

REPORT ON THE SECOND QUARTER 2018



- » In Q2 2018 net sales increased by 18% to SEK 103.6 billion (87.9). Adjusted for currency movements and acquired and divested units sales increased by 16%.
- » Adjusted operating income amounted to SEK 11,519 M (8,402), corresponding to an adjusted operating margin of 11.1% (9.6). Adjusted operating income in Q2 2018 excludes a capital gain of SEK 818 M.
- » Reported operating income amounted to SEK 12,337 M (8,402).
- » Currency movements had a positive impact on operating income of SEK 672 M.
- » Diluted earnings per share of SEK 4.53 (2.86).
- » Operating cash flow in the Industrial Operations amounted to SEK 8.3 billion (11.9).

SEK M unless otherwise stated	Second quarter		First six months	
	2018	2017	2018	2017
Net sales	103,623	87,854	192,767	164,784
Adjusted operating income ¹	11,519	8,402	19,816	15,236
Adjusted operating margin, %	11.1	9.6	10.3	9.2
Operating income	12,337	8,402	20,634	15,236
Operating margin, %	11.9	9.6	10.7	9.2
Income after financial items	11,685	7,885	19,412	14,130
Income for the period	9,384	5,901	15,180	10,566
Diluted earnings per share, SEK	4.53	2.86	7.31	5.11
Operating cash flow in Industrial Operations	8,322	11,886	9,810	13,398
Return on shareholders' equity, 12 months rolling, %			23.4	18.9
Net order intake, number of trucks	60,656	55,265	132,621	110,887
Deliveries, number of trucks	59,571	52,058	111,145	95,985
Net order intake, number of construction equipment	22,787	16,209	46,725	33,696
Deliveries, number of construction equipment	24,108	17,472	46,210	33,841

¹ For more information on adjusted operating income, please see note 7.

The comparative financial information is restated due to the implementation of IFRS 15 Revenue from Contracts with Customers. For more information, please see Note 1.

CEO'S COMMENTS

A quarter with good sales growth and profit improvement



Demand in our main markets was solid in the second quarter of 2018, and both our vehicle and service business continued to grow at a good pace. Our net sales increased by 18% to SEK 104 billion, we improved the adjusted operating income by SEK 3 billion to SEK 11.5 billion and we reached an adjusted operating margin of 11.1% (9.6). This is the first time that the Volvo Group's sales have exceeded SEK 100 billion in a single quarter and it is also the first time the operating margin is above 10%. With an operating cash flow of SEK 8.3 billion in the Industrial Operations we continue to have a strong financial position.

Our truck business had a good sales development and increased profitability despite a continued stretched situation in parts of the supply chain, primarily in North America. Truck deliveries increased by 14% and net sales by 16% to SEK 65.2 billion. All truck business areas improved their profitability, which contributed to increasing the operating income to SEK 7.2 billion (5.3) with an operating margin of 11.1% (9.4).

Demand in the European truck market continued to be on a good level with high freight activity, which supports our customers' profitability. In North America demand increased strongly, primarily driven by growth in the highway segment. In total, net order intake for trucks increased by 10% globally. Together with our suppliers we are working hard to meet demand and reduce delivery times to our customers. However, given the strong demand, we expect the supply-chain constraints to remain in the near-term.

Construction Equipment continued the solid development with both increased sales and improved profitability. High demand in most markets in combination with competitive products contributed to the order intake increase of 41%. Net sales rose by 32% to SEK 24.4 billion and the adjusted operating margin improved to 15.1% (13.3). The increased sales volumes and maintained cost level resulted in a substantial profit increase.

Buses' sales of SEK 6.9 billion were on about the same level as in the preceding year while the operating margin amounted to 3.8% (4.6).

Volvo Penta's sales continued to increase and the growth is paired with improved profitability. Net sales increased by 15% to SEK 3.6 billion and the operating margin improved to 19.9% (15.5) during the seasonally strong second quarter.

Our customer financing operations in Financial Services increased the new financing volume and continued to have

low credit losses as a result of strict credit approvals and good customer profitability. Return on equity increased to 15.0% (14.0).

We continue to invest in new products and technologies to the benefit of our customers. In the second quarter the activity level was high. Among the news was that Mack Trucks will have a fully electric refuse truck in operation in 2019 at one of our major customers in North America, New York City Department of Sanitation.

Renault Trucks presented their second generation of fully electric vehicles with a complete range from 3.5 to 26 tonnes for use in cities.

Volvo Buses launched the biggest renewal of the European product portfolio for long-distance coaches in more than 20 years.

In the US we showcased platooning together with FedEx on a highway in North Carolina. This was the first on-highway demonstration of platooning technology between a major truck manufacturer and a transportation company in the U.S.

Volvo Penta demonstrated an advanced system for self-docking; a solution for one of boating's most stressful maneuvers, with a planned launch in 2020.

All of these new products will strengthen our future competitiveness.

Our strategy of growing in services is also generating results, and in the quarter the currency-adjusted service sales grew by 8%, with all our business segments improving their performance. We see further potential for growth on the back of investments in increased workshop capacity, growing vehicle populations and higher penetration of service contracts.

The Volvo Group is well-invested with strong assets and our strategy serves both our customers and ourselves well. We continue our efforts to improve efficiency in all parts of the Group and in the entire supply chain, and even though we are moving in the right direction there is still potential for improvement. Finding the balance between investing in new technologies and areas with good potential while at the same time maintaining cost consciousness and flexibility will continue to be in focus during the year.

Martin Lundstedt
President and CEO

FINANCIAL SUMMARY OF THE SECOND QUARTER 2018

Net sales

In Q2 2018, the Volvo Group's net sales increased by 18% to SEK 103,623 M (87,854). Adjusted for currency movements and acquired and divested units, net sales increased by 16%.

Vehicle sales increased by 18% adjusted for currency movements, primarily driven by higher volumes of trucks and construction equipment. All regions contributed to the sales growth. Adjusted for currency movements, service sales increased by 8%, reflecting a growing installed population and higher utilization of customer fleets.

Operating income

Adjusted operating income in Q2 2018 amounted to SEK 11,519 M (8,402), corresponding to an adjusted operating margin of 11.1% (9.6). Adjusted operating income excludes a capital gain of SEK 818 M from the sale of a Chinese subsidiary holding shares in Inner Mongolia North Hauler Joint Stock Co., Ltd (NHL). The capital gain is

reported in Income/loss from investments in Joint Ventures and associated companies. There were no adjustments in Q2 2017.

Compared with Q2 2017, the higher adjusted operating income is primarily an effect of higher truck and construction equipment volumes, higher service sales, higher capacity utilization and increased capitalization of R&D expenses. This was partly offset by higher selling and administrative expenses, higher R&D expenses as well as costs related to a stretched situation in parts of the supply chain. Administrative expenses were negatively impacted by a provision of SEK 150 M related to an increased defined pension liability to former management.

Currency movements, compared to Q2 2017, had a positive impact of SEK 672 M.

Reported operating income in Q2 2018 amounted to SEK 12,337 M (8,402).

Net sales SEK M	Second quarter		Change %	First six months		Change %
	2018	2017		2018	2017	
Europe	42,316	37,657	12	80,108	70,703	13
North America	27,680	23,547	18	50,827	41,901	21
South America	5,251	4,307	22	9,720	7,961	22
Asia	21,975	16,900	30	40,374	33,700	20
Africa and Oceania	6,402	5,444	18	11,739	10,520	12
Total	103,623	87,854	18	192,767	164,784	17
Of which:						
Vehicles ¹	80,834	67,105	20	148,382	123,253	20
Services	19,727	18,008	10	38,484	36,077	7
Financial Services revenue	3,263	2,946	11	6,289	5,838	8
Eliminations	-202	-205	1	-388	-384	-1

¹ Including construction equipment and Volvo Penta engines

Consolidated Income Statement, Volvo Group SEK M		Second quarter		First six months	
		2018	2017	2018	2017
Net sales		103,623	87,854	192,767	164,784
Cost of sales		-78,150	-66,601	-145,958	-124,196
Gross income		25,474	21,254	46,809	40,588
Research and development expenses		-4,192	-4,126	-8,460	-8,120
Selling expenses		-7,992	-7,247	-15,336	-14,189
Administrative expenses		-1,622	-1,443	-3,052	-2,729
Other operating income and expenses		-525	-395	-918	-1,011
Income/loss from investments in Joint Ventures and associated companies		1,187	268	1,572	608
Income from other investments		9	91	20	89
Operating income		12,337	8,402	20,634	15,236
Interest income and similar credits		54	30	92	80
Interest expenses and similar charges		-386	-487	-810	-950
Other financial income and expenses		-319	-59	-504	-236
Income after financial items		11,685	7,885	19,412	14,130
Income taxes		-2,300	-1,984	-4,232	-3,563
Income for the period *		9,384	5,901	15,180	10,566
* Attributable to:					
Equity holders of the parent company		9,221	5,813	14,875	10,393
Minority interests		163	88	305	173
		9,384	5,901	15,180	10,566
Basic earnings per share, SEK		4.54	2.86	7.32	5.11
Diluted earnings per share, SEK		4.53	2.86	7.31	5.11

Financial items

Compared with Q2 2017 interest income increased by SEK 24 M to SEK 54 M while interest expenses decreased by SEK 101 M to SEK 386 M.

In Q2 2018 Other financial income and expenses amounted to SEK -319 M (-59). The change compared with the previous year is primarily related to unrealized revaluations and realized results on derivatives.

Income taxes

In Q2 2018 the tax expense amounted to SEK 2,300 M (1,984) corresponding to a tax rate of 20% (25). The lower tax rate in Q2 2018 is primarily attributable to a non-taxable capital gain on the sale of a Chinese subsidiary holding shares in Inner Mongolia North Hauler Joint Stock (NHL) and a revaluation effect on deferred taxes related to a future corporate tax rate decrease in Sweden.

Income for the period and earnings per share

During Q2 2018 income for the period amounted to SEK 9,384 M (5,901). Diluted earnings per share amounted to SEK 4.53 (2.86).

Operating cash flow in the Industrial Operations

During Q2 2018, operating cash flow in the Industrial Operations was positive in an amount of SEK 8,322 M (11,886). The lower cash flow compared to Q2 2017 is primarily related to an increase in working capital and higher tax payments. The increase in working capital is primarily related to higher inventories of SEK 2,288 M and a lower build-up of payables of SEK 2,481 M compared to Q2 2017.

Volvo Group financial position

During Q2 2018, net financial assets in the Industrial Operations, excluding provisions for post-employment benefits, increased by SEK 0.3 billion, resulting in a net financial asset position of SEK 27.8 billion on June 30, 2018. This equals 26.1% of shareholders' equity. Including provisions for post-employment benefits, the Industrial Operations net financial assets amounted to SEK 13.7 billion. In the quarter the financial position was positively impacted by the operating cash flow of SEK 8.3 billion and the divestment of a company holding shares in Inner Mongolia North Hauler Joint Stock Co., Ltd (NHL) of SEK 1.0 billion. The main negative impact was the dividend paid to AB Volvo shareholders of SEK 8.6 billion. Currency movements had a negative impact of SEK 0.3 billion.

On June 30, 2018 shareholders' equity for the Volvo Group amounted to SEK 118.7 billion compared to SEK 107.8 billion on December 31, 2017. The equity ratio was 25.8% (25.7). On the same date the equity ratio in the Industrial Operations amounted to 31.2% (31.1).

Number of employees

On June 30, 2018, the Volvo Group had 104,589 employees, including temporary employees and consultants, which was an increase of 5,606 employees compared with June 30, 2017. The number of blue-collar employees increased by 3,523 and the number of white-collar employees increased by 2,083. The increase in white-collar employees is primarily related to Trucks.

