expenses	2016 of which pension costs	2015 Salaries and remuneration	2015 Social security expenses	2015 of which pension costs
Parent Company	31.5	7.8	9.2	30.9	9.8	10.2
Subsidiaries	12.0	-	0.6	10.8	-	0.5
Group	**43.5**	**7.8**	**9.8**	**41.7**	**9.8**	**10.7**

Of the Parent Company's pension costs, SEK 1.1 M (0.9) pertains to the Board and President, outstanding pension commitments to these individuals amount to SEK 0.5 M (0.5). The corresponding amounts for the Group amounted to SEK 1.2 M (0.9) and SEK 0.5 M (0.5), respectively.

The cost of non-monetary benefits in the Group amounted to SEK 4.1 M (4.2), of which SEK 0.4 M (0.3) to the Board of Directors and the President. The cost of non-monetary benefits in the Parent Company amounted to SEK 0.3 M (0.6), of which SEK 0.1 M (0.1) to the Board of Directors and the President.

Total costs for salaries and remuneration include SEK 0.4 M (0.5) for the Parent Company and SEK 0.6 M (0.7) for the Group, in respect of the company's participation in the Volvo Group's incentive programs.

Salaries and other remuneration by country and among Board members, etc., and other employees

	2016 Board and President	2016 of which bonuses, etc.	2016 Other employees	2015 Board and President	2015 of which bonuses, etc.	2015 Other employees
Parent Company						
Sweden	3.6	1.3	27.8	3.5	1.2	27.5
Total in Parent Company	**3.6**	**1.3**	**27.8**	**3.5**	**1.2**	**27.5**
Subsidiaries, outside Sweden	3.2	1.3	8.9	2.8	1.0	8.0
Total subsidiaries	**3.2**	**1.3**	**8.9**	**2.8**	**1.0**	**8.0**
Group total	**6.8**	**2.6**	**36.7**	**6.3**	**2.2**	**35.5**

The Company's President has a notice of termination of six months on his own accord and a 12-month notice of termination from Volvo Treasury AB.

Depreciation/amortization

Depreciation/amortization of tangible and intangible fixed assets amounted to SEK 2.7 M (2.8) in the Group and to SEK M 2.7 (2.8) in the Parent Company.

Fees and other remuneration to auditors

Audit involves examination of the annual report and financial accounting and the administration by the Board of Directors and the President. Audit-related assignments mean other quality assurance services required by enactment, the Articles of Association, regulations or agreement. The amount includes fees for interim reviews. Tax services include both tax consultancy and tax compliance services. All other services are defined as other assignments.

PricewaterhouseCoopers	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
Audit assignment	1.2	1.3	0.7	0.7
Audit related services	0.2	0.1	0.2	0.1
Tax services	0.4	0.1	-	-
Total	**1.8**	**1.5**	**0.9**	**0.8**

Note 7 Income tax

Distribution of income tax	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
Current tax for the period	(25.5)	(33.6)	(15.4)	(23.1)
Adjustment of current tax for prior periods	(0.0)	2.3	(0.0)	2.3
Deferred tax arising or reversed during the period	0.4	0.5	0.4	0.3
Total	**(25.1)**	**(30.8)**	**(15.0)**	**(20.5)**

The main reasons for differences between tax according to the current tax rate 22% (22%) and recognized income tax for the period are stated in the table below.

Specification of income tax	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
Income before taxes	**131.1**	**164.5**	**67.0**	**104.4**
Tax according to current tax rate	(28.8)	(36.2)	(14.7)	(23.0)
Difference due to different countries' tax rates	3.3	3.0	-	-
Other non-deductible expenses/income	1.5	0.7	(0.2)	0.1
Taxes related to prior year	0.0	2.2	0.0	2.2
Other, net	(1.1)	(0.5)	(0.1)	0.2
Total	**(25.1)**	**(30.8)**	**(15.0)**	**(20.5)**

Note 8 Deferred tax

Changes in deferred tax assets/liabilities, net*	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Opening balance	10.2	13.3	4.3	4.0
Deferred taxes recognised in the year´s income	0.5	0.5	0.4	0.3
Of which recognised in Other comprehensive income, Remeasurements of defined-benefit plans	1.0	(3.6)	-	-
Deferred tax assets/liabilities, net, as of December 31**	**11.7**	**10.2**	**4.7**	**4.3**

* The deferred tax assets and tax liabilities stated above are recognized in the Volvo Treasury Group's balance sheet, in part net after taking offsetting opportunities into account. Deferred tax assets and tax liabilities have been measured using the tax rates expected to apply during the period when the asset is realized or the liability is settled according to the tax rates and tax regulations that have been decided or adopted on the balance sheet date.

** Of which, temporary differences pertaining to provisions for pensions in the Group were the most significant and amounted to SEK 11.5 M (9.6).

