

**VOLVO TREASURY
GROUP**

INTERIM REPORT

January - June 2014

INTERIM REPORT JANUARY 1 – JUNE 30 2014

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

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

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

CONSOLIDATED INCOME STATEMENT

	First six months 2014	First six months 2013	Full year 2013
Interest income	1,937.5	2,119.0	4,100.0
Interest expense	(1,355.5)	(1,591.4)	(3,203.8)
Financial instrument valued at fair value recognized in income statement	<u>232.1</u>	<u>(46.1)</u>	<u>(97.4)</u>
Net interest income	814.1	481.5	798.8
Net result of other financial transactions	<u>19.6</u>	<u>397.2</u>	<u>341.0</u>
Gross income	833.7	878.7	1.139.8
Administrative expenses	(131.7)	(104.4)	(208.2)
Other operating expenses	<u>(8.7)</u>	<u>(4.5)</u>	<u>(14.0)</u>
Operating income	693.3	769.8	917.6
Allocations	-	-	<u>(578.0)</u>
Income before tax	693.3	769.8	339.6
Estimated tax	<u>(152.1)</u>	<u>(167.3)</u>	<u>(71.0)</u>
Net income	541.2	602.5	268.6
Other comprehensive income			
<i>Items that will not be reclassified to income statement:</i>			
Remeasurement of defined-benefit pensions	-	-	10,4
<i>Items that may be reclassified subsequently to income statement</i>			
Exchange-rate differences on translation of foreign operations	<u>17,7</u>	<u>(2.2)</u>	<u>(19,8)</u>
Total comprehensive income for the period	558,9	600.3	259,2
Total net income attributable to Parent Company shareholders	541,2	602.5	268,6
Total comprehensive income attributable to Parent Company shareholders	558,9	600.3	259,2

CONSOLIDATED BALANCE SHEET

	June 30, 2014	June 30, 2013	Dec 31, 2013
Assets			
Intangible assets	11.0	14.4	12.4
Tangible assets	0.5	0.6	0.6
Financial assets	37,082.2	35,984.1	37,253.1
Current receivables	109,491.5	105,859.4	100,743.2
Marketable securities	5,882.6	5,642.7	2,432.4
Cash and cash equivalents	<u>3,724.5</u>	<u>6,787.5</u>	<u>13,821.4</u>
Total assets	156,192.3	154,288.7	154,263.1
Shareholders' equity and liabilities			
Shareholders' equity	16,112.8	15,895.0	15,553.9
Provisions	25.1	33.1	20.7
Non-current liabilities	68,045.5	63,661.7	66,956.7
Current liabilities	<u>72,008.9</u>	<u>74,698.9</u>	<u>71,731.8</u>
Total shareholders' equity and liabilities	156,192.3	154,288.7	154,263.1

CONSOLIDATED CASH FLOW STATEMENT

	First six months 2014	First six months 2013	Full year 2013
Activities during the period			
Cash flow from operating activities	(8,669.0)	(9,470.3)	(1,509.5)
Cash flow from investing activities	0	(3.8)	(3.8)
Cash flow from financing activities	<u>(1,429.2)</u>	<u>6,590.0</u>	<u>5,665.5</u>
Cash flow during the period	(10,098.2)	(2,884.1)	4,152.2
Cash and cash equivalents, January 1	13,821.4	9,675.9	9,675.9
Exchange-rate differences in cash and cash equivalents	<u>1.3</u>	<u>(4.3)</u>	<u>(6.7)</u>
Cash and cash equivalents at the end of the period	3,724.5	6,787.5	13,821.4

CHANGE IN SHAREHOLDERS' EQUITY

Group	First six months 2014	First six months 2013	Full year 2013
Total equity at end of previous period	15,553.9	15,294.7	15,294.7
Net income for the period	541.2	602.5	268.6
<i>Other comprehensive income</i>			
Translation differences	17.7	(2.2)	(19.8)
Remeasurement of defined-benefit pensions	=	=	<u>10.4</u>
<i>Total comprehensive income for the period</i>	558.9	600.3	259.2
Total equity at end of period	16,112.8	15,895.0	15,553.9

PARENT COMPANY INCOME STATEMENT

	First six months 2014	First six months 2013	Full year 2013
Interest income	1,916.8	2,102.4	4,066.3
Interest expense	(1,361.3)	(1,599.3)	(3,219.3)
Financial instruments valued at fair value recognized in income statement	<u>236.5</u>	<u>(48.3)</u>	<u>(96.9)</u>
Net interest income	792.0	454.8	750.1
Net result of other financial transactions	<u>14.6</u>	<u>381.8</u>	<u>318.5</u>
Gross income	806.6	836.6	1.068.6
Administrative expenses	(124.5)	(100.1)	(194.2)
Other operating expenses	<u>(8.5)</u>	<u>(4.3)</u>	<u>(13.9)</u>
Operating income	673.6	732.2	860.5
Allocations	-	-	<u>(578.0)</u>
Income before tax	673.6	732.2	282.5
Estimated tax	<u>(148.1)</u>	<u>(160.1)</u>	<u>(62.1)</u>
Net income	525.5	572.1	220.4
Other comprehensive income	-	-	-
Total comprehensive income for the period	525.5	572.1	220.4

