Rating Report

AB Volvo

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DBRS

Insight beyond the rating.

Rating

Issuer	Debt	Rating	Rating Action	Trend
AB Volvo	Issuer Rating	BBB (high)	Confirmed	Stable

Rating Update

DBRS Limited (DBRS) has confirmed the Issuer Rating of AB Volvo (Volvo or the Company) at BBB (high) with a Stable trend. The confirmation recognizes the steady improvement in operating performance and the associated strengthening of the debt-coverage metrics. DBRS expects Volvo's business risk profile to remain stable and its financial profile to remain compatible with the current rating despite headwinds in some key markets.

The Company launched a comprehensive transformation program (the efficiency program) at the end of 2013 to streamline its operations, reduce structural costs and increase efficiency. Most of the activities have been implemented as at the end of 2015. Volvo is on track to meet its expectation of full-year savings of SEK 10 billion from cost reductions in 2016 compared with full-year 2012 when measured in local currencies. Successful execution of the efficiency program will strengthen Volvo's business profile, and the higher profit margin in the businesses in 2015 reflects realized benefits from this program.

Volvo reported strong improvement in operating results in 2015, which were supported by favourable conditions in most major markets. Stronger demand, benefits from the efficiency program and positive currency effects were key contributors. The positive momentum carried through to the first half of 2016 despite some emerging challenges, such as the ongoing correction in the North American truck market. Volvo's balance sheet has also strengthened markedly since 2014 from deleveraging actions and the issuance of a hybrid bond (EUR 1.5 billion or approximately SEK 14.0 billion) with equity-like features. Gross debt leverage from Industrial Operations declined to about 22% at the end of 2015 from about 33% in 2014. Although higher working capital usage led to a rise in debt levels at the end of June 2016, the balance sheet remains solid.

Going forward, DBRS anticipates that Volvo will face meaningful headwinds in the Trucks and Construction Equipment (CE) businesses. Market conditions are expected to be more challenging in North America and Brazil for trucks and in Brazil and China for construction equipment in the last half of 2016 through to 2017. The economic effects of the pending exit of the United Kingdom from the European Union (Brexit) on Volvo's key European markets is highly uncertain. DBRS expects operating earnings in 2016 and 2017 to likely be below 2015 levels. Nevertheless, increasing benefits from the efficiency program and solid results from Buses and Volvo Penta should somewhat moderate the deterioration in the Company's overall operating results. DBRS also notes that Volvo has meaningful cushion in its financial profile to absorb poorer results, such as the anticipated weakness in 2016 and 2017, and remain compatible with the current rating. Hence, DBRS expects the current rating to remain stable in the medium term.

Financial Information

	12 mos. to Jun. 30	For the year ended December 31					
	2016	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Cash flow / total debt 1	1.02	1.15	0.45	0.33	0.41	0.57	0.41
Debt / EBITDA 1	1.09	1.04	2.06	2.54	1.97	1.57	2.15
EBITDA / int. covg. 1	12.8	11.5	9.8	7.3	9.3	12.1	8.6
% gross debt in cap'l structure 1	28.3%	26.9%	37.3%	43.8%	44.1%	41.7%	47.0%

Note: Data in this and in subsequent tables are subject to adjustments by DBRS.
* Volvo Financial Services on an equity basis. 1 Adjusted for capitalized operating leases as debt.

Issuer Description

Volvo is a large industrial group based in the Nordic region of Europe. Volvo produces trucks, buses, construction equipment and marine and industrial engines. It also has a finance operation, which acts as an in-house bank for the operating companies and sales finance operations.

Rating Considerations

Strengths

1. Diversified business portfolio and geographical markets
Volvo has a diversified business portfolio with four major industrial business segments: (1) Trucks, which was 70% of 2015 net sales; (2) CE, which was 17%; (3) Buses, which was 8%; and (4) Volvo Penta, which was 3%. Volvo is also diversified geographically (Europe was 39% of 2015 sales, Asia was 17%, North America was 33% and South America was 5%), which helps to moderate the volatility of earnings and cash flow.