Note 9 Intangible assets

	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Capitalized development costs				
Opening acquisition cost	20.5	20.5	20.5	20.5
Closing amortized cost	**20.5**	**20.5**	**20.5**	**20.5**
Opening accumulated amortization	(14.1)	(11.3)	(14.1)	(11.3)
Amortization for the year	(2.7)	(2.8)	(2.7)	(2.8)
Closing accumulated amortization	**(16.8)**	**(14.1)**	**(16.8)**	**(14.1)**
Net value in balance	**3.7**	**6.4**	**3.7**	**6.4**

Note 10 Tangible assets

	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Equipment				
Opening acquisition cost	2.1	2.3	1.0	1.0
Sales and scrapping	-	-	-	-
Translation difference	0.1	(0.2)	-	-
Closing amortized cost	**2.2**	**2.1**	**1.0**	**1.0**
Opening accumulated depreciation	(1.6)	(1.8)	(0.6)	(0.6)
Sales and scrapping	-	-	-	-
Depreciation for the year	(0.0)	0.0	-	-
Translation difference	(0.1)	0.2	-	-
Closing accumulated amortization	**(1.7)**	**(1.6)**	**(0.6)**	**(0.6)**
Net value in balance	**0.5**	**0.5**	**0.4**	**0.4**

Note 11 Financial assets

Participations in subsidiaries

	Parent Company	
	Dec. 31, 2016	Dec. 31, 2015
Opening acquisition cost	224.6	224.6
Closing accumulated acquisition cost	**224.6**	**224.6**

	Registered office in	Percentage holding	Voting share	No. of rights participations / shares	Carrying amount kSEK	Shareholder's equity kSEK
Volvo Treasury Asia Ltd	Singapore	100%	100%	20,025,000	224.608	(472.2)
Total					**224.608**	**(472.2)**

Note 12 Other non-current receivables

	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Outstanding interest and currency risk derivatives	1,537.2	1,001.3	1,531.7	1,000.0
Total	**1,537.2**	**1,001.3**	**1,531.7**	**1,000.0**

Note 13 Other current receivables

	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Outstanding interest and currency risk derivatives	954.1	1,237.9	886.0	1,216.1
Accrued interest income and prepaid interest expenses	496.7	510.5	492.3	511.0
Other current receivables	340.0	674.8	339.9	674.7
Other accrued income and prepaid expenses	67.7	88.8	67.4	88.6
Tax assets	0.7	1.2	0.7	0.0
Total	**1,859.2**	**2,513.2**	**1,786.3**	**2,490.4**

Note 14 Marketable securities

Current investments consist of interest-bearing securities, distributed as follows:

	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Government securities	-	1,405.7	-	1,405.7
Banks and financial institutions	1,000.0	1,090.1	1,000.0	1,090.1
Real estate financial institutions	21.4	668.0	21.4	668.0
Total	**1,021.4**	**3,163.8**	**1,021.4**	**3,163.8**

Note 15 Cash and cash equivalents

	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Cash in banks	10,670.4	6,752.0	10,654.0	6,713.6
Government securities*	-	25.0	-	25.0
Time deposits in banks	-	1,188.6	-	1,188.8
Total	**10,670.4**	**7,965.6**	**10,654.0**	**7,927.4**

* Government securities with a maturity of less than three months from the acquisition date.

Cash and cash equivalents in the Group and Parent Company at December 31, 2016, include SEK 0.4 M (0.4) that are not available for use.

Note 16 Group contributions

Group contributions of SEK 1,500.0 M (1,400.0) were paid to AB Volvo and SEK 550.0 M (772.7) was received from Sotrof AB.

Note 17 Provisions for post-employment benefits

Post-employment benefits, such as pensions and other remuneration are mainly settled by means of regular payments to independent authorities or bodies that assume pension commitments for employees through defined-contribution plans. The remaining portion is fulfilled through defined-benefit plans (applies only in Sweden), where the commitments remain within the Volvo Group or are transferred to pension trusts.

Defined benefit plans are plans whereby the company's commitment is to pay predetermined amounts to the employee at or after retirement. These plans are secured through provisions in the balance sheet and through transfers of funds to pension foundations. A credit insurance has also been procured to cover the value of issued obligations. The main defined-benefit pension plan is the ITP2 plan, which is based on final salary. This plan is partly closed, which means that only new employees born before 1979 are able to choose the ITP2 solution. The proprietary ITP2 plan for the company is part-financed through the Volvo pension foundation. The pension liability is calculated annually on the balance sheet date based on actuarial assumptions.

The Volvo Pension Foundation was formed in 1996 to secure pension obligations under the ITP plan. Since it formation, the company has provided plan capital in a net amount of SEK 25 M to the Foundation. The return on plan assets during 2016 was 8.64% (neg: 6%).

Provisions for pension benefits and similar commitments in the company's balance sheet correspond to the present value of the commitments at the balance-sheet date, less the fair value of plan assets.

In the tables on the following page, disclosures are provided regarding the defined-benefit pension plan. Volvo recognizes the difference between outstanding commitments and the value of the managed assets in the balance sheet. The disclosures pertain to the assumptions applied in the actuarial computations, recognized costs during the reporting period and the value of commitments and managed assets at the end of the period. In addition, changes in the value of commitments and managed assets during the period are specified.