PARENT COMPANY BALANCE SHEET

	June 30, 2014	June 30, 2013	Dec 31, 2013
Assets			
Intangible assets	11.0	14.4	12.4
Tangible assets	0.5	0.6	0.5
Financial assets	36,857.6	36,012.7	37,075.6
Current receivables	108,144.2	105,271.8	100,313.2
Marketable securities	5,882.6	5,642.7	2,432.4
Cash and cash equivalents	<u>3,703.9</u>	<u>6,753.8</u>	<u>13,767.8</u>
Total assets	154,599.8	153,696.0	153,601.9
Shareholders' equity and liabilities			
Shareholders' equity	15,823.0	15,650.3	15,297.6
Provisions	9.1	6.6	4.6
Non-current liabilities	67,089.0	63,349.6	65,961.1
Current liabilities	<u>71,678.7</u>	<u>74,689.5</u>	<u>72,338.6</u>
Total shareholders' equity and liabilities	154,599.8	153,696.0	153,601.9

ACCOUNTING PRINCIPLES

This interim report has been prepared in accordance with IAS 34, *Interim Financial Reporting* and the Swedish Annual Accounts Act. The accounting principles applied are described in the Volvo Treasury Group Annual Report 2013 note 1.

There are no new accounting policies applicable from 2014 that significantly affected the Volvo Treasury Group. From 1 January 2013 the Volvo Treasury Group adopted amendment to *IFRS 7 Financial instruments: Disclosures* and amendments to *IAS 19 Employee Benefits*.

RISKS AND UNCERTAINTIES

All business operations involve risk – managed risk-taking is a condition of maintaining a sustained favourable profitability. Risk may be due to events in the world and can affect a given industry or market. Risk can be specific to a single company. The Volvo Treasury Group works continuously to identify, measure and manage risk, and in some cases the Volvo Treasury Group can influence the likelihood that a risk-related event will occur. In cases in which such events are beyond the Volvo Treasury Group's control, the aim is to minimize the consequences. The risks to which the Volvo Treasury Group is exposed are mainly the category **Financial risks** – such as currency risk, interest risk, credit risk and liquidity risk. For a more elaborated account for these risks and the management of these, please refer to *note 22 – Financial risks and instruments* on pages 32-35 in the Volvo Treasury Group Annual Report 2013 and *note 4 – Goals and policies in financial risk management* on pages 122-127 in the Volvo Group Annual Report 2013.

COMMENTS CONSOLIDATED ACCOUNTS

Income before taxes for the first six months of 2014 amounted to SEK 693.3M (769.8). The market valuation of derivatives in accordance with IAS39 has affected income with SEK 226.7M (-38.8).

During the first six months of 2014 there were no investments in intangible and tangible assets, the same period last year the investments amounted to SEK 3.8 M.

Cash and cash equivalents amounted to SEK 3,724.5 M, a decrease since year-end of SEK 10,096.9 M.

The average number of employees for the first six months was 43 (40).

Financial instruments reported at fair value through profit and loss consist of marketable securities as well as interest- and currency derivatives. Derivatives with positive fair values amounted to SEK 1,728.5 M and derivatives with negative fair values amounted to SEK 1,412.8 M. The derivatives are accounted for on gross-basis, with the exception of derivatives with positive fair value amounting to SEK 1,154.8 M netted against a fair value of a loan of negative SEK 1,154.8 M.

Financial liabilities valued at amortized cost, reported as current and non-current liabilities, amounted to SEK 65,815.0 M and SEK 26,894.5 M with a fair value of SEK 68,752.2 M and SEK 26,665.1 M. On the balance sheet, current and non-current liabilities included derivative contracts valued at fair value and financial liabilities valued at amortized cost. Further details regarding accounting principles or fair value and carrying amounts are presented in the Volvo Treasury Group Annual report 2013.

COMMENTS PARENT COMPANY

Interest income for the period amounted to SEK 1,916.8 M (2,102.4).

Income before taxes for the first six months of 2014 amounted to SEK 673.6M (732.2). The market valuation of derivatives in accordance with IAS39 has affected income with SEK 231.1M (-41.1).

During the first six months of 2014 there were no investments in intangible and tangible assets, the same period last year the investments amounted to SEK 3.8 M.

Cash and cash equivalents amounted to SEK 3,703.9 M, a decrease since year-end of SEK 10,063.9 M.

The total holding of marketable securities at the end of June amounted to SEK 5,882.6 M, compared with SEK 2,432.4 M at year-end, an increase of SEK 3,450.2 M.

Financing is obtained both through loans to external and internal counterparties. The main part of the internal borrowing is obtained via cash pools. The total lending has increased with SEK 2,285.9 M since year-end.

The average number of employees for the first six months was 36 (33).

Financial instruments reported at fair value through profit and loss consist of marketable securities as well as interest- and currency derivatives. Derivatives with positive fair values amounted to SEK 1,399.9 M and derivatives with negative fair values amounted to SEK 1,401.2 M. The derivatives are accounted for on gross-basis, with the exception of derivatives with positive fair value amounting to SEK 1,154.8 M netted against a fair value of a loan of negative SEK 1,154.8 M.

Financial liabilities valued at amortized cost, reported as current and non-current liabilities, amounted to SEK 63,201.8 M and SEK 23,312.2 M with a fair value of SEK 66,524.5 M and SEK 23,586.6 M. On the balance sheet, current and non-current liabilities included derivative contracts valued at fair value and financial liabilities valued at amortized cost. Further details regarding accounting principles or fair value and carrying amounts are presented in the Volvo Treasury Group Annual report 2013.

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

Gothenburg, August 29, 2014

VOLVO TREASURY AB (publ)

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Chairman of the board

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