Number of employees	Jun 30 2018	Mar 31 2018	Dec 31 2017	Jun 30 2017
Blue-collar	52,953	51,790	49,308	49,430
Whereof temporary employees and consultants	8,072	7,497	6,222	7,417
White-collar	51,636	50,919	50,180	49,553
Whereof temporary employees and consultants	6,556	6,354	6,162	6,113
Total number of employees	104,589	102,709	99,488	98,983
Whereof temporary employees and consultants	14,628	13,851	12,384	13,530

BUSINESS SEGMENT OVERVIEW

Net sales SEK M	Second quarter		Change %	Change % ¹	First six months		Change %	Change % ¹	12 months rolling	Jan-Dec 2017
	2018	2017			2018	2017				
Trucks	65,155	55,934	16	14	121,144	105,034	15	15	230,963	214,854
Construction Equipment	24,403	18,439	32	30	45,317	34,541	31	32	77,089	66,313
Buses	6,847	6,920	-1	-2	12,535	12,461	1	2	25,952	25,878
Volvo Penta	3,555	3,081	15	12	6,702	5,782	16	14	12,040	11,119
Group Functions & Other	1,504	1,572	-4	-8	2,827	3,186	-11	-14	6,089	6,449
Eliminations	-903	-833	-8	-8	-1,659	-1,675	1	1	-2,798	-2,814
Industrial Operations	100,562	85,113	18	16	186,866	159,330	17	18	349,335	321,799
Financial Services	3,263	2,946	11	10	6,289	5,838	8	9	12,262	11,812
Reclassifications and eliminations	-202	-205	1	1	-388	-384	-1	-1	-877	-873
Volvo Group	103,623	87,854	18	16	192,767	164,784	17	17	360,720	332,738

¹ Adjusted for exchange rate fluctuations and acquired and divested units.

Adjusted operating income ² SEK M	Second quarter		Change %	First six months		Change %	12 months rolling	Jan-Dec 2017
	2018	2017		2018	2017			
Trucks	7,236	5,282	37	12,145	10,010	21	21,919	19,785
Construction Equipment	3,675	2,460	49	6,562	4,074	61	10,405	7,917
Buses	260	317	-18	246	407	-40	715	876
Volvo Penta	709	479	48	1,217	899	35	1,758	1,439
Group Functions & Other	-932	-641	-45	-1,523	-1,188	-28	-3,268	-2,934
Eliminations	-11	-17	35	-16	-18	11	5	2
Industrial Operations	10,937	7,881	39	18,632	14,184	31	31,533	27,086
Financial Services	582	521	12	1,184	1,052	13	2,325	2,192
Volvo Group	11,519	8,402	37	19,816	15,236	30	33,858	29,278
Adjustments ²	818	-		818	-	-	1,218	400
Volvo Group operating income	12,337	8,402	47	20,634	15,236	35	35,076	29,678

² For more information on adjusted operating income, please see note 7.

Adjusted operating margin %	Second quarter		First six months		12 months rolling	Jan-Dec 2017
	2018	2017	2018	2017		
Trucks	11.1	9.4	10.0	9.5	9.5	9.2
Construction Equipment	15.1	13.3	14.5	11.8	13.5	11.9
Buses	3.8	4.6	2.0	3.3	2.8	3.4
Volvo Penta	19.9	15.5	18.2	15.5	14.6	12.9
Industrial Operations	10.9	9.3	10.0	8.9	9.0	8.4
Volvo Group	11.1	9.6	10.3	9.2	9.4	8.8
Volvo Group operating margin	11.9	9.6	10.7	9.2	9.7	8.9

TRUCKS

Higher sales and improved profitability

- » Net sales of vehicles increased by 16% and service sales by 10% currency-adjusted
- » Operating income amounted to SEK 7,236 M (5,282), with an operating margin of 11.1% (9.4)
- » Order intake in North America increased by 63% while heavy- and medium-duty trucks in Europe decreased by 3%



Market development

Demand for trucks in Europe remained good through the first half of 2018 and the market forecast for the full year remains at 310,000 heavy duty trucks. High transport volumes continue to have a favorable impact on the utilization in truck fleets and customer profitability.

In North America, the continued strong economy drives high demand for freight. In combination with a shortage of transport capacity, this has led to increasing freight rates and a significant pick-up in demand for highway trucks. The total market forecast for retail sales in 2018 remains at 300,000 heavy-duty trucks.

In Brazil demand for new trucks continued to increase as a consequence of the needed fleet renewals. The truck market is also supported by low interest rates. The forecast of 45,000 heavy duty trucks for Brazil in 2018 is maintained.

In India, demand continued to increase in Q2 2018 as an effect of good economic activity and improving business confidence. The market forecast for 2018 has been increased with 35,000 units to 405,000 heavy- and medium-duty trucks.

The Chinese heavy-duty truck market grew through the first half of 2018 primarily driven by a strong development for

construction trucks and tractors. The medium-duty market, on the other hand, declined in the first half of the year. The forecast for the combined medium- and heavy-duty truck market has been increased to 1,250,000 trucks (1,150,000).

In Japan, the heavy-duty truck market was somewhat higher in the first half of 2018 than in the preceding year. Overall, demand for heavy-duty trucks is expected to stay roughly flat in Japan in 2018.

Orders and deliveries

Truck deliveries increased by 14% to 59,571 vehicles in Q2 2018, while net order intake in the quarter increased by 10% to 60,656 trucks.

Deliveries of heavy- and medium-duty trucks in Europe increased by 3% to 24,276 trucks, while orders decreased by 3% to 22,612 trucks. Through May Volvo Trucks' market share for heavy-duty trucks in Europe was 16.7%, which was somewhat lower than the 16.9% in 2017. Renault Trucks continued to regain market share to 8.5% (8.3) for heavy-duty trucks in Europe.

Total market development	First six months		Change %	Full year 2017	Forecast 2018	Change vs. previous forecast
	2018	2017				
Registrations, number of trucks						
Europe 28 ¹ heavy-duty (as of May)	121,793	115,338	6	271,032	-	-
Europe 30 ¹ heavy-duty	-	-	-	308,755	310,000	unchanged
North America heavy-duty	138,699	108,195	28	244,417	300,000	unchanged
Brazil heavy-duty	21,558	13,093	65	32,289	45,000	unchanged
China heavy-duty	671,848	583,655	15	1,116,851	1,060,000	+110,000
China medium-duty	100,928	117,341	-14	229,113	190,000	-10,000
India heavy-duty	161,673	113,250	43	251,448	300,000	+25,000
India medium-duty	55,723	34,304	62	82,185	105,000	+10,000
Japan heavy-duty	24,036	23,007	4	46,781	45,000	unchanged

¹ EU 28 includes Norway and Switzerland but excludes the UK and Bulgaria. Forecast for EU 30 includes the UK and Bulgaria.

Net order intake	Second quarter		Change %	First six months		Change %
	2018	2017		2018	2017	
Number of trucks						
Europe	27,306	28,583	-4	58,627	56,961	3
Heavy- and medium-duty	22,612	23,347	-3	47,414	47,773	-1
Light-duty	4,694	5,236	-10	11,213	9,188	22
North America	15,860	9,720	63	39,265	21,054	86
South America	4,250	4,478	-5	8,410	7,135	18
Asia	9,520	8,390	13	19,164	18,039	6
Africa and Oceania	3,720	4,094	-9	7,155	7,698	-7
Total orders	60,656	55,265	10	132,621	110,887	20
Heavy-duty (>16 tons)	52,529	46,262	14	113,739	93,190	22
Medium-duty (7-16 tons)	3,231	3,593	-10	7,115	8,225	-13
Light-duty (<7 tons)	4,896	5,410	-10	11,767	9,472	24
Total orders	60,656	55,265	10	132,621	110,887	20
Volvo	36,035	30,480	18	74,304	60,344	23
UD	5,044	5,042	0	10,825	11,177	-3
Renault Trucks	14,285	14,997	-5	32,248	28,377	14
Heavy- and medium-duty	9,526	9,635	-1	20,811	19,019	9
Light-duty	4,759	5,362	-11	11,437	9,358	22
Mack	5,292	4,746	12	15,244	10,989	39
Total orders	60,656	55,265	10	132,621	110,887	20
Non-consolidated operations						
VE Commercial Vehicles (Eicher)	12,690	7,350	73	32,098	20,496	57

In North America order intake increased by 63% in Q2 to 15,860 units (9,720) with a continued good demand for construction trucks and a particularly strong development in the highway segment. Deliveries were up 32%, to 14,114 trucks. Volvo Trucks increased its market share to 10.9% as of June (8.8) reflecting a good customer reception of the new truck ranges launched in 2017. Mack's market share declined to 6.9% (8.2), reflecting the continued supply chain constraints following the transition to the new truck models in Q1 2018.

Deliveries in South America increased by 43% while order intake decreased by 5% in Q2 2018, due to lower demand in Argentina. In Brazil, Volvo's market share in heavy-duty trucks increased to 20.2% (18.1).

In Asia, net order intake increased by 13% and truck deliveries by 16% in the quarter, both primarily driven by Volvo. In Japan, UD Trucks' market share in heavy-duty trucks decreased to 17.0% (17.7).

Deliveries	Second quarter		Change %	First six months		Change %
	2018	2017		2018	2017	
Number of trucks						
Europe	28,915	27,686	4	55,019	51,288	7
Heavy- and medium-duty	24,276	23,553	3	46,192	43,617	6
Light-duty	4,639	4,133	12	8,827	7,671	15
North America	14,114	10,720	32	26,240	17,785	48
South America	3,857	2,692	43	7,077	4,581	54
Asia	9,077	7,823	16	16,107	16,293	-1
Africa and Oceania	3,608	3,137	15	6,702	6,038	11
Total deliveries	59,571	52,058	14	111,145	95,985	16
Heavy-duty (>16 tons)	50,961	44,075	16	94,710	80,839	17
Medium-duty (7-16 tons)	3,846	3,762	2	7,364	7,310	1
Light-duty (<7 tons)	4,764	4,221	13	9,071	7,836	16
Total deliveries	59,571	52,058	14	111,145	95,985	16
Volvo	33,933	28,510	19	63,588	52,230	22
UD	5,126	4,931	4	9,536	9,680	-1
Renault Trucks	14,212	13,110	8	26,761	24,643	9
Heavy- and medium-duty	9,495	8,930	6	17,795	16,898	5
Light-duty	4,717	4,180	13	8,966	7,745	16
Mack	6,300	5,507	14	11,260	9,432	19
Total deliveries	59,571	52,058	14	111,145	95,985	16
Non-consolidated operations						
VE Commercial Vehicles (Eicher)	12,368	7,704	61	31,943	20,857	53
Dongfeng Commercial Vehicle Company (Dongfeng Trucks)	56,160	52,223	8	80,127	75,988	5

Net sales and operating income		Second quarter		Change	First six months		Change
SEK M		2018	2017	%	2018	2017	%
Europe		29,084	25,633	13	55,015	48,176	14
North America		17,851	14,647	22	33,189	26,125	27
South America		3,977	3,250	22	7,304	5,817	26
Asia		9,959	8,815	13	17,874	17,930	0
Africa and Oceania		4,285	3,589	19	7,762	6,987	11
Total net sales		65,155	55,934	16	121,144	105,034	15
Of which:							
Vehicles		50,715	42,948	18	92,716	78,615	18
Services		14,440	12,985	11	28,428	26,420	8
Adjusted operating income¹		7,236	5,282	37	12,145	10,010	21
Adjustments ¹		-	-		-	-	
Operating income		7,236	5,282	37	12,145	10,010	21
Adjusted operating margin, %		11.1	9.4		10.0	9.5	
Operating margin, %		11.1	9.4		10.0	9.5	

¹ For more information on adjusted operating income, please see note 7.