Pension costs during the year	**2016**	**2015**
Current service costs	(2.3)	(2.8)
Interest costs	(2.2)	(2.1)
Interest income	1.4	1.0
Total pension costs for defined-benefit plans	**(3.1)**	**(3.9)**
Pension costs for defined-contribution plans	(6.1)	(6.3)
Total pension costs	**(9.2)**	**(10.2)**

Applicable assumptions for actuarial calculations (Sweden)	**Dec. 31, 2016**	**Dec. 31, 2015**
Discount rate	3.0	3.5
Expected salary increase	2.9	2.9
Inflation	1.5	1.5

Obligations in defined-benefit plans	**Dec. 31, 2016**	**Dec. 31, 2015**
Obligations at January 1	64.9	75.9
Defined-benefits earned during the year	2.3	2.8
Interest costs	2.2	2.1
Remeasurements		
-Effect of change in demographic assumptions	*-*	*(1.1)*
-Effect of changes in financial assumptions	*8.7*	*(13.2)*
-Effect of experience adjustments	*(2.1)*	*(1.2)*
Benefits paid	(0.6)	(0.4)
Obligations at December 31	**75.4**	**64.9**
Of which, funded defined-benefit plans	75.4	64.9

Fair value of plan assets in funded plans	**Dec. 31, 2016**	**Dec. 31, 2015**
Plan assets at January 1	39.8	36.2
Interest income	1.4	1.0
Remeasurements	1.9	1.1
Employer contribution	1.4	1.5
Plan assets at December 31	**44.5**	**39.8**

Net provisions for post-employment benefits

	Group	
	Dec. 31, 2016	**Dec. 31, 2015**
Funded status at December 31	30.9	25.1
Net provisions for post-employment benefits at December 31	**30.9**	**25.1**

	Parent company	
Provisions	**Dec. 31, 2016**	**Dec. 31, 2015**
Net present value of pension obligations	43.4	41.2
secured through		
The company's share of the net assets of the pension funds	44.5	39.8
Provisions for pensions	-	1.4
Pension obligations guaranteed by PRI	43.4	41.2

The recognized pension costs in the Parent Company during the year amounted SEK 6.6 M (7.2), of which the main portion comprised regular payments to independent bodies that administer pension plans.

The Volvo Group has a Group-wide pension foundation, Volvo Pension Foundation, to secure pension obligations under the ITP plan. During the year, the company made a payment of SEK 1.4 M (1.5) to the pension foundation.

The Volvo Group applies IAS 19 *Employee Benefits* in its financial reporting. This results in differences that can be material in the recognition of defined-benefit plans pertaining to pensions and when recognizing plan assets placed in the Volvo Pension Foundation.

Accounting policies for defined-benefit plans differ from IAS 19 primarily because:
– The calculation of the pension liability according to Swedish accounting policies does not take into account future pay increases.
– The discount interest rate for calculating the Swedish liability is determined by PRI Pensionsgaranti and the Swedish Financial Supervisory Authority.
– Changes in the discount interest rate, real return on plan assets and other actuarial assumptions are recognized directly in profit or loss and in the balance sheet.
– Deficits must either be recovered through payments to the plan or be recognized as a liability in the balance sheet.
– Surpluses cannot be recognized as an asset but can, in certain cases, be credited to the company to reduce pension expenses.

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Note 18 Non-current liabilities

The following list shows the Group's and Parent Company's non-current liabilities in which the largest loans are distributed by currency and their carrying amounts. Information on loan terms pertains to the Group as of December 31, 2016. The loan terms for the Parent Company are contained in the ranges stated below.

Bond loans	Actual interest rate	Effective interest rate	Group		Parent company	
	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2016
EUR 2012-2016/2018-2078*	0.03-4.86	0.03-4.86	48,215.2	34,524.9	48,215.2	34,524.9
SEK 2013-2016/2018-2019	0.04-3.39	0.04-3.39	12,438.3	12,557.4	12,438.3	12,557.4
JPY 2014/2017	0.60	0.60	-	693.4	-	693.4
Total			**60,653.5**	**47,775.7**	**60,653.5**	**47,775.7**

Other liabilities to credit institution	Actual interest rate	Effective interest rate	Group		Parent company	
	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
JPY 2013-2016/2018-2019	0.35-0.85	0.35-0.85	5,608.7	9,087.1	3,663.9	6,657.8
USD 2008-2016/2018-2021	1.11-1.55	1.11-1.56	1,099.4	932.8	1,099.4	932.8
EUR 2012/2019	1.05	1.05	957.6	914.4	957.6	914.4
AUD 2015-2016/2019-2020	2.63-2.79	2.67-2.83	596.6	220.2	-	-
SEK 2007/2017	-	-	-	166.7	-	166.7
Derivatives			339.8	523.4	339.8	523.4
Total			**8,602.1**	**11,844.6**	**6,060.7**	**9,195.1**

* Includes EUR 1.5 billion for the hybrid bond. The bond was issued in two components: EUR 0.9 billion with the first redemption occasion in 2020 and final maturity in 2075, and EUR 0.6 billion, with the first redemption occasion in 2023 and final maturity in 2078.