2. Strong global market position in heavy trucks
Volvo has a strong market position as one of the world's largest manufacturers of heavy-duty trucks. Accordingly, Volvo has the necessary critical mass to benefit from economies of scale and achieve cost competitiveness. In 2015, the Company's total market share in Europe for heavy-duty trucks was 23.8%, of which Volvo Trucks was 15.7% and Renault Trucks was 8.1%. In North America, the combined market share of Class 8 trucks was 19.6%, of which Volvo Trucks was 12.2% and Mack Trucks was 7.4%. UD Trucks achieved an 18.9% share of heavy-duty trucks in Japan. The Company's truck business is well supported by a strong global dealer network and a favourable degree of parts commonality. Volvo's presence in Asia has been materially enhanced through acquisitions, including the Company's purchase of a 45% interest in Dongfeng Commercial Vehicle Company (DFCV), which closed on January 5, 2015.

3. Growing soft-product business resilient to cyclical downturns
The Company's soft-product (i.e., parts, aftermarket and services) business has grown in scale and now represents a material share of industrial revenues. Additionally, margins in the soft-product business are typically higher than in new equipment sales. This segment also proved to be more resilient to the recent economic downturn relative to Volvo's other businesses.

4. Sizable financial services operations
Volvo has a significant financial services operation. In addition to providing support to equipment sales, contributions from the finance operations help to reduce volatility in earnings.

Challenges

1. Cyclicality of earnings in industrial businesses
Volvo's business segments are cyclical. Truck, CE and Bus sales are affected by prevailing economic conditions and generally trend in line with one another (although the City Bus segment tends to be contracyclical). The geographic diversification of Volvo's operations helps to moderate the impact of an economic downturn in a particular market, but a global recession would likely negatively affect all segments.

2. Most businesses in mature and highly competitive markets
The key markets in which Volvo participates are mature and highly competitive. As a result, opportunities for significant, sustainable earnings growth are relatively limited. Volvo must continue to produce new product models and achieve efficiency gains to maintain or grow market share in its key markets.

3. Risks associated with expansion in emerging markets
The Heavy Truck segment remains highly competitive, despite past consolidation. Global consolidation activity is likely to continue with an increased emphasis on gaining market share in higher-growth emerging markets. Increased presence in emerging markets, which come with more volatile political and economic conditions, adds to Volvo's business risk.

4. Increasingly stringent emission standards
Volvo is required to develop new engine technology to meet increasingly strict emission standards in Europe and the United States for heavy-duty trucks and buses. Volvo is not expected to experience issues in developing new engine technology; however, the ongoing capital investment needed to meet evolving standards and the risk of non-compliance, which would result in lost business, could lead to a sharper-than-expected decline in earnings and cash flow because of reduced sales and the higher costs associated with lower-capacity utilization.

Earnings and Outlook

	6 mos. to Jun. 30		12 mos. to Jun. 30	For the year ended December 31				
(SEK millions)	2016	2015	2016	2015	2014	2013	2012	2011
Sales	145,652	154,993	294,241	303,582	275,999	265,420	292,198	303,589
Operating income (Industrials)	10,421	9,563	19,227	18,369	10,375	7,766	17,443	26,264
Financial services (oper. inc.)	991	971	2,026	2,006	1,712	1,522	1,496	942
Net income bef. non-recurring	6,493	5,510	12,499	11,517	6,550	5,133	11,809	17,750
Reported net income	5,744	9,398	11,402	15,058	2,099	3,582	11,159	17,750
Operating margin (Industrials)	7.2%	6.2%	6.5%	6.1%	3.8%	2.9%	6.0%	8.7%

Summary

- Volvo turned in much stronger overall operating results in 2015 than the year-ago period, exceeding DBRS's expectations.
- All Industrial business units reported year-over-year increases in net sales and operating income (as defined by DBRS and excluding non-recurring items).
- Benefits from efficiency initiatives, favourable currency and competitive product programs boosted operating income by nearly 85% in 2015 compared with 2014; the year-over-year increase in net sales was almost 10%.

The Trucks Business

- Generally, the Company's overall performance is largely dependent on results from Trucks, Volvo's dominant business. Global truck market conditions varied in 2015. Demand rose in Europe and North America but declined significantly in China and Brazil.
- The Company's large exposure to the positive European and North American markets more than offset the headwinds caused by the weakness in Brazil and, to a lesser extent, China. The European and North American markets reported solid year-over-year improvements in net sales and operating income.
- Additionally, benefits from efficiency initiatives and favourable currency impact (especially from a stronger U.S. dollar) further added to margin improvement.
- A correction in the North American market has added to the headwinds in the truck market in 2016.
- However, operating income from Trucks still maintained positive momentum in 2016, with a modest increase in the first six months of year, supported by ongoing benefits from the efficiency program, lower material costs and research and development expenses despite a modest decline in net sales.