Net sales and operating income

The truck operation's net sales amounted to SEK 65,155 M, which was 16% higher than in Q2 2017. Adjusted for currency movements net sales increased by 14%, with sales of vehicles increasing by 16% and service sales increasing by 10%.

Both adjusted and reported operating income in Q2 2018 amounted to SEK 7,236 M (5,282) corresponding to an operating margin of 11.1% (9.4).

Compared to Q2 2017, the operating income was positively impacted by higher vehicle and service sales, higher capacity utilization and increased capitalization of R&D expenses. This was partly offset by higher selling expenses, increased R&D activity and costs related to a stretched situation in parts of the supply chain. Compared with Q2 2017, currency movements had a positive impact of SEK 547 M.

Important events

In North America, Volvo Trucks together with FedEx and the North Carolina Turnpike Authority used advanced driver assistance system (ADAS) technology to conduct on-highway truck platooning as part of an ongoing research collaboration.

Volvo Trucks launched Volvo Connect, a new customer portal that offers a single interface for digital services and functions which makes it even easier for customers to access the full benefits of digitalization and connectivity.

Renault Trucks unveiled its second generation of electric trucks. The Renault Trucks Z.E. line-up, ranging from 3.5 to 26 tonnes, covers a full range from goods distribution and delivery to refuse collection. The trucks will be available in 2019.

Mack Trucks plan to have a fully electric Mack LR refuse model equipped with an integrated Mack electric drivetrain operating in North America in 2019. The New York City Department of Sanitation, one of Mack's largest customers, will test the demonstration vehicle in its highly demanding operations.

Volvo Trucks presented both the 16-tonne Volvo FL and the 27-tonne Volvo FE electric vehicles in Q2. The new medium-duty trucks will be available in 2019.

Volvo Trucks celebrated 25 years of Volvo FH with a special edition truck range.



CONSTRUCTION EQUIPMENT

Continued strong sales and profit improvement

- » Market growth across all regions, with particularly strong growth in China
- » Adjusted operating income SEK 3,675 M (2,460) with an operating margin of 15.1% (13.3).
- » A new excavator, EC200D, launched in the high-volume 20-ton segment.



The Volvo EC200D excavator is tailored for general construction work in Southeast Asia.

Market development

Through May the European market for construction equipment was up by 8% driven by growth in markets such as Italy and Russia and supported by stable demand in Germany and other European markets.

The North American market was 17% above the previous year mainly driven by demand for excavators, articulated haulers and road machinery products.

The South American market continued to recover from low levels driven by growth in Brazil as well as moderate growth in other markets in the region.

Asia (excluding China) was 19% above last year, mainly driven by growth for backhoe loaders in India. Growth in the Middle East and Indonesian mining sector also contributed.

The Chinese market was 47% above last year driven by continued good demand for both large and compact excavators and wheel loaders.

66%. This was largely driven by increased orders in China and Europe.

In China order intake increased by 72% driven by increased demand for SDLG wheel loaders as well as both SDLG and Volvo excavators.

In Europe orders increased by 18%, mainly driven by Russia, the UK and France.

In North America order intake remained flat whereas in South America it increased by 90% from low levels last year.

Deliveries increased by 38% in Q2 2018 (Volvo +19% and SDLG +66%) largely driven by higher sales in China.

There is currently a strike at a sub-supplier in the supply chain of medium-duty engines to Volvo CE as well as Volvo Buses and Volvo Penta. Supply to the Volvo Group has not been affected in the second quarter of 2018, but depending on the duration of the strike, it may impact the production and sales of Volvo Group products going forward.

Orders and deliveries

Net order intake increased by 41% in Q2 2018 with Volvo branded machines up 21% and SDLG branded machines up

Total market development	Year-to-date May		
	2018	Forecast 2018	Previous forecast
Change in % measured in units			
Europe	8	0% to +10%	0% to +10%
North America	17	+10% to +20%	+10% to +20%
South America	28	+10% to +20%	+10% to +20%
Asia excl. China	19	+5% to +15%	+5% to +15%
China	47	+20% to +30%	+20% to +30%

Net order intake	Second quarter		Change %	First six months		Change %
	2018	2017		2018	2017	
Number of construction equipment						
Europe	4,868	4,135	18	10,746	9,236	16
North America	1,613	1,617	0	4,425	3,541	25
South America	514	271	90	981	617	59
Asia	14,879	9,419	58	28,837	18,573	55
Africa and Oceania	913	767	19	1,736	1,729	0
Total orders	22,787	16,209	41	46,725	33,696	39
Large and medium construction equipment	17,812	12,570	42	35,576	25,426	40
Compact construction equipment	4,975	3,639	37	11,149	8,270	35
Total orders	22,787	16,209	41	46,725	33,696	39
Of which:						
Volvo	11,107	9,191	21	25,405	20,357	25
SDLG	11,610	6,976	66	21,197	13,234	60
Of which in China	10,151	5,895	72	18,666	11,076	69

Deliveries	Second quarter		Change %	First six months		Change %
	2018	2017		2018	2017	
Number of construction equipment						
Europe	5,713	5,183	10	11,044	9,987	11
North America	2,259	1,884	20	3,962	3,140	26
South America	533	297	79	970	636	53
Asia	14,841	9,392	58	28,636	18,533	55
Africa and Oceania	762	716	6	1,598	1,545	3
Total deliveries	24,108	17,472	38	46,210	33,841	37
Large and medium construction equipment	18,211	12,981	40	34,259	24,446	40
Compact construction equipment	5,897	4,491	31	11,951	9,395	27
Total deliveries	24,108	17,472	38	46,210	33,841	37
Of which:						
Volvo	12,428	10,454	19	24,890	20,502	21
SDLG	11,610	6,976	66	21,197	13,234	60
Of which in China	10,151	5,895	72	18,666	11,076	69

Net sales and operating income SEK M	Second quarter		Change %	First six months		Change %
	2018	2017		2018	2017	
Europe	7,752	6,695	16	14,351	12,425	16
North America	4,463	3,748	19	7,896	6,638	19
South America	603	392	54	1,118	791	41
Asia	10,394	6,502	60	19,485	12,638	54
Africa and Oceania	1,191	1,101	8	2,466	2,048	20
Total net sales	24,403	18,439	32	45,317	34,541	31
Of which:						
Construction equipment	21,436	15,752	36	39,609	29,314	35
Services	2,966	2,687	10	5,707	5,227	9
Adjusted operating income¹	3,675	2,460	49	6,562	4,074	61
Adjustments ¹	818	-		818	-	
Operating income	4,493	2,460	83	7,380	4,074	81
Adjusted operating margin, %	15.1	13.3		14.5	11.8	
Operating margin, %	18.4	13.3		16.3	11.8	

¹ For more information on adjusted operating income, please see note 7.

Net sales and operating income

Net sales in Q2 2018 increased by 32% to SEK 24,403 M (18,439). Adjusted for currency movements net sales increased by 30%, of which net sales of machines increased by 33% and service sales by 9%.

Adjusted operating income amounted to SEK 3,675 M (2,460) corresponding to an adjusted operating margin of 15.1% (13.3). Adjusted operating income excludes a capital gain of SEK 818 M from the sale of a Chinese subsidiary holding shares in Inner Mongolia North Hauler Joint Stock (NHL). Profitability was positively impacted by higher equipment sales, better utilization of the industrial system and a stable cost level in spite of the significantly higher volumes. Currency movements had a positive impact on operating income amounting to SEK 171 M.

Reported operating income amounted to SEK 4,493 M (2,460).

Important events

The roll out of the new EC200D excavator continued to customers in Southeast Asia. The 20-ton excavator is suitable for general construction work in the region. With a significant number of confirmed orders already received, EC200D excavators are destined for construction and road building projects in India, Malaysia, Singapore, Indonesia, the Philippines, Thailand and Cambodia.

'Building Tomorrow' was the theme of Volvo CE's display at the Intermat exhibition in Paris, France in April. The company displayed its new and updated machines – including three new short-swing radius excavators. There were also new wheel loaders, pavers and compactors, as well as the Volvo Co-Pilot touchscreen tablet, which powers all Volvo Assist machine control applications.

The company also welcomed a large number of attendees to its Volvo Days 2018. During two weeks in June, around 2,200 customers and dealers visited the Customer Center in Eskilstuna, Sweden, to discuss features and benefits with the product experts and test-drive the latest new machines.

BUSES

Strong order intake

- » Order intake improved by 63%
- » Operating income amounted to SEK 260 M (317), with a margin of 3.8% (4.6)
- » Increase in demand for full electric buses



The European market showed a positive development in the first five months of the year, mainly due to increased volumes in Italy, Spain and Eastern Europe. Volvo Buses' key markets, the UK and the Nordic region, remained weak, but with an increasing tender activity in the Nordic region. In North America, the market remained strong for both coach and transit buses. Demand is recovering in Brazil, however from very low levels.

Compared to Q2 2017, net order intake increased by 63% to 3,528 units in Q2 2018, mainly driven by higher order intake in North America, Asia and the Nordic region.

In June Nova Bus was awarded a collective contract from Quebec's transit authorities. The contract, covering the period from 2020 to 2024, calls for the delivery of 497 40-foot hybrid buses and up to 1,028 vehicles on option to the transit authorities serving Quebec's nine largest cities. This is the largest order for Nova Bus to date.

In Q2 Volvo Buses received Sweden's largest order ever for electric buses when the city of Gothenburg ordered 30 Volvo 7900 Electric. Demand for fully electric Volvo buses was accentuated with additional orders for 23 units to Leiden, the Netherlands and 17 to Oslo, Norway.

Volvo Buses delivered 2,239 units in Q2 2018, 4% fewer than in the same period last year, mainly as a

consequence of lower demand in Asia, the Nordic region, the UK and Israel. Deliveries increased in the Americas and Africa.

In Q2 2018 net sales decreased by 1% to SEK 6,847 M (6,920) compared to the same period in 2017. Adjusted for currency movements, sales decreased by 2%. Vehicle sales decreased by 5%, adjusted for currency, due to lower volumes and lower share of complete vehicle sales. Service sales increased by 12% adjusted for currency.

Both adjusted and reported operating income amounted to SEK 260 M (317), corresponding to an operating margin of 3.8% (4.6%). Earnings were positively impacted by further improved service sales and product mix, which were offset by a negative impact from lower bus sales volume and slightly higher R&D expenses. Compared to Q2 2017, currency movements had a negative impact on operating income in an amount of SEK 27 M.

In May Volvo Buses introduced an entirely new range of buses for European tourist and line haul operations. It is a new platform for coaches encompassing two models: the luxurious Volvo 9900 and the versatile Volvo 9700. Production of the new range will start in Q3 2018.