* The following list shows the Group's and the Parent Company's maturity structure for the non-current liability

Group	Bond loans	Other liabilities to credit institutions	*Of which, derivative contracts*
Due date	Dec. 31, 2016	Dec. 31, 2016	*Dec. 31, 2016*
2018	31,174.4	4,596.5	*126.1*
2019	11,849.1	3,150.0	*55.5*
2020	954.9	254.6	*148.6*
2021	-	599.4	*8.0*
2022	-	1.1	*1.1*
2023-*	16,675.0	0.5	*0.5*
Total	**60,653.5**	**8,602.1**	***339.8***

Parent Compar	Bond loans	Other liabilities to credit institutions	*Of which, derivative contracts*
Due date	Dec. 31, 2016	Dec. 31, 2016	*Dec. 31, 2016*
2018	31,174.4	3,190.0	*126.1*
2019	11,849.1	2,121.2	*55.5*
2020	954.9	148.6	*148.6*
2021	-	599.4	*8.0*
2022	-	1.1	*1.1*
2023-*	16,675.0	0.5	*0.5*
Total	**60,653.5**	**6,060.7**	***339.8***

*The due dates for the hybrid bond are 2075 and 2078.

Unrealized exchange-rate losses and market-value adjustment pertaining to derivative contracts with remaining maturities of more than one year are also recognized under non-current liabilities.

The list below shows the currency distribution of the Group's and the Parent Company's long-term borrowing as at December 31, 2016, with consideration taken to currency derivatives (nominal amounts) linked to the non-current liabilities.

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	Group				Parent Company		
	Loan	Derivative	Total		Loan	Derivative	Total
AUD	596,6	419,9	1.016,5	AUD	-	419,9	419,9
EUR	49.172,8	(23.373,4)	25.799,3	EUR	49.172,8	(23.373,4)	25.799,3
JPY	5.608,7	827,9	6.436,5	JPY	3.663,9	827,9	4.491,8
SEK	12.438,3	10.238,9	22.677,2	SEK	12.438,3	10.238,9	22.677,2
USD	1.099,4	4.919,2	6.018,6	USD	1.099,4	4.919,2	6.018,6
Other currencies	-	6.716,9	6.716,9	Other currencies	-	6.716,9	6.716,9
Total	**68.915,8**	**(250,7)**	**68.665,1**	**Total**	**66.374,4**	**(250,7)**	**66.123,7**

Granted but unutilized non-current credit facilities that may be utilized unconditionally amounted to SEK 42.5 billion at year-end. These facilities consisted of stand-by facilities for loans with varying maturities between 2017 and 2021. . A fee is normally charged for granted credit facilities, which is recognized under Administration costs.

Note 19 Other non- current liabilities

	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Outstanding interest and currency risk derivatives	168.6	154.9	165.6	150.2
Other non-current liabilities	0.5	0.4	0.3	0.2
Total	**169.1**	**155.3**	**165.9**	**150.4**

Note 20 Current liabilities to credit institutions

	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Short term bank loans and other loans	32,395.0	34,057.3	30,210.5	31,947.8
Outstanding interest and currency risk derivatives	712.7	802.3	689.2	792.3
Total	**33,107.7**	**34,859.6**	**30,899.7**	**32,740.1**

Granted overdraft facilities amount to SEK 2,659.8 M (2,791.6) in the Group and SEK 931.2 M (912.0) in the Parent Company.

Note 21 Other current liabilities

	Group		Parent Company	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Accrued interest expenses and prepaid interest income	939.7	967.6	929.0	959.8
Outstanding interest and currency risk derivatives	344.8	65.3	285.9	63.5
Wages, salaries and tax-at-source	21.4	18.6	18.0	18.5
Accrued expenses and deferred income	7.2	9.6	5.2	5.8
Tax liability	3.2	1.6	0.0	(1.1)
Other current liabilities	0.3	0.2	0.2	0.2
Total	**1,316.6**	**1,062.9**	**1,238.3**	**1,046.7**

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Note 22 Pledged assets

	Group		Parent Company	
	Dec. 31, 2016	**Dec. 31, 2015**	**Dec. 31, 2016**	**Dec. 31, 2015**
For own obligations				
Nasdaq OMX	20.0	40.0	20.0	40.0
Total pledged assets	**20.0**	**40.0**	**20.0**	**40.0**

Note 23 Contingent liabilities

	Group		Parent Company	
	Dec. 31, 2016	**Dec. 31, 2015**	**Dec. 31, 2016**	**Dec. 31, 2015**
Contingent liabilities on behalf of other Group companies	482.1	457.2	482.1	457.2
Pension guarantees	0.9	0.8	0.9	0.8
Total contingent liabilities	**483.0**	**458.0**	**483.0**	**458.0**
Contingent liabilities received from other Group companies, which reduce net obligations	(482.1)	(457.2)	(482.1)	(457.2)
Other contingent liabilities	-	4.8	-	4.8
Total contingent liabilities, net	**0.9**	**5.6**	**0.9**	**5.6**

Note 24 Financial instruments

Disclosures on carrying amounts and fair value

The carrying amounts and fair values of all of the Volvo Treasury Group's financial instruments are compared in the following tables.