The Construction Equipment Business

- In contrast, the construction equipment market was weak globally in 2015, with sharp declines in China and South America, particularly Brazil. North America was an outlier with a marginal increase.
- Volvo's CE business still reported respectable results with a solid increase in operating income in 2015 despite challenging market conditions. However, operating margins remained weak compared with historical levels.
- Continued weak conditions in China and Brazil as well as a decline in demand for large machines in North America led to an over 7% decline in net sales in the first six months of 2016 compared with the same period in 2015 for CE.
- CE also reported a 32% decline in operating income in the first half of 2016 compared with the same period in 2015, with lower volume sales being the key factor.

Other Businesses

- Buses and Volvo Penta, the two smaller businesses, turned in respectable year-over-year increases in sales and operating income in 2015 supported by favourable market conditions despite some weakness in South America.
- Buses and Volvo Penta maintained their improving momentum in both net sales and operating income throughout the first half of 2016.

Outlook

- Market conditions for trucks and construction equipment have deteriorated in the first half of 2016 and are expected to remain challenging in the last half of 2016 and into 2017.
- The correction in the North American truck market is expected to worsen, while in Brazil the ongoing political turmoil and resultant weak economy is expected to persist.
- The European truck market, Volvo's biggest market, has been a bright spot for the company but is vulnerable to Brexit fallout.
- Brexit will likely have a negative impact on both U.K. and EU economies and the resultant demand for trucks and construction equipment in Europe. Nevertheless, DBRS does not expect Brexit to have any material impact before 2017.
- Hence, DBRS expects the performance of Trucks to likely come under pressure in the last half of 2016 because of headwinds in North America and Brazil. The negative impact of Brexit will add to the headwinds in 2017.
- Consequently, Volvo's operating income in 2016 and 2017 is expected to fall below 2015 levels because of lower operating income at Trucks and CE despite solid performance in the Buses and Volvo Penta businesses and a stronger contribution from the efficiency program.

Earnings and Outlook (CONTINUED)

Segmented Information (Industrial Operations only)

Net Sales	6 mos. to Jun. 30		12 mos. to Jun. 30	For the year ended December 31				
(SEK millions)	2016	2015	2016	2015	2014	2013	2012	2011
Trucks	100,350	108,718	205,610	213,978	190,904	178,474	189,156	198,920
Buses	11,992	10,799	24,773	23,580	18,645	16,707	19,586	21,823
Construction Equipment	26,082	28,157	48,933	51,008	52,855	53,437	63,558	63,500
Volvo Penta	5,019	4,834	9,591	9,406	7,790	7,550	7,631	8,458
Operating Income – Adjusted (SEK millions)								
Trucks	8,963	8,180	19,758	18,975	9,412	6,824	12,219	18,227
Buses	371	214	1,039	882	98	(190)	148	1,114
Construction Equipment	1,152	1,705	1,537	2,090	1,231	2,592	5,667	6,812
Volvo Penta	755	645	1,212	1,102	729	626	549	825
Operating Margin								
Trucks	8.9%	7.5%	9.6%	8.9%	4.9%	3.8%	6.5%	9.2%
Buses	3.1%	2.0%	4.2%	3.7%	0.5%	-1.1%	0.8%	5.1%
Construction Equipment	4.4%	6.1%	3.1%	4.1%	2.3%	4.9%	8.9%	10.7%
Volvo Penta	13.4%	13.3%	12.6%	11.7%	9.4%	8.3%	7.1%	9.8%

* Adjusted for non-recurring items.