Net order intake and deliveries		Second quarter		Change	First six months		Change
Number of buses		2018	2017	%	2018	2017	%
Total orders		3,528	2,165	63	5,351	5,341	0
Total deliveries		2,239	2,338	-4	3,953	4,176	-5

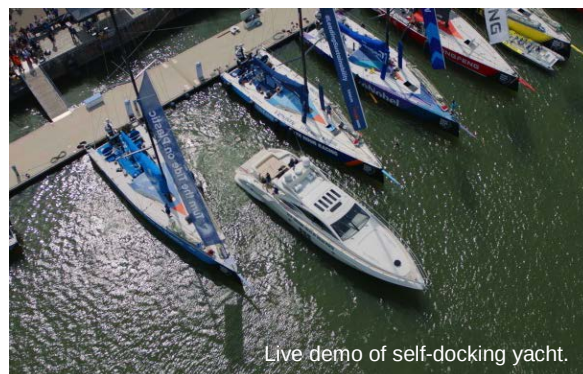
Net sales and operating income		Second quarter		Change	First six months		Change
SEK M		2018	2017	%	2018	2017	%
Europe		1,981	1,887	5	3,945	3,597	10
North America		3,478	3,522	-1	6,166	6,001	3
South America		324	289	12	588	548	7
Asia		437	811	-46	879	1,502	-41
Africa and Oceania		628	412	52	957	813	18
Total net sales		6,847	6,920	-1	12,535	12,461	1
Of which:							
Vehicles		5,604	5,809	-4	10,115	10,223	-1
Services		1,243	1,112	12	2,419	2,238	8
Adjusted operating income ¹		260	317	-18	246	407	-40
Adjustments ¹		-	-		-	-	
Operating income		260	317	-18	246	407	-40
Adjusted operating margin, %		3.8	4.6		2.0	3.3	
Operating margin, %		3.8	4.6		2.0	3.3	

¹ For more information on adjusted operating income, please see note 7.

VOLVO PENTA

Good earnings improvement

- » Sales growth continues, especially for industrial off-road engines
- » Operating income amounted to SEK 709 M (479), with an operating margin of 19.9% (15.5)
- » Reveal of future electric and automation technology



The market for marine leisure engines shows positive signs and Volvo Penta continues to grow in new customer segments, such as large yachts. The marine commercial market shows positive development in several sub-segments, such as offshore energy and people transportation. There is increased customer interest for hybrid and electrified solutions.

The market for industrial off-road engines continues to grow. There is increased demand in mining and material handling segments as well as growth in construction and agriculture. The market for industrial power generation engines is improving, with positive signs in construction and data centers/e-commerce. The current market in Europe is also being driven by pre-buy ahead of new EU Stage V emissions legislation for off-road and power generation, which had a significant positive impact on order intake in Q2.

Net order intake in Q2 2018 increased by 51% to 16,321 units, while deliveries increased by 7% to 11,995 units. This growth was driven by the industrial segments.

Net sales increased by 15% to SEK 3,555 M (3,081). Adjusted for currency movements, net sales increased by

12%, of which sales of engines increased by 13% and sales of services increased by 9%.

In Q2 2018, both adjusted and reported operating income amounted to SEK 709 M (479). The operating margin was 19.9% (15.5). Earnings were positively impacted by higher volumes, positive product mix and increased capitalization of R&D expenses. Compared with Q2 2017, the currency impact on operating income was positive in an amount of SEK 68 M.

During the quarter, Volvo Penta announced plans to introduce electrified power solutions in both its marine and industrial segments by 2021. In June, Volvo Penta unveiled its plans for a hybrid marine propulsion solution based on proven Volvo Group technology and the unique marine innovation Volvo Penta Inboard Performance System (IPS).

Additionally, aiming to tackle one of boating's most stressful maneuvers – docking – Volvo Penta also revealed an advanced self-docking solution, targeted for launch in 2020.

Net order intake and deliveries		Second quarter		Change	First six months		Change
Number of Engines		2018	2017	%	2018	2017	%
Total orders		16,321	10,805	51	29,626	21,954	35
Total deliveries		11,995	11,226	7	23,702	21,622	10

Net sales and operating income		Second quarter		Change	First six months		Change
SEK M		2018	2017	%	2018	2017	%
Europe		1,832	1,612	14	3,511	3,055	15
North America		803	687	17	1,453	1,200	21
South America		72	44	64	148	131	13
Asia		707	593	19	1,306	1,101	19
Africa and Oceania		142	144	-1	284	296	-4
Total net sales		3,555	3,081	15	6,702	5,782	16
Of which:							
Engines		2,595	2,220	17	5,029	4,218	19
Services		960	862	11	1,673	1,565	7
Adjusted operating income ¹		709	479	48	1,217	899	35
Adjustments ¹		-	-	-	-	-	-
Operating income		709	479	48	1,217	899	35
Adjusted operating margin, %		19.9	15.5		18.2	15.5	
Operating margin, %		19.9	15.5		18.2	15.5	

¹ For more information on adjusted operating income, please see note 7.

FINANCIAL SERVICES

Strong increase in new business volume

- » Profitable portfolio growth
- » Operating income of SEK 582 M (521)
- » Continued good portfolio performance



In Q2 2018 Volvo Financial Services (VFS) continued to grow the credit portfolio and improve profitability.

New business volume increased by 26%, currency adjusted, due to higher deliveries of Group products while penetration remained stable. Adjusted for currency, the credit portfolio grew by 9% on a year over year basis. Overall portfolio performance continued to be strong with low levels of customer overdues and credit losses.

During Q2 2018, operating income increased to SEK 582 M (521) driven primarily by profitable growth which was partly offset by higher costs. Return on equity improved to 15.0%

(14.0) excluding a positive impact from the revaluation of deferred tax liabilities due to the enacted tax reform legislation in the United States. Reported return on shareholders' equity amounted to 23.0%.

VFS syndicated approximately SEK 1.8 billion of the credit portfolio across a number of markets, effectively reducing concentration risks and freeing up credit capacity to support sales.

During the quarter, VFS also opened finance operations in Slovenia.

Financial Services SEK M	Second quarter		First six months	
	2018	2017	2018	2017
Number of financed units, 12 months rolling			56,184	49,566
Total penetration rate, 12 months rolling, % ¹			25	25
New retail financing volume, SEK billion	19.4	15.3	32.6	27.0
Credit portfolio net, SEK billion			142	126
Credit provision expenses	127	139	235	287
Operating income	582	521	1,184	1,052
Credit reserves, % of credit portfolio ²			1.69	1.42
Return on shareholders' equity, 12 months rolling, %			23.0	14.0
Return on shareholders' equity excluding effect from US tax reform 2017, 12 months rolling, % ³			15.0	14.0

¹ Share of unit sales financed by Volvo Financial Services in relation to the total number of units sold by the Volvo Group in markets where financial services are offered.

² As from January 1, 2018 Volvo Group applies IFRS 9, Financial instruments, which compared with the former incurred loss model, requires earlier recognition of credit losses.

³ Excluding the positive impact of SEK 897 M from the revaluation of deferred tax liabilities related to the year 2017 tax reform in the United States.

IMPORTANT EVENTS FOR THE VOLVO GROUP

Sale of subsidiary holding shares in NHL completed

On May 11, 2018, the Volvo Group completed the previously announced divestment of a Chinese subsidiary holding shares in Inner Mongolia North Hauler Joint Stock Co., Ltd (NHL). The divestment resulted in a capital gain of SEK 818 M.

Change in Volvo's Group Executive Board

On June 19, 2018 it was announced that Volvo's senior management team is to be strengthened to further intensify the rate of change at the Volvo Group and the development of new business models. Current Deputy CEO and CFO Jan Gurander will continue his work as Deputy CEO with the task of leading Volvo's strategic and operational activities together with President and CEO Martin Lundstedt. Jan Ytterberg, born in 1961, has been appointed CFO and will become a new member of the Volvo Group Executive Board. Jan Ytterberg currently serves as the CFO of Swedish company Husqvarna Group and has almost thirty years' of previous experience from the automotive industry from his various

positions at truck manufacturer Scania. The date on which Jan Ytterberg will take up his new position is yet to be decided. In addition, current Executive Vice President Group Human Resources Kerstin Renard will step down from her role at the end of the year. The process of recruiting her successor has been initiated.

Previously reported important events

- Electric trucks from Volvo Trucks and Renault Trucks
- Agreement to divest a subsidiary holding shares in NHL
- Annual General Meeting of AB Volvo

Detailed information about the events is available at www.volvogroup.com

CONSOLIDATED INCOME STATEMENT **SECOND QUARTER**

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Net sales	100,562	85,113	3,263	2,946	-202	-205	103,623	87,854
Cost of sales	-76,411	-65,031	-1,940	-1,774	202	205	-78,150	-66,601
Gross income	24,150	20,082	1,323	1,172	-	-	25,474	21,254
Research and development expenses	-4,192	-4,126	-	-	-	-	-4,192	-4,126
Selling expenses	-7,409	-6,722	-583	-525	-	-	-7,992	-7,247
Administrative expenses	-1,612	-1,433	-10	-10	-	-	-1,622	-1,443
Other operating income and expenses	-378	-279	-147	-116	-	-	-525	-395
Income/loss from investments in Joint Ventures and associated companies	1,187	268	-	-	-	-	1,187	268
Income from other investments	9	91	0	0	-	-	9	91
Operating income	11,755	7,881	582	521	-	-	12,337	8,402
Interest income and similar credits	54	30	-	-	-	-	54	30
Interest expenses and similar charges	-386	-487	0	0	-	-	-386	-487
Other financial income and expenses	-319	-59	-	-	-	-	-319	-59
Income after financial items	11,104	7,364	582	521	-	-	11,685	7,885
Income taxes	-2,154	-1,834	-146	-150	-	-	-2,300	-1,984
Income for the period *	8,950	5,530	436	372	-	-	9,384	5,901
* Attributable to:								
Equity holders of the parent company							9,221	5,813
Minority interests							163	88
							9,384	5,901
Basic earnings per share, SEK							4.54	2.86
Diluted earnings per share, SEK							4.53	2.86

Key operating ratios, %

Gross margin	24.0	23.6	-	-	-	-	24.6	24.2
Research and development expenses as percentage of net sales	4.2	4.8	-	-	-	-	4.0	4.7
Selling expenses as percentage of net sales	7.4	7.9	-	-	-	-	7.7	8.2
Administrative expenses as percentage of net sales	1.6	1.7	-	-	-	-	1.6	1.6
Operating margin	11.7	9.3	-	-	-	-	11.9	9.6

CONSOLIDATED OTHER COMPREHENSIVE INCOME **SECOND QUARTER**

SEK M	2018	2017
Income for the period	9,384	5,901
Items that will not be reclassified to income statement:		
Remeasurements of defined benefit pension plans	-44	455
Items that may be reclassified subsequently to income statement:		
Exchange differences on translation of foreign operations	1,470	-2,658
Share of OCI related to Joint Ventures and associated companies	0	-10
Accumulated translation difference reversed to income	-94	-
Available-for-sale investments	33	8
Change in cash flow hedges	-	10
Other comprehensive income, net of income taxes	1,365	-2,196
Total comprehensive income for the period *	10,749	3,705
* Attributable to:		
Equity holders of the parent company	10,549	3,676
Minority interests	200	30
	10,749	3,705

CONSOLIDATED INCOME STATEMENT FIRST SIX MONTHS

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Net sales	186,866	159,330	6,289	5,838	-388	-384	192,767	164,784
Cost of sales	-142,595	-121,065	-3,751	-3,515	388	384	-145,958	-124,196
Gross income	44,270	38,265	2,538	2,323	-	-	46,809	40,588
Research and development expenses	-8,460	-8,120	-	-	-	-	-8,460	-8,120
Selling expenses	-14,217	-13,161	-1,119	-1,028	-	-	-15,336	-14,189
Administrative expenses	-3,032	-2,709	-20	-20	-	-	-3,052	-2,729
Other operating income and expenses	-704	-789	-214	-223	-	-	-918	-1,011
Income/loss from investments in Joint Ventures and associated companies	1,572	608	-	-	-	-	1,572	608
Income from other investments	20	89	0	0	-	-	20	89
Operating income	19,450	14,184	1,184	1,052	-	-	20,634	15,236
Interest income and similar credits	92	80	-	-	-	-	92	80
Interest expenses and similar charges	-810	-950	0	0	-	-	-810	-950
Other financial income and expenses	-504	-236	-	-	-	-	-504	-236
Income after financial items	18,228	13,078	1,184	1,052	-	-	19,412	14,130
Income taxes	-3,927	-3,260	-306	-304	-	-	-4,232	-3,563
Income for the period *	14,301	9,818	878	748	-	-	15,180	10,566
* Attributable to:								
Equity holders of the parent company							14,875	10,393
Minority interests							305	173
							15,180	10,566
Basic earnings per share, SEK							7.32	5.11
Diluted earnings per share, SEK							7.31	5.11