Carrying amounts and fair values of financial instruments

	Group Dec. 31, 2016		Parent Company Dec. 31, 2016		Group Dec. 31, 2015		Parent Company Dec. 31, 2015	
	Carrying Value	Fair value	Carrying Value	Fair value	Carrying Value	Fair value	Carrying Value	Fair value
Assets								
Financial assets at fair value through the income statement								
Outstanding interest and currency risk derivatives	2,892.7	2,892.7	2,814.6	2,814.6	3,255.1	3,255.1	3,220.6	3,220.6
Marketable securities	1,021.4	1,021.4	1,021.4	1,021.4	3,163.8	3,163.8	3,163.8	3,163.8
	3,914.1	3,914.1	3,836.0	3,836.0	6,418.9	6,418.9	6,384.4	6,384.4
Loans receivables and other receivables								
Accounts receivable	-	-	-	-	-	-	-	-
Receivables from Group Company	164,695.1	166,976.5	159,218.1	161,512.2	164,357.1	166,960.0	160,742.0	160,078.0
Other interest-bearing receivables	339.0	-	339.0	-	673.9	-	673.9	-
	165,034.1	166,976.5	159,557.1	161,512.2	165,031.0	166,960.0	161,415.9	160,078.0
Cash and cash equivalents	10,670.4	10,670.4	10,654.0	10,654.0	7,965.6	7,965.6	7,927.4	7,927.4
Liabilities								
Financial liabilities at fair value through the income statement								
Outstanding interest and currency risks derivatives	1,451.0	1,451.0	1,358.3	1,358.3	1,592.1	1,592.1	1,558.9	1,558.9
Other current liabilities	194.0	194.0	194.0	194.0	-	-	-	-
	1,645.0	1,645.0	1,552.3	1,552.3	1,592.1	1,592.1	1,558.9	1,558.9
Financial liabilities valued at amortized cost								
Long-term bond loans and other loans	68,915.8	71,840.8	66,374.4	69,485.3	59,096.9	63,109.9	56,447.4	60,131.6
Short-term bank loans and other loans	32,395.0	32,808.8	30,210.5	30,424.7	34,057.3	33,917.5	31,947.8	32,099.0
Payable to Group Company	59,806.7	59,806.2	59,805.7	59,805.5	67,333.0	67,343.5	69,087.1	67,104.1
	161,117.5	164,455.8	156,390.6	159,715.5	160,487.2	164,370.9	157,482.3	159,334.7
Trade Payables	4.4	-	4.1	-	3.4	-	3.3	-

*The credit risk is included in the measurement of the fair value of liabilities and loans, as well as receivables and liabilities from/to Group companies. The valuation did not change during 2016.

**Gross exposure of derivatives with positive values has been reduced by 67% (55) through netting agreements and liquidity transfers to SEK 946 M (1,448).

***The consolidated balance sheet financial liabilities include loan-related derivative instruments of SEK 1,052.5 M.

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Income, expenses, gains and losses related to financial instruments

The impact of gains and losses, as well as interest income and interest expense, on the Volvo Treasury Group's gross earnings for the various categories of the financial instruments is shown in the table below.

	Group					
	2016			2015		
	Gains / Losses	Interest income	Interest expense	Gains / Losses	Interest income	Interest expense
Financial assets and liabilities at FVTPL*						
Marketable securities	2.2	(6.8)	-	0.8	18.0	-
Interest and currency rate risk derivatives**	(992.1)	(1.2)	(124.5)	(394.0)	(5.3)	(56.3)
Loans originated by the company	-	2,866.7	(140.1)	-	3,666.1	(217.7)
Cash and cash equivalents	(375.8)	13.0	-	136.7	13.6	-
Finacial liabilities valued at amortized cost	1,780.8	-	(1,836.4)	(64.2)	-	(2,229.2)
Effect on Gross income	415.1	2,871.8	(2,101.0)	(320.7)	3,692.5	(2,503.2)

	Parent company					
	2016			2015		
	Gains / Losses	Interest income	Interest expense	Gains / Losses	Interest income	Interest expense
Financial assets and liabilities at FVTPL*						
Marketable securities	2.2	(6.8)	-	0.8	18.0	-
Interest and currency rate risk derivatives**	(983.5)	(1.2)	(111.1)	(354.9)	(5.2)	(51.9)
Loans originated by the company	-	2,761.6	(173.8)	-	3,560.1	(259.9)
Cash and cash equivalents	(376.0)	12.8	-	136.3	13.4	-
Finacial liabilities valued at amortized cost	1,756.1	-	(1,784.4)	(100.5)	-	(2,173.8)
Effect on Gross income	398.9	2,766.5	(2,069.3)	(318.3)	3,586.3	(2,485.6)

* Accrued and realized interest is included in gains and losses related to financial assets and liabilities measured at FVTPL.
** The recognized loss is primarily attributable to derivatives flows totaling SEK 65.0 M (neg: 300.0) that hedge commercial cash flows.