Key operating ratios, %

Gross margin	23.7	24.0	-	-	-	-	24.3	24.6
Research and development expenses as percentage of net sales	4.5	5.1	-	-	-	-	4.4	4.9
Selling expenses as percentage of net sales	7.6	8.3	-	-	-	-	8.0	8.6
Administrative expenses as percentage of net sales	1.6	1.7	-	-	-	-	1.6	1.7
Operating margin	10.4	8.9	-	-	-	-	10.7	9.2

CONSOLIDATED OTHER COMPREHENSIVE INCOME FIRST SIX MONTHS

SEK M	2018	2017
Income for the period	15,180	10,566
Items that will not be reclassified to income statement:		
Remeasurements of defined benefit pension plans	617	856
Items that may be reclassified subsequently to income statement:		
Exchange differences on translation of foreign operations	4,113	-2,478
Share of OCI related to Joint Ventures and associated companies	-	-21
Accumulated translation difference reversed to income	-94	-
Available-for-sale investments	44	34
Change in cash flow hedges	-	-11
Other comprehensive income, net of income taxes	4,680	-1,620
Total comprehensive income for the period *	19,860	8,946
* Attributable to:		
Equity holders of the parent company	19,427	8,698
Minority interests	433	248
	19,860	8,946

CONSOLIDATED BALANCE SHEET

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017
Assets								
Non-current assets								
Intangible assets	37,192	35,716	197	178	-	-	37,389	35,893
<i>Tangible assets</i>								
Property, plant and equipment	55,168	53,308	42	40	-	-	55,210	53,348
Assets under operating leases	32,497	31,373	21,789	21,075	-11,240	-10,857	43,046	41,590
<i>Financial assets</i>								
Investments in Joint Ventures and associated companies	11,007	10,525	-	-	-	-	11,007	10,525
Other shares and participations	810	690	9	10	-	-	819	699
Non-current customer-financing receivables	854	737	62,542	57,180	-863	-744	62,533	57,173
Prepaid pensions	566	252	-	-	-	-	566	252
Non-current interest-bearing receivables	3,069	2,892	-	-	-737	-557	2,332	2,335
Other non-current receivables	9,002	8,000	281	238	-152	-143	9,130	8,094
Deferred tax assets	11,308	11,107	996	786	-	-	12,305	11,893
Total non-current assets	161,474	154,599	85,855	79,506	-12,992	-12,301	234,336	221,803
Current assets								
Inventories	66,011	52,231	286	470	-	-	66,296	52,701
<i>Current receivables</i>								
Customer-financing receivables	657	621	58,493	52,294	-787	-711	58,364	52,205
Tax assets	2,279	1,137	432	430	-	-	2,711	1,567
Interest-bearing receivables	2,276	2,075	12	-	-1,126	-908	1,162	1,166
Internal funding	17,203	15,927	-	-	-17,203	-15,927	-	-
Accounts receivable	44,065	37,120	1,237	1,069	-	-	45,302	38,189
Other receivables	15,334	14,420	1,448	1,527	-1,313	-889	15,468	15,058
Non interest-bearing assets held for sale	154	51	-	-	-	-	154	51
Marketable securities	211	178	-	-	-	-	211	178
Cash and cash equivalents	31,795	32,269	3,819	4,892	-460	-1,069	35,155	36,092
Total current assets	179,985	156,029	65,727	60,682	-20,888	-19,504	224,823	197,207
Total assets	341,459	310,628	151,582	140,188	-33,881	-31,805	459,160	419,010
Equity and liabilities								
<i>Equity attributable to the equity holders of the parent company</i>								
Equity attributable to the equity holders of the parent company	104,188	94,640	12,125	11,221	-	-	116,313	105,861
Minority interests	2,368	1,941	-	-	-	-	2,368	1,941
Total equity	106,556	96,581	12,125	11,221	-	-	118,681	107,802
<i>Non-current provisions</i>								
Provisions for post-employment benefits	14,654	14,391	90	85	-	-	14,744	14,476
Provisions for deferred taxes	2,058	2,836	2,782	2,280	-	-	4,840	5,116
Other provisions	8,751	8,130	287	264	266	89	9,305	8,484
<i>Non-current liabilities</i>								
Bond loans	58,014	48,962	-	-	-	-	58,014	48,962
Other loans	14,959	12,865	15,401	12,817	-863	-740	29,497	24,942
Internal funding	-53,756	-43,522	52,334	49,934	1,423	-6,413	-	-
Other liabilities	38,849	34,601	1,473	1,285	-7,500	-7,156	32,822	28,730
Current provisions	11,240	10,300	217	71	206	45	11,662	10,416
<i>Current liabilities</i>								
Bond loans	21,168	30,749	-	-	-	-	21,168	30,749
Loans	17,115	15,582	11,757	9,312	-2,277	-1,872	26,595	23,022
Internal funding	-30,753	-37,635	50,210	48,527	-19,458	-10,891	-	-
Non interest-bearing liabilities held for sale	0	0	-	-	-	-	0	0
Trade payables	75,675	64,900	554	445	-	-	76,228	65,346
Tax liabilities	3,528	1,556	280	143	-	-	3,808	1,699
Other liabilities	53,400	50,332	4,073	3,803	-5,678	-4,867	51,795	49,267
Total equity and liabilities	341,459	310,628	151,582	140,188	-33,881	-31,805	459,160	419,010
Key ratios, %								
Equity ratio	31.2	31.1	8.0	8.0	-	-	25.8	25.7
Shareholders' equity per share, excluding minority interests, SEK	-	-	-	-	-	-	57.2	52.1
Return on operating capital, 12 months rolling	40.3	32.2	-	-	-	-	-	-
Return on shareholders' equity, 12 months rolling	-	-	23.0	22.6	-	-	23.4	20.5

As from January 1, 2018, IFRS 9 Financial Instruments is applied and the effect is included in the opening balance for 2018. For more information, please see Note 1.

CONSOLIDATED CASH FLOW STATEMENT **SECOND QUARTER**

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Operating activities								
Operating income	11,755	8,019	582	521	-	-	12,337	8,540
Depreciation tangible assets	1,590	1,623	1	2	-	-	1,591	1,624
Amortization intangible assets	762	818	7	9	-	-	769	826
Depreciation leasing vehicles	1,531	701	1,145	1,092	0	0	2,677	1,793
Other non-cash items	-94	178	182	131	-8	12	79	322
Total change in working capital whereof	-3,209	3,564	-3,339	-3,351	163	-143	-6,385	70
Change in accounts receivables	-1,006	-1,271	-83	-87	0	0	-1,088	-1,358
Change in customer financing receivables	-38	113	-3,743	-2,901	164	-132	-3,617	-2,919
Change in inventories	-4,578	-2,290	90	-57	0	0	-4,488	-2,347
Change in trade payables	3,030	5,511	24	-107	0	0	3,055	5,404
Other changes in working capital	-616	1,501	373	-199	-1	-11	-246	1,291
Interest and similar items received	475	105	-	-	0	-3	475	103
Interest and similar items paid	-485	-672	-	-	8	-8	-477	-680
Other financial items	-55	-47	-	-	-	-	-55	-47
Income taxes paid	-1,776	-932	-30	-276	0	0	-1,806	-1,208
Cash flow from operating activities	10,494	13,357	-1,451	-1,872	162	-142	9,205	11,343
Investing activities								
Investments in tangible assets	-1,544	-1,117	-1	3	-	-	-1,545	-1,114
Investments in intangible assets	-916	-476	-13	-17	-	-	-928	-493
Investment in leasing vehicles	-5	69	-2,675	-2,858	-	-	-2,681	-2,789
Disposals of fixed assets and leasing vehicles	293	53	1,268	1,303	-	12	1,561	1,368
Operating cash flow	8,322	11,886	-2,872	-3,441	162	-130	5,612	8,314
Investments and divestments of shares, net							967	14
Acquired and divested operations, net							-159	-1
Interest-bearing receivables incl. marketable securities							-7	170
Cash flow after net investments							6,413	8,498
Financing activities								
Change in loans, net							-1,565	-7,163
Dividend to AB Volvo shareholders							-8,636	-6,603
Dividend to minority shareholders							-6	-13
Other							86	15
Change in cash and cash equivalents excl. translation differences							-3,707	-5,266
Translation difference on cash and cash equivalents							117	-571
Change in cash and cash equivalents							-3,590	-5,838

The comparative financial information in the cash flow statement is not restated due to the implementation of IFRS 15 Revenue from Contracts with Customers. The operating income for 2017 has been effected due to the implementation but the effect is also reflected with same amount as a change in working capital. Hence, the implementation of IFRS 15 has had no effect on the total operating cash flow.

CONSOLIDATED CASH FLOW STATEMENT FIRST SIX MONTHS

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Operating activities								
Operating income	19,450	14,518	1,184	1,052	-	-	20,634	15,570
Depreciation tangible assets	3,128	3,231	3	3	-	-	3,131	3,234
Amortization intangible assets	1,531	1,720	16	17	-	-	1,546	1,737
Depreciation leasing vehicles	2,358	1,342	2,217	2,105	0	0	4,575	3,448
Other non-cash items	595	-38	315	276	0	15	909	253
Total change in working capital whereof	-9,115	-1,131	-5,438	524	194	-261	-14,358	-868
Change in accounts receivables	-5,094	-3,662	-160	-47	0	0	-5,255	-3,708
Change in customer financing receivables	-36	136	-5,885	677	195	-248	-5,726	565
Change in inventories	-11,404	-6,776	242	-52	0	0	-11,162	-6,828
Change in trade payables	7,796	7,231	85	146	0	0	7,881	7,377
Other changes in working capital	-376	1,941	281	-201	-2	-13	-97	1,727
Interest and similar items received	537	182	-	-	-1	-12	536	170
Interest and similar items paid	-946	-1,197	-	-	1	-4	-945	-1,200
Other financial items	-117	-78	-	-	-	-	-117	-78
Income taxes paid	-3,861	-1,990	113	-337	0	0	-3,748	-2,327
Cash flow from operating activities	13,559	16,560	-1,590	3,639	192	-262	12,162	19,938
Investing activities								
Investments in tangible assets	-2,745	-2,359	-2	-2	-	-	-2,747	-2,361
Investments in intangible assets	-1,397	-962	-24	-31	-	-	-1,421	-993
Investment in leasing vehicles	-6	-9	-4,519	-5,131	-	-	-4,525	-5,140
Disposals of fixed assets and leasing vehicles	399	168	2,839	2,457	-	12	3,238	2,637
Operating cash flow	9,810	13,398	-3,297	932	192	-250	6,706	14,080
Investments and divestments of shares, net							975	1
Acquired and divested operations, net							-158	0
Interest-bearing receivables incl. marketable securities							-70	1,497
Cash flow after net investments							7,453	15,577
Financing activities								
Change in loans, net							-192	-6,246
Dividend to AB Volvo shareholders							-8,636	-6,603
Dividend to minority shareholders							-6	-13
Other							19	111
Change in cash and cash equivalents excl. translation differences							-1,361	2,826
Translation difference on cash and cash equivalents							424	-570
Change in cash and cash equivalents							-937	2,256

The comparative financial information in the cash flow statement is not restated due to the implementation of IFRS 15 Revenue from Contracts with Customers. The operating income for 2017 has been effected due to the implementation but the effect is also reflected with same amount as a change in working capital. Hence, the implementation of IFRS 15 has had no effect on the total operating cash flow.