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Here follows an account of derivative instruments and options on financial and commercial assets and liabilities. The nominal amount represents the gross amount of the contract. The contracts outstanding have been recognized at market value. All stated market values represent the calculated values that will not necessarily be realized.

Outstanding derivative instruments hedging currency and interest rate risk

	Group			
	Dec. 31, 2016		Dec. 31, 2015	
	Nominal Amount	Carrying Amount	Nominal Amount	Carrying Amount
Interest-rate swaps				
- receivable position	72,860.8	2,341.9	78,878.4	2,468.1
- payable position	70,464.9	(1,105.7)	59,063.0	(1,281.9)
Interest-rate forwards and futures				
- receivable position	2,000.0	0.2	-	0.0
- payable position	-	-	2,000.0	(0.2)
Foreign exchange forward contracts				
- receivable position	22,659.9	530.6	42,046.4	782.4
- payable position	12,203.6	(329.4)	14,788.7	(307.3)
Options purchased, caps and floors				
- receivable position	1,517.7	20.0	627.3	4.6
- payable position	47.8	-	83.5	-
Options written, caps and floors				
- receivable position	47.9	0.0	-	-
- payable position	1,413.1	(15.9)	755.3	(2.7)
Total		**1,441.7**		**1,663.0**

	Parent Company			
	Dec. 31, 2016		Dec. 31, 2015	
	Nominal Amount	Carrying Amount	Nominal Amount	Carrying Amount
Interest-rate swaps				
- receivable position	70,448.0	2,265.0	77,678.2	2,466.2
- payable position	68,723.8	(979.2)	56,567.6	(1,276.4)
Interest-rate forwards and futures				
- receivable position	2,000.0	0.2	-	0.0
- payable position	-	-	2,000.0	(0.2)
Foreign exchange forward contracts				
- receivable position	25,096.2	529.3	41,370.1	749.8
- payable position	14,101.4	(363.1)	14,165.0	(279.5)
Options purchased, caps and floors				
- receivable position	1,517.7	20.0	627.3	4.6
- payable position	47.8	-	83.5	-
Options written, caps and floors				
- receivable position	47.9	0.0	-	-
- payable position	1,413.1	(15.9)	755.3	(2.8)
Total		**1,456.3**		**1,661.7**

Hedge accounting

Volvo Treasury has chosen to apply hedge accounting for financial instruments used to hedge interest and currency risks on loans for cases when it, after an individual assessment, is considered adequate from a risk perspective and when hedge accounting requirements are fulfilled. For 2016, hedge accounting (fair-value hedge) has only been applied for a loan of approximately EUR 1 billion raised in 2007. The changes in the fair value of the outstanding hedge instruments that are formally identified as fair-value hedges, together with any changes in the fair value attributable to the hedged risk on the hedged loan, are thus recognized through profit and loss.

Fair value of outstanding hedging instruments amounts to SEK 472.0 M (871.8). Changes in market value attributable to hedge accounting amount to a negative SEK 194.0 M (neg: 611.3). Fluctuations in the market value of financial instruments entered into to manage risks in financial assets and liabilities for which hedge accounting is not applied, are charged against the row Financial instruments measured at FVTPL.

The Volvo Treasury Group regularly tests the effectiveness of hedging instruments. The hedge was regarded as effective at December 31, 2016. Hedging is considered to be effective when the nominal amount, term, dates for interest payments and payments of nominal amounts, and the basis for measuring interest rates are the same for the hedging instrument and the hedged item. If the hedging does not fulfill the criteria for hedge accounting, the adjustment of the carrying amount of the hedged item will be recognized through profit and loss over the remaining term.

Fluctuations in the market value of financial instruments entered into to manage risks associated with financial assets and liabilities for which hedge accounting is not applied are charged against unrealized gains and losses in profit or loss.

Note 25 Information about the Parent Company

The Parent Company of the Group of which Volvo Treasury AB is a subsidiary and for which the consolidated accounts are prepared is AB Volvo (publ) (556012-5790), with registered office in Gothenburg, Sweden.

Note 26 Operational leasing contracts

Future lease payments pertaining to non-cancelable leasing contracts at year-end amounted to SEK 2.1 M (2.5) for the Group and SEK 0.6 M (0.9) for the Parent Company. Leasing expenses for the year amounted to SEK 2.7 M (2.7) for the Group and SEK 0.7 M (0.9) for the Parent Company.

Future lease payments for operational leasing are distributed as follows:

	Group	Parent Company
2017	(1.7)	(0.5)
2018-2023	(0.4)	(0.1)
Total	**(2.1)**	**(0.6)**

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Note 27 Average number of employees

	2016 No. of employees	2016 of whom, men	2015 No. of employees	2015 of whom, men
Parent Company				
Gothenburg	31	18	30	20
Total	**31**	**18**	**30**	**20**
Subsidiaries outside Sweden				
Singapore	9	4	9	4
Total	**9**	**4**	**9**	**4**
Group total	**40**	**22**	**39**	**24**

Note 28 Board members and other senior executives

	Dec. 31, 2016			
Parent Company	**No. of Board members***	**of whom, men**	**No. of senior executives***	**of whom, men**
Sweden	5	5	4	4
Total	**5**	**5**	**4**	**4**
Subsidiaries outside Sweden				
Singapore	3	3	3	1
Australia	4	4	1	1
Total	7	7	4	2
Group total	**12**	**12**	**8**	**6**

* The same persons are to a certain extent represented in the figures for the different companies. Excluding this aspect, the total number of Board members is eight (of whom eight are men) and the number of senior executives is seven (of whom five are men).

Note 29 Transactions with related parties

All financial transactions with companies within the Volvo Group are carried out on market terms.

Receivables and liabilities outstanding to companies within the Volvo Group are shown in the balance sheet. Revenues and expenses attributable to companies within the Volvo Group are shown in Notes 4 and 5.

The Group's income statements and balance sheets will be presented to the Annual General Meeting for approval.

Note 30 Events after the close of the fiscal year

No events occurred after the close of the fiscal year that significantly affected the earnings or position of the Group or the Parent Company.

Note 31 Proposed disposition of unappropriated earnings

The following earnings are at the disposal of the Annual General Meeting:

Retained earnings		14,959,486,159
Net income		51,999,307
	SEK	**15,011,485,466**

The Board of Directors and the President propose that the above sum be appropriated as follows:

To be carried forward	SEK	**15,011,485,466**

The Group's income statements and balance sheets will be presented to the Annual General Meeting for approval.

The Board of Directors and the President certify that the consolidated accounts have been prepared in accordance with international financial reporting standards (IFRS) as adopted by the EU and present a true and fair view of the Group's position and earnings. The Annual Report was prepared in accordance with generally accepted accounting practice and presents a true and fair view of the Parent Company's financial position and earnings.

The Board of Directors' Report for the Group and Parent Company gives a fair review of the development of the business, position and earnings for the Group and Parent Company, and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Gothenburg, April 27, 2017

Ulf Niklasson
President

Anders Osberg
Chairman

Rune Alsterholm

Ulf Rapp

Frederik Ljungdahl

Our auditors' report was submitted on April 27, 2017
PricewaterhouseCoopers AB

Peter Clemedtson
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of Volvo Treasury AB (publ), corporate identity number 556135-4449

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Volvo Treasury AB (publ) for 2016.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Our audit approach

Audit scope

Volvo Treasury is an internal bank within the AB Volvo Group, which implies that the transactions undertaken by Volvo Treasury are, primarily, comprised of loan financing and the hedging of economic risks to which the group is exposed. The audit is focused on examining both borrowed and lent out funds and derivative instruments applied in the hedging operations. The audit takes place through a combination of the evaluation of the control system and functions which the company has implemented on behalf of the operations and, of the testing of open positions and transactions against relevant documentation.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of

management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the Key audit matter*
Valuation of outstanding derivate transactions	
Volvo Treasury enters into derivate contracts with banks in order to hedge the risk of exchange rate changes and interest rate risks. These instruments are reported at market value in the balance sheet, and as regards certain instruments where a special decision has been taken to apply hedge accounting.	In our audit, we have obtained information regarding and have assessed the central valuation methods, obtained copies of governance documentation and copies of judgements applied by the company in the valuation of derivatives, and we have compared these with generally established valuation principles. We have studied the routines for the correct registration of transaction data and the correct input of market data as at book closing date, and have examined the automated valuation model in the company's treasury system. The automated valuation model has been tested in independent calculations of a selection of instruments. In addition, the general IT controls have been tested regarding the treasury system used for valuation calculations, with the aim of determining whether the system's data calculations are protected from any non-allowed measures, as well as to determine if they are executed consistently.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on The Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Volvo Treasury AB (publ) for 2016 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on The Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Gothenburg, 27 April 2017
PricewaterhouseCoopers AB

Peter Clemedtson
Authorised Public Accountant

Corporate Governance Report

Volvo Treasury AB (publ) has issued debt securities which are listed and thereby it is required to prepare a Corporate Governance Report in accordance with the Annual Accounts Act.

AB Volvo (publ) owns 100% of the shares of Volvo Treasury AB (publ) and therefore holds all the voting rights at the shareholder's General Meetings.

Internal control over financial reporting

The Volvo Treasury Group's process for internal control and risk management in connection with the financial reporting is designed in accordance with the Volvo Group's policies and guidelines. The following text describes how the internal control is organized within the Volvo Group in general and within the Volvo Treasury Group with regard to financial reporting.

Introduction

The Volvo Group has a specific function for internal control, which aims to provide support for management groups within the business areas and group functions that will allow them to continuously provide good and improved internal controls relating to financial reporting. Work conducted through this function is based primarily on a methodology that aims to ensure compliance with directives and guidelines, and to create good prerequisites for specific control activities in key processes related to financial reporting. The Audit Committee is informed of the result of the work performed by the Internal Control function within the Volvo Group with regard to risks, control activities and monitoring the financial reporting.