CONSOLIDATED NET FINANCIAL POSITION

SEK bn	Industrial Operations		Volvo Group	
	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017
<i>Non-current interest-bearing assets</i>				
Non-current customer-financing receivables	-	-	62.5	57.2
Non-current interest-bearing receivables	3.1	2.9	2.3	2.3
<i>Current interest-bearing assets</i>				
Customer-financing receivables	-	-	58.4	52.2
Interest-bearing receivables	2.3	2.1	1.2	1.2
Internal funding	17.2	15.9	-	-
Marketable securities	0.2	0.2	0.2	0.2
Cash and cash equivalents	31.8	32.3	35.2	36.1
Total interest-bearing financial assets	54.6	53.3	159.8	149.1
<i>Non-current interest-bearing liabilities</i>				
Bond loans	-58.0	-49.0	-58.0	-49.0
Other loans	-15.0	-12.9	-29.5	-24.9
Internal funding	53.8	43.5	-	-
<i>Current interest-bearing liabilities</i>				
Bond loans	-21.2	-30.7	-21.2	-30.7
Other loans	-17.1	-15.6	-26.6	-23.0
Internal funding	30.8	37.6	-	-
Total interest-bearing financial liabilities	-26.7	-27.0	-135.3	-127.7
Net financial position excl. post-employment benefits	27.8	26.3	24.5	21.5
Provisions for post-employment benefits, net	-14.1	-14.1	-14.2	-14.2
Net financial position incl. post-employment benefits	13.7	12.2	10.3	7.3
Key ratios, %				
Net financial position excl. post-employment benefits as percentage of shareholders' equity	26.1	26.9		
Net financial position incl. post-employment benefits as percentage of shareholders' equity	12.9	12.5		

As from January 1, 2018, IFRS 9 Financial Instruments is applied and the effect is included in the opening balance for 2018. For more information, please see Note 1.

CHANGES IN NET FINANCIAL POSITION, INDUSTRIAL OPERATIONS

SEK bn	Second quarter 2018	First six months 2018
Net financial position at beginning of period	13.9	12.2
Cash flow from operating activities	10.5	13.6
Investments in fixed assets	-2.5	-4.1
Disposals	0.3	0.4
Operating cash flow	8.3	9.8
Investments and divestments of shares, net	1.0	1.0
Acquired and divested operations, net	-0.2	-0.2
Capital injections to/from Financial Services	-0.0	0.1
Currency effect	-0.3	-1.0
Dividend paid to AB Volvo shareholders	-8.6	-8.6
Dividend paid to minority shareholders	0.0	0.0
Remeasurements of defined benefit pension plans	0.0	0.9
Pension payments and costs, net	-0.2	-0.2
Other changes	-0.2	-0.3
Total change	-0.2	1.5
Net financial position at end of period	13.7	13.7

CONSOLIDATED CHANGES IN TOTAL EQUITY

SEK bn	Jun 30 2018	Dec 31 2017
Total equity at the end of previous period	107.8	97.8
Transition effect IFRS 15	-	-0.7
Transition effect IFRS 9	-0.4	-
Total equity after transition effect IFRS 9 and IFRS 15 at the beginning of period	107.4	97.1
Shareholders' equity attributable to equity holders of the parent company at the end of previous period	105.9	96.1
Transition effect IFRS 15	-	-0.7
Transition effect IFRS 9	-0.4	-
Shareholders' equity attributable to equity holders of the parent company after transition effect IFRS at the beginning of period	105.5	95.3
Income for the period (restated due to IFRS 15)	14.9	20.5
Other comprehensive income	4.6	-3.4
Total comprehensive income	19.4	17.1
Dividend to AB Volvo's shareholders	-8.6	-6.6
Share-based payments	0.0	0.0
Other changes	0.0	0.0
Shareholders' equity attributable to equity holders of the parent company at end of period	116.3	105.9
Minority interests at beginning of period	1.9	1.7
Income for the period (restated due to IFRS 15)	0.3	0.3
Other comprehensive income	0.1	-0.1
Total comprehensive income	0.4	0.2
Dividend to minority shareholders	0.0	0.0
Other changes	0.0	0.0
Minority interests at end of period	2.4	1.9
Total equity at end of period	118.7	107.8

QUARTERLY FIGURES

Income Statements, Volvo Group						First six months	First six months
SEK M unless otherwise stated	2/2018	1/2018	4/2017	3/2017	2/2017	2018	2017
Net sales	103,623	89,143	91,554	76,400	87,854	192,767	164,784
Cost of sales	-78,150	-67,809	-70,785	-58,239	-66,601	-145,958	-124,196
Gross income	25,474	21,335	20,769	18,161	21,254	46,809	40,588
Research and development expenses	-4,192	-4,268	-4,533	-3,445	-4,126	-8,460	-8,120
Selling expenses	-7,992	-7,344	-7,602	-6,791	-7,247	-15,336	-14,189
Administrative expenses	-1,622	-1,431	-1,640	-1,273	-1,443	-3,052	-2,729
Other operating income and expenses	-525	-392	-45	-5	-395	-918	-1,011
Income/loss from investments in Joint Ventures and associated companies	1,187	385	166	634	268	1,572	608
Income from other investments	9	12	-10	56	91	20	89
Operating income	12,337	8,297	7,105	7,337	8,402	20,634	15,236
Interest income and similar credits	54	38	39	44	30	92	80
Interest expenses and similar charges	-386	-424	-484	-417	-487	-810	-950
Other financial income and expenses	-319	-184	-132	-17	-59	-504	-236
Income after financial items	11,685	7,727	6,528	6,947	7,885	19,412	14,130
Income taxes	-2,300	-1,932	-1,761	-1,495	-1,984	-4,232	-3,563
Income for the period *	9,384	5,796	4,767	5,453	5,901	15,180	10,566
* Attributable to:							
Equity holders of the parent company	9,221	5,654	4,686	5,405	5,813	14,875	10,393
Minority interests	163	142	81	48	88	305	173
	9,384	5,796	4,767	5,453	5,901	15,180	10,566
Key operating ratios, Volvo Group, %							
Gross margin	24.6	23.9	22.7	23.8	24.2	24.3	24.6
Research and development expenses as percentage of net sales	4.0	4.8	5.0	4.5	4.7	4.4	4.9
Selling expenses as percentage of net sales	7.7	8.2	8.3	8.9	8.2	8.0	8.6
Administrative expenses as percentage of net sales	1.6	1.6	1.8	1.7	1.6	1.6	1.7
Operating margin	11.9	9.3	7.8	9.6	9.6	10.7	9.2
Key operating ratios, Industrial Operations, %							
Gross margin	24.0	23.3	22.0	23.1	23.6	23.7	24.0
Research and development expenses as percentage of net sales	4.2	4.9	5.1	4.7	4.8	4.5	5.1
Selling expenses as percentage of net sales	7.4	7.9	7.9	8.5	7.9	7.6	8.3
Administrative expenses as percentage of net sales	1.6	1.6	1.8	1.7	1.7	1.6	1.7
Operating margin	11.7	8.9	7.3	9.2	9.3	10.4	8.9
EBITDA, Industrial Operations							
Operating income Industrial Operations	11,755	7,695	6,516	6,785	7,881	19,450	14,184
Product and software development, amortization	687	697	740	600	747	1,383	1,467
Other intangible assets, amortization	75	72	76	75	70	147 ¹	254
Tangible assets, depreciation	3,122	2,366	2,461	2,351	2,323	5,488	4,573
Total depreciation and amortization	3,884	3,135	3,276	3,027	3,141	7,019	6,294
Operating income before depreciation and amortization (EBITDA)	15,639	10,830	9,792	9,812	11,022	26,469	20,478
EBITDA margin, %	15.6	12.5	11.0	13.3	12.9	14.2	12.9
Net capitalization of research and development							
Capitalization	853	415	405	457	433	1,268	897
Amortization	-651	-663	-701	-558	-700	-1,314	-1,375
Net capitalization and amortization	202	-248	-296	-101	-267	-46	-478

¹ Including impairment of intangible assets.

QUARTERLY FIGURES

Net sales						First six months	First six months
SEK M	2/2018	1/2018	4/2017	3/2017	2/2017	2018	2017
Trucks	65,155	55,989	60,622	49,196	55,934	121,144	105,034
Construction Equipment	24,403	20,914	16,730	15,042	18,439	45,317	34,541
Buses	6,847	5,687	7,055	6,363	6,920	12,535	12,461
Volvo Penta	3,555	3,147	2,676	2,662	3,081	6,702	5,782
Group Functions & Other	1,504	1,323	1,892	1,371	1,572	2,827	3,186
Eliminations	-903	-756	-202	-937	-833	-1,659	-1,675
Industrial Operations	100,562	86,304	88,773	73,696	85,113	186,866	159,330
Financial Services	3,263	3,026	3,078	2,896	2,946	6,289	5,838
Reclassifications and eliminations	-202	-186	-296	-193	-205	-388	-384
Volvo Group	103,623	89,143	91,554	76,400	87,854	192,767	164,784

Operating income						First six months	First six months
SEK M	2/2018	1/2018	4/2017	3/2017	2/2017	2018	2017
Trucks	7,236	4,909	5,590	4,184	5,282	12,145	10,010
Construction Equipment	4,493	2,888	1,820	2,023	2,460	7,380	4,074
Buses	260	-15	261	208	317	246	407
Volvo Penta	709	509	187	353	479	1,217	899
Group Functions & Other	-932	-591	-1,353	7	-641	-1,523	-1,188
Eliminations	-11	-4	11	9	-17	-16	-18
Industrial Operations	11,755	7,695	6,516	6,785	7,881	19,450	14,184
Financial Services	582	602	588	553	521	1,184	1,052
Volvo Group	12,337	8,297	7,105	7,337	8,402	20,634	15,236

Adjusted operating income ¹						First six months	First six months
SEK M	2/2018	1/2018	4/2017	3/2017	2/2017	2018	2017
Trucks	7,236	4,909	5,590	4,184	5,282	12,145	10,010
Construction Equipment	3,675	2,888	1,820	2,023	2,460	6,562	4,074
Buses	260	-15	261	208	317	246	407
Volvo Penta	709	509	187	353	479	1,217	899
Group Functions & Other	-932	-591	-1,353	-393	-641	-1,523	-1,188
Eliminations	-11	-4	11	9	-17	-16	-18
Industrial Operations	10,937	7,695	6,516	6,385	7,881	18,632	14,184
Financial Services	582	602	588	553	521	1,184	1,052
Volvo Group	11,519	8,297	7,105	6,937	8,402	19,816	15,236

¹ For more information on adjusted operating income, please see note 7.

Operating margin						First six months	First six months
%	2/2018	1/2018	4/2017	3/2017	2/2017	2018	2017
Trucks	11.1	8.8	9.2	8.5	9.4	10.0	9.5
Construction Equipment	18.4	13.8	10.9	13.4	13.3	16.3	11.8
Buses	3.8	-0.3	3.7	3.3	4.6	2.0	3.3
Volvo Penta	19.9	16.2	7.0	13.3	15.5	18.2	15.5
Industrial Operations	11.7	8.9	7.3	9.2	9.3	10.4	8.9
Volvo Group	11.9	9.3	7.8	9.6	9.6	10.7	9.2

Adjusted operating margin						First six months	First six months
%	2/2018	1/2018	4/2017	3/2017	2/2017	2018	2017
Trucks	11.1	8.8	9.2	8.5	9.4	10.0	9.5
Construction Equipment	15.1	13.8	10.9	13.4	13.3	14.5	11.8
Buses	3.8	-0.3	3.7	3.3	4.6	2.0	3.3
Volvo Penta	19.9	16.2	7.0	13.3	15.5	18.2	15.5
Industrial Operations	10.9	8.9	7.3	8.7	9.3	10.0	8.9
Volvo Group	11.1	9.3	7.8	9.1	9.6	10.3	9.2

QUARTERLY FIGURES

Share data	2/2018	1/2018	4/2017	3/2017	2/2017	First six months 2018	First six months 2017
Earnings per share, SEK ¹	4.54	2.78	2.31	2.66	2.86	7.32	5.11
Earnings per share, SEK ¹ , 12 months rolling	12.29	10.61	10.08	10.15	8.76	-	-
Diluted earnings per share, SEK	4.53	2.78	2.30	2.66	2.86	7.31	5.11
Number of outstanding shares in millions	2,032	2,032	2,032	2,032	2,032	2,032	2,032
Average number of shares before dilution in millions	2,032	2,032	2,032	2,032	2,032	2,032	2,032
Average number of shares after dilution in millions	2,033	2,033	2,033	2,033	2,033	2,033	2,033
Number of own shares in millions	96	96	97	97	97	96	97
Average number of own shares in millions	96	96	97	97	97	96	97

¹ Earnings per share are calculated as Income for the period (excl. Minority interests) divided by the weighted average number of shares outstanding during the period.

NOTE 1 | ACCOUNTING POLICIES

The Volvo Group applies International Financial Reporting Standards (IFRS) as endorsed by the EU. The accounting policies adopted and definitions are consistent with those described in the Volvo Group Annual Report 2017 (available at www.volvogroup.com). This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The parent company applies the Swedish Annual Accounts Act and RFR 2 Reporting for legal entities.

New accounting policies for 2018

As from January 1, 2018 Volvo Group applies the following new accounting standards: IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers.

IFRS 9 Financial instruments

The impact of the new standard is related to the new model for calculating credit losses. The model is an expected credit loss model measured at an amount equal to lifetime expected credit losses by using the simplified approach. Compared with the former applied incurred loss model, the new requirements imply an earlier recognition of credit losses.

IFRS 15 Revenue from Contracts with Customers

The major impact of implementation of IFRS 15 is related to sales transactions of vehicles with residual value commitments, e.g. buybacks and tradebacks, and the

assessment if control has been transferred from the Volvo Group to the customer. The criteria of transferring control are based on if the customer has a significant economic incentive to exercise the residual value commitment or not. If the customer is considered to have a significant economic incentive to exercise the residual value commitment to return the vehicle, revenue is recognized over the residual value commitment period as an operating lease transaction in accordance with IAS 17. If the customer is not considered to have a significant economic incentive to exercise the residual value commitment to return the vehicle, the revenue is recognized in accordance with the right of return model. The effect of both models is a later recognition of revenue.

IFRS 9 and IFRS 15 are applied retrospectively but with the difference when it comes to presenting comparative financial information for 2017. For IFRS 15, the reported financial information for 2017 is restated for comparison purposes. For IFRS 9, the reported financial information for 2017 is not restated.

A description of the new accounting policies, the effects of transition and restated financial information are presented in the Volvo Group Annual Report 2017 in note 31. The restated financial information consists of segment reporting, quarterly and full year income statement and balance sheet.

NOTE 2 | RISKS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

All business operations involve risk – managed risk-taking is a condition of maintaining a sustained favorable 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. Volvo Group works continuously to identify, measure and manage risk, and in some cases Volvo Group can influence the likelihood that a risk-related event will occur. In cases in which such events are beyond Volvo Group's control, the aim is to minimize the consequences. The risks to which the Volvo Group is exposed are classified into three main categories:

External-related risks – such as the cyclical nature of the commercial vehicles business, intense competition, changes in prices for commercial vehicles and government regulations;

Financial risks – such as currency fluctuations, interest levels fluctuations, valuations of shares or similar instruments, credit risk and liquidity risk and;

Operational risks – such as market reception of new products, reliance on suppliers, protection and maintenance of intangible assets, complaints and legal actions by customers and other third parties and risk related to human capital.

For a more elaborate account of these risks, please refer to the Risk Management section on pages 112-117 in the Volvo Group Annual Report 2017 (available at www.volvogroup.com).

Risk updates for the reporting period

Short-term risks, when applicable, are also described in the respective segment section of this report.

An increase in demand could potentially result in delivery disturbances, due to suppliers' financial instability or shortage of resources.

Uncertainty regarding customers' access to the financing of products in emerging markets might have a negative impact on demand.

Volvo Group verifies annually, or more frequently if necessary, the goodwill value and other intangible assets for possible impairment. The size of the surplus value differs between the business areas and they are, to a varying degree, sensitive to changes in the business environment. Instability in the business recovery and volatility in interest and currency rates may lead to indications of impairment.

The reported amounts for contingent liabilities reflect a part of Volvo Group's risk exposure. Total contingent liabilities as of June 30, 2018, amounted to SEK 14.6 billion, an increase of SEK 1.4 billion compared to December 31, 2017. The increase is mainly related to credit guarantees and bid and performance guarantees. The gross exposure of SEK 14.6 billion is partly reduced by counter guarantees and collaterals. The risk exposure related to credit guarantees for construction equipment sold in China prior to 2016 is no longer considered to be material.

Following the adoption of the European Commission's settlement decision, the Volvo Group has received and will be

dealing with numerous private damages claims from customers and other third parties alleging that they suffered loss by reason of the conduct covered in the decision. At this stage it is not possible to make a reliable estimate of the amount of any liability that could arise from any such proceedings. The other legal proceedings and investigations

described in note 21 and note 24 in the Volvo Group Annual Report 2017 are progressing but no material changes have occurred in these matters in the second quarter of 2018.

NOTE 3 | REVENUE

The two major revenue streams within the Volvo Group are vehicles and services.

Vehicles include sales of vehicles, machinery and engines. Revenue is recognized when the control of the vehicle has been transferred to the customer, normally at one point in time which is when the vehicle has been delivered to the customer. If the sale of a vehicle is combined with a residual value commitment the revenue is recognized over the residual value commitment period.

Services include sale of spare parts, maintenance services and other aftermarket products. Revenue is recognized when the control of the service has been transferred to the customer, which is when the customer

can benefit from the use of the delivered services. For spare parts, revenue is normally recognized at one point in time and for maintenance services and other aftermarket products, revenue is normally recognized over time. When payments for maintenance contracts are received in advance from the customers, the payments are recognized as contract liabilities. Income from operating leasing is recognized over the leasing period. Interest income related to finance leasing and installment credit contracts are recognized as net sales within Financial Services during the underlying contract period.

NOTE 4 | ACQUISITIONS AND DIVESTMENTS

Acquisitions and divestments

During the second quarter the Volvo Group divested a subsidiary with holding of shares in Inner Mongolia North Hauler Joint Stock Co., Ltd (NHL). The divestment resulted in a positive effect on operating income of SEK 818 M. The Volvo Group has not made any other acquisitions or divestments of operations during the second quarter that have had a significant impact on the Volvo Group.

Assets and liabilities held for sale

At the end of second quarter assets amounting to SEK 154 M (51) are classified as held for sale. In the second quarter the divestment of a subsidiary with holding of shares in Inner Mongolia North Hauler Joint Stock Co., Ltd (NHL) was completed.

NOTE 5 | CURRENCY AND FINANCIAL INSTRUMENTS

Fair value of financial instruments

Valuation principles and classification of Volvo Group financial instruments, as described in Volvo Group Annual Report 2017 Note 30 and Note 31 (available at www.volvogroup.com), have been consistently applied throughout the reporting period. Financial instruments in the Volvo Group reported at fair value through profit and loss consist mainly of interest and currency derivatives. Derivatives with positive fair values amounted to SEK 4.4 billion (4.6) and derivatives with negative fair values

amounted to SEK 1.6 billion (0.7) as of June 30, 2018. The derivatives are accounted for on gross-basis. Financial liabilities valued at amortized cost, reported as current and non-current bond loans and other loans, amounted to SEK 134.0 billion (127.2) in reported carrying value with a fair value of SEK 135.9 billion (129.8). In the Volvo Group consolidated financial position, financial liabilities include loan-related derivatives with negative fair values amounting to SEK 1.3 billion (0.5).

Currency effect on operating income, Volvo Group						
SEK M	Compared to second quarter 2017			Compared to first quarter 2018		
	Second quarter 2018	Second quarter 2017	Change	Second quarter 2018	First quarter 2018	Change
Net flow in foreign currency			470			653
Realized and unrealized gains and losses on hedging contracts	1	0	1	1	-4	5
Unrealized gains and losses on receivables and liabilities in foreign currency	-93	-292	199	-93	-129	36
Translation effect on operating income in foreign subsidiaries			2			388
Total currency effect on operating income, Volvo Group			672			1,082

Applicable currency rates	Quarterly exchange rates		Close rates	
	Second quarter 2018	Second quarter 2017	Jun 30 2018	Jun 30 2017
BRL	2.41	2.74	2.32	2.56
EUR	10.33	9.69	10.42	9.68
GBP	11.79	11.26	11.75	11.02
USD	8.67	8.80	8.96	8.47
JPY	0.0794	0.0792	0.0810	0.0756
KRW	0.0080	0.0078	0.0080	0.0074

NOTE 6 | TRANSACTIONS WITH RELATED PARTIES

Sales to associated companies amounted to SEK 288 M (384) and purchases from associated companies amounted to SEK 27 M (687) during the second quarter of 2018. As of June 30, 2018, receivables from associated companies amounted to SEK 323 M (369) and liabilities to associated companies to SEK 32 M (93).

Sales to joint ventures amounted to SEK 492 M (284) and purchases from joint ventures amounted to SEK 271 M (321) during the second quarter of 2018. As of June 30, 2018, receivables from joint ventures amounted to SEK 376 M (419) and liabilities to joint ventures to SEK 111 M (63).

NOTE 7 | RECONCILIATION OF ADJUSTED OPERATING INCOME

Adjusted operating income					
SEK M	2/2018	1/2018	4/2017	3/2017	2/2017
Trucks	7,236	4,909	5,590	4,184	5,282
Construction Equipment	3,675	2,888	1,820	2,023	2,460
Buses	260	-15	261	208	317
Volvo Penta	709	509	187	353	479
Group Functions & Other	-932	-591	-1,353	-393	-641
Eliminations	-11	-4	11	9	-17
Industrial Operations	10,937	7,695	6,516	6,385	7,881
Financial Services	582	602	588	553	521
Volvo Group	11,519	8,297	7,105	6,937	8,402

Adjustments					
SEK M	2/2018	1/2018	4/2017	3/2017	2/2017
Adjustment items (segment)					
Capital gain on sale of shares in Inner Mongolia North Hauler Joint Stock Co., Ltd (Construction Equipment)	818	-	-	-	-
Capital gain on sale of shares in Deutz AG (Group functions & Other)	-	-	-	400	-
Total adjustments					
Construction Equipment	818	-	-	-	-
Group Functions & Other	-	-	-	400	-
Industrial Operations	818	-	-	400	-
Volvo Group	818	-	-	400	-

Operating income					
SEK M	2/2018	1/2018	4/2017	3/2017	2/2017
Trucks	7,236	4,909	5,590	4,184	5,282
Construction Equipment	4,493	2,888	1,820	2,023	2,460
Buses	260	-15	261	208	317
Volvo Penta	709	509	187	353	479
Group Functions & Other	-932	-591	-1,353	7	-641
Eliminations	-11	-4	11	9	-17
Industrial Operations	11,755	7,695	6,516	6,785	7,881
Financial Services	582	602	588	553	521
Volvo Group	12,337	8,297	7,105	7,337	8,402

For reconciliations of other Alternative Performance Measures, see www.volvogroup.com

PARENT COMPANY

Income from investments in Group companies for the second quarter includes dividends amounting to SEK 758 M (1,400).