The Volvo Group also has an Internal Audit function with the primary task of independently ensuring that companies in the Group comply with the principles and rules that are stated in the Group's directives, guidelines and instructions for financial reporting. The Head of the Internal Audit function reports directly to the CEO, the Group's General Counsel and to the Audit Committee of the Board of AB Volvo.

Control environment

Fundamental to the Volvo Group's control environment is the corporate culture that is established within the Group, in which managers and employees operate. The Volvo Group works actively on communication and training pertaining to the company's core values as described in The Volvo Way, an internal document concerning Volvo's corporate culture, and the Group's Code of Conduct, to ensure that good morals, ethics and integrity permeate the organization.

The foundation of the internal control process relating to the financial reporting is built up around the Group's directives, guidelines and instructions, as well as the responsibility and authority structure. The principles for Volvo's internal controls, as well as directives and guidelines for the financial reporting are contained in the Volvo Group Management System, a Group-wide management system that includes the Group's instructions, rules and principles.

Risk assessment

Risks pertaining to financial reporting are evaluated and overseen by the Board of Directors through its Audit Committee, and by identifying significant risks and how they should be managed and counteracted. The evaluation of the degree of risk that is required for errors to appear in the financial reporting is based on a number of criteria, for example the complexity of the accounting policies, the valuation principles for assets and liabilities and complex or changed business circumstances. The identified risks, together with requisite mitigating control targets, are collected in a framework for internal control of financial reporting, Volvo Internal Control Standard (VICS).

Control activities
The Volvo Group's Board of Directors and its Audit Committees as well as the Volvo Treasury Group's Board of Directors constitute the overall supervisory body for the internal control. Several control activities are applied in the ongoing business processes to ensure that potential errors or deviations in the financial reporting are prevented, discovered and corrected by including control activities that match the control objectives defined in the VICS framework. Control activities range from a review of outcome results at management group meetings to specific reconciliation of accounts and analyses of the ongoing processes for financial reporting.

Information and communication
Guidelines and instructions relating to the financial reporting are updated and communicated on a regular basis from the Volvo Group's management to all employees concerned. Volvo Group accounting department holds a direct operative responsibility for ongoing financial accounting which is aimed at ensuring a uniform application of the Group's guidelines, policies and instructions for the financial reporting and at identifying and communicating shortcomings and areas of improvement in the processes for financial reporting.

Monitoring
Ongoing responsibility for following up the Volvo Treasury Group's internal control rests with the Volvo Treasury management group and controller functions in cooperation with the Volvo Group's accounting function. In addition, the Internal Audit and the Internal Control functions of the Volvo Group conduct review and follow-up in accordance with what is described in the introduction of this report. More specifically, the Internal Control function runs and coordinates evaluation activities through the Volvo Group Internal Control Program, which aims to systematically evaluate the quality of the internal control over financial reporting on a yearly basis. An evaluation plan is established annually and presented to the Audit Committee. This evaluation program comprises three main areas:

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1. Group-wide controls
Self-assessment procedure carried out by management teams at business area/Group-function levels as well as company level. The areas evaluated are mainly compliance with the Group's financial directives and guidelines that are collected in policies found in the Financial Policies and Procedures, as well as The Volvo Way and the Group's Code of Conduct.

2. Process controls at transaction levels
Processes related to the financial reporting are evaluated by testing of routines/controls based on a framework for internal control of financial reporting, VICS – Volvo Internal Control Standards.

3. General IT controls
Processes for maintenance, development and authorization management pertaining to financial applications are evaluated by testing routines/controls.

The results of the evaluation activities are reported to the Volvo Group's Board of Directors and its Audit Committees as well as to the Volvo Treasury Group's Board of Directors.

Gothenburg, April 2, 2017

Volvo Treasury AB (publ)

Board of Directors

AV KAMMARKOLLEGIET AUKTORISERAD TRANSLATOR * NR 862 *

Auditor's report on the Corporate Governance Report
To the annual meeting of the shareholders of Volvo Treasury AB (publ), Corporate Registration Number 556135-4449

Engagement and responsibility
We have audited the Corporate Governance Report for 2016 on pages 46-48. It is the Board of Directors that is responsible for the Corporate Governance Report and that it has been prepared in accordance with the Annual Accounts Act. Our responsibility is to express an opinion on the Corporate Governance Report based on our audit.

Focus and scope of the audit
We conducted our audit in accordance with FAR's auditing standard RevU 16 The Auditor's Examination of the Corporate Governance Report. That standard requires that we have planned and performed the audit to obtain reasonable assurance that the Corporate Governance Report is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the information included in the Corporate Governance Report. We believe that our audit procedures provide a reasonable basis for our opinion.

Opinion
A Corporate Governance Report has been prepared. It is consistent with the annual accounts and consolidated accounts and with the Swedish Annual Accounts Act.

Gothenburg, 27 April 2017
PricewaterhouseCoopers AB

Peter Clemedtson
Authorized Public Accountant