Income from investments in joint ventures and associated companies includes dividends of SEK 389 M (66).

Financial net debt amounted to SEK 44,589 M (33,413) at the end of the second quarter.

Income Statement				
SEK M	Second quarter		First six months	
	2018	2017	2018	2017
Net sales¹	214	135	343	184
Cost of sales ¹	-214	-135	-343	-184
Gross income	0	0	0	0
Operating expenses ¹	-344	-440	-687	-790
Income from investments in Group companies	750	1,260	760	1,139
Income from investments in joint ventures and associated companies	389	66	389	66
Operating income (loss)	795	886	462	415
Interest income and expenses	-204	-219	-382	-415
Other financial income and expenses	-5	-6	-19	-13
Income after financial items	586	661	61	-13
Income taxes	108	177	218	323
Income for the period	694	838	279	310

¹ Of net sales in the second quarter, SEK 202 M (131) pertained to Group companies, while purchases from Group companies amounted to SEK 131 M (136).

Other comprehensive income				
Income for the period	694	838	279	310
Other comprehensive income, net of income taxes	-	-	-	-
Total comprehensive income for the period	694	838	279	310

Balance Sheet		
SEK M	June 30 2018	Dec 31 2017
Assets		
Non-current assets		
Tangible assets	8	8
Financial assets		
Shares and participations in Group companies	69,919	69,244
Receivables from Group companies	0	19
Investments in joint ventures and associated companies	8,895	8,895
Other shares and participations	6	7
Deferred tax assets	413	195
Total non-current assets	79,241	78,368
Current assets		
Current receivables from Group companies	25,915	25,826
Tax assets	980	23
Other current receivables	336	96
Total current assets	27,231	25,945
Total assets	106,472	104,313
Shareholders' equity and liabilities		
Shareholders' equity		
Restricted equity	9,891	9,891
Unrestricted equity	37,304	45,643
Untaxed reserves	6,001	6,001
Provisions	103	103
Non-current liabilities ¹	13,978	13,981
Current liabilities ²	39,195	28,694
Total shareholders' equity and liabilities	106,472	104,313

¹ Of which SEK 13,973 M (13,973) pertains to Group companies.

² Of which SEK 38,287 M (27,459) pertains to Group companies.

Events after the balance sheet date

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

The Board of Directors and the President certify that the half-yearly financial report gives a fair view 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, July 19, 2018
AB Volvo (publ)

Carl-Henric Svanberg
Chairman of the Board

Matti Alahuhta
Board member

Eckhard Cordes
Board member

James W. Griffith
Board member

Martin Lundstedt
President, CEO
and Board member

Kathryn V. Marinello
Board member

Martina Merz
Board member

Hanne de Mora
Board member

Helena Stjernholm
Board member

Eric Elzvik
Board member

Lars Ask
Board member

Mats Henning
Board member

Mikael Sällström
Board member

AUDITOR'S REVIEW REPORT

AB Volvo (publ) org. nr 556012-5790

Introduction

We have reviewed the condensed interim financial information (interim report) of AB Volvo (publ) as of June 30, 2018 and the six-month period then ended. The Board of Directors and the President are responsible for the preparation and presentation of the interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making inquiries,

primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Gothenburg, July 19, 2018
Deloitte AB

Jan Nilsson
Authorized Public Accountant

NET ORDER INTAKE

Net order intake of trucks	Second quarter		Change	First six months		Change
	2018	2017		2018	2017	
Number of trucks			%			%
Europe	27,306	28,583	-4	58,627	56,961	3
Heavy- and medium-duty	22,612	23,347	-3	47,414	47,773	-1
Light-duty	4,694	5,236	-10	11,213	9,188	22
North America	15,860	9,720	63	39,265	21,054	86
South America	4,250	4,478	-5	8,410	7,135	18
Asia	9,520	8,390	13	19,164	18,039	6
Africa and Oceania	3,720	4,094	-9	7,155	7,698	-7
Total trucks	60,656	55,265	10	132,621	110,887	20
Heavy-duty (>16 tons)	52,529	46,262	14	113,739	93,190	22
Medium-duty (7-16 tons)	3,231	3,593	-10	7,115	8,225	-13
Light-duty (<7 tons)	4,896	5,410	-10	11,767	9,472	24
Total trucks	60,656	55,265	10	132,621	110,887	20

Net order intake of trucks by brand

Volvo

Europe	14,366	15,417	-7	29,434	31,592	-7
North America	10,921	5,281	107	24,736	10,877	127
South America	3,724	4,020	-7	7,292	6,281	16
Asia	5,006	3,859	30	9,309	7,890	18
Africa and Oceania	2,018	1,903	6	3,533	3,704	-5
Total Volvo	36,035	30,480	18	74,304	60,344	23
Heavy-duty (>16 tons)	35,147	29,453	19	72,522	58,180	25
Medium-duty (7-16 tons)	888	1,027	-14	1,782	2,164	-18
Total Volvo	36,035	30,480	18	74,304	60,344	23

UD

North America	13	9	44	33	14	136
South America	112	145	-23	188	153	23
Asia	4,047	3,858	5	8,732	9,123	-4
Africa and Oceania	872	1,030	-15	1,872	1,887	-1
Total UD	5,044	5,042	0	10,825	11,177	-3
Heavy-duty (>16 tons)	3,955	3,726	6	8,485	8,236	3
Medium-duty (7-16 tons)	952	1,268	-25	2,010	2,827	-29
Light-duty (<7 tons)	137	48	185	330	114	189
Total UD	5,044	5,042	0	10,825	11,177	-3

Renault Trucks

Europe	12,940	13,166	-2	29,193	25,369	15
Heavy- and medium-duty	8,246	7,930	4	17,980	16,181	11
Light-duty	4,694	5,236	-10	11,213	9,188	22
North America	284	287	-1	519	317	64
South America	37	34	9	170	108	57
Asia	467	663	-30	1,123	1,016	11
Africa and Oceania	557	847	-34	1,243	1,567	-21
Total Renault Trucks	14,285	14,997	-5	32,248	28,377	14
Heavy-duty (>16 tons)	8,135	8,337	-2	17,488	15,785	11
Medium-duty (7-16 tons)	1,391	1,298	7	3,323	3,234	3
Light-duty (<7 tons)	4,759	5,362	-11	11,437	9,358	22
Total Renault Trucks	14,285	14,997	-5	32,248	28,377	14

Mack

North America	4,642	4,143	12	13,977	9,846	42
South America	377	279	35	760	593	28
Asia	-	10	-	-	10	-
Africa and Oceania	273	314	-13	507	540	-6
Total Mack	5,292	4,746	12	15,244	10,989	39
Heavy-duty (>16 tons)	5,292	4,746	12	15,244	10,989	39
Total Mack	5,292	4,746	12	15,244	10,989	39

DELIVERIES

Deliveries of trucks	Second quarter		Change %	First six months		Change %
	2018	2017		2018	2017	
Number of trucks						
Europe	28,915	27,686	4	55,019	51,288	7
Heavy- and medium-duty	24,276	23,553	3	46,192	43,617	6
Light-duty	4,639	4,133	12	8,827	7,671	15
North America	14,114	10,720	32	26,240	17,785	48
South America	3,857	2,692	43	7,077	4,581	54
Asia	9,077	7,823	16	16,107	16,293	-1
Africa and Oceania	3,608	3,137	15	6,702	6,038	11
Total trucks	59,571	52,058	14	111,145	95,985	16
Heavy-duty (>16 tons)	50,961	44,075	16	94,710	80,839	17
Medium-duty (7-16 tons)	3,846	3,762	2	7,364	7,310	1
Light-duty (<7 tons)	4,764	4,221	13	9,071	7,836	16
Total trucks	59,571	52,058	14	111,145	95,985	16

Deliveries of trucks by brand

Volvo

Europe	16,018	15,745	2	30,594	29,070	5
North America	8,204	5,665	45	15,658	9,149	71
South America	3,519	2,411	46	6,558	4,085	61
Asia	4,544	3,344	36	7,653	7,476	2
Africa and Oceania	1,648	1,345	23	3,125	2,450	28
Total Volvo	33,933	28,510	19	63,588	52,230	22
Heavy-duty (>16 tons)	32,932	27,572	19	61,668	50,497	22
Medium-duty (7-16 tons)	1,001	938	7	1,920	1,733	11
Total Volvo	33,933	28,510	19	63,588	52,230	22

UD

North America	27	2	1,250	39	13	200
South America	27	3	800	86	3	2,767
Asia	4,037	4,021	0	7,520	7,959	-6
Africa and Oceania	1,035	905	14	1,891	1,705	11
Total UD	5,126	4,931	4	9,536	9,680	-1
Heavy-duty (>16 tons)	3,945	3,574	10	7,245	7,128	2
Medium-duty (7-16 tons)	1,134	1,316	-14	2,186	2,461	-11
Light-duty (<7 tons)	47	41	15	105	91	15
Total UD	5,126	4,931	4	9,536	9,680	-1

Renault Trucks

Europe	12,897	11,941	8	24,425	22,218	10
Heavy- and medium-duty	8,258	7,808	6	15,598	14,547	7
Light-duty	4,639	4,133	12	8,827	7,671	15
North America	43	30	43	112	70	60
South America	129	57	126	138	132	5
Asia	496	458	8	934	858	9
Africa and Oceania	647	624	4	1,152	1,365	-16
Total Renault Trucks	14,212	13,110	8	26,761	24,643	9
Heavy-duty (>16 tons)	7,784	7,422	5	14,537	13,782	5
Medium-duty (7-16 tons)	1,711	1,508	13	3,258	3,116	5
Light-duty (<7 tons)	4,717	4,180	13	8,966	7,745	16
Total Renault Trucks	14,212	13,110	8	26,761	24,643	9

Mack

North America	5,840	5,023	16	10,431	8,553	22
South America	182	221	-18	295	361	-18
Africa and Oceania	278	263	6	534	518	3
Total Mack	6,300	5,507	14	11,260	9,432	19
Heavy-duty (>16 tons)	6,300	5,507	14	11,260	9,432	19
Total Mack	6,300	5,507	14	11,260	9,432	19

This information is information that AB Volvo (publ) is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out in the press release concerning this report, at 7.20 CET on July 19, 2018.

This report contains forward-looking statements that reflect the Board of Directors' and management's current views with respect to certain future events and potential financial performance. Although the Board of Directors and the management believe that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, (i) changes in economic, market and competitive conditions, (ii) success of business and operating initiatives, (iii) changes in the regulatory environment and other government actions, (iv) fluctuations in exchange rates and (v) business risk management.

This report does not imply that the Company has undertaken to revise these forward-looking statements, beyond what is required under the company's registration contract with Nasdaq Stockholm, if and when circumstances arise that will lead to changes compared to the date when these statements were provided.

Financial calendar

Report on the third quarter 2018	October 19, 2018
Report on the fourth quarter 2018	January 30, 2019
Report on the first quarter 2019	April 24, 2019
Report on the second quarter 2019	July 18, 2019
Report on the third quarter 2019	October 18, 2019

Contacts

Media relations:

Joakim Kenndal	+46 739 02 43 80
----------------	------------------

Investor Relations:

Christer Johansson	+46 31 66 13 34
Johan Bartler	+46 739 02 21 93
Anders Christensson	+46 31 66 11 91

Aktiebolaget Volvo (publ)
556012–5790
Investor Relations, VGHQ
SE-405 08 Göteborg, Sweden
Tel +46 31 66 00 00
www.volvogroup.com