Financial Profile

(Industrial Operations)	6 mos. to Jun. 30		12 mos. to Jun. 30	For the year ended December 31				
(SEK millions)	2016	2015	2016	2015	2014	2013	2012	2011
EBITDA	16,421	15,863	31,502	30,944	23,049	22,239	29,429	37,683
Net income before non-recurring	6,493	5,510	12,500	11,517	6,550	5,133	11,809	17,750
Depreciation & amortization	6,000	6,300	12,275	12,575	12,674	14,473	11,986	11,419
Finance income	(991)	(971)	(2,026)	(2,006)	(1,712)	(1,522)	(1,496)	(942)
Other non-cash items	1,746	3,043	5,307	6,604	99	(1,407)	(673)	2,787
Cash flow from operations (Industrials)	13,248	13,882	28,056	28,690	17,611	16,677	21,626	31,014
Less: dividend	6,100	6,100	6,090	6,090	6,084	6,246	6,083	5,071
Less: capital expenditures, net	4,000	3,600	8,840	8,440	7,982	13,183	17,244	12,749
Cash flow before working capital	3,148	4,182	13,126	14,160	3,545	(2,752)	(1,701)	13,194
Changes in working capital	(12,100)	(5,800)	(8,962)	(2,662)	(1,387)	(194)	(7,924)	(562)
Cash flow after W/C (Industrial Oper.)	(8,952)	(1,618)	4,164	11,498	2,158	(2,946)	(9,625)	12,632
Operating cash flow (Financial Services)	800	(3,300)	(1,765)	(5,865)	(5,267)	(7,574)	(14,784)	(14,102)
Divestitures (acquisitions) of operations	1,400	400	1,408	408	7,398	932	3,390	(1,590)
Inv'ts and divestment of shares, net	200	(2,200)	416	(1,984)	69	(14)	(1,186)	(119)
Other	(3,148)	3,618	(2,770)	3,996	(11,769)	(1,592)	3,509	1,858
Cash flow before financing	(9,700)	(3,100)	1,453	8,053	(7,411)	(11,194)	(18,696)	(1,321)
Changes in group debt*	3,700	(5,400)	(4,147)	(13,247)	6,686	12,955	14,075	8,734
Changes in equity	0	0	0	0	0	0	0	0
Changes in cash	(6,000)	(8,500)	(2,694)	(5,194)	(725)	1,761	(4,621)	7,413

* Group debt includes debts for both industrial and customer finance operations.

Financial Profile (CONTINUED)

Summary

- Cash flow from operations (Industrials), as defined by DBRS, increased substantially in 2015.
- Increased earnings were a key contributor to the cash flow improvement.
- The large “other non-cash items” was made up of a number of items, including deferred taxes, unrealized exchange losses and provisions, etc.
- Capital expenditures were comparable with 2014 and well below pre-2014 levels, as investment in product renewal was largely complete.
- A large increase in inventory and lower payables led to the increase in working capital cash usage.
- Nevertheless, internal cash generation more than covers operating funding needs and the Company has reported a substantial increase in operating cash flow from Industrial Operations.
- On January 5, 2015, Volvo acquired a 45% interest in the Chinese truck manufacturer DFCV for approximately SEK 7.0 billion (CNY 5.5 billion). This transaction strengthens Volvo’s position in the truck market in China as well as solidifies its position as one of the leading global medium- and heavy-duty truck manufacturers.
- The Company has also sold all of its holdings in Eicher Motors Limited, an Indian automotive manufacturer, in two tranches for approximately SEK 4.7 billion and reported capital gains of about SEK 4,608 million.
- The Company has also taken deleveraging actions, reducing group debt by SEK 13.2 billion with free cash flow and cash on hand. (Volvo does not disclose changes in debt levels but only debt position at the end of 2015 for Industrial Operations.)
- Cash flow from operations (Industrials) in the first six months of 2016 was comparable with the same period in 2015 and broadly in line with earnings.
- Again, deferred taxes were the key contributor to the large positive in other non-cash items.
- Capital expenditures were comparable with the same period in 2015, as planned.
- Working capital usage rose sharply in the first half of 2016 as a result of the reduction in payables (lower truck production), partly offset by inventory reduction.

Outlook

- Cash flow from operations in the second half of 2016 is likely to be slightly weaker than the first half of 2016, which is in line with earnings expectations.
- Capital expenditures are expected to be comparable with the same period in the prior year, as planned by the Company.
- DBRS expects that working capital cash usage will likely decline from the high level in the first half of 2016 and that the Company will incur a deficit in cash flow before financing.
- The Company’s balance sheet strength and financial profile will likely remain compatible with the current rating despite an anticipated weakening.

Debt and Liquidity

The Company has cash on hand (including marketable securities) of SEK 24,392 million (SEK 21,210 million in Industrial Operations) and unused credit facilities totalling SEK 39,721 million, with varying maturities between 2016 and 2020. The majority of the debt will fund customer finance operations. The majority of Volvo Financial Services' (VFS) assets are short-dated finance receivables, with SEK 54,501 million maturing within one year at the end of 2015. DBRS notes that the Company has sufficient liquidity to meet all of its funding needs.

Group Maturity Schedule		Bonds & Loans Other	Available Credit Facilities
2016			1,576
2017		35,608	6,140
2018		9,171	10,973
2019		12,392	-
2020		1,643	21,032
2021		96	
2022 or later		16,365	
Current maturity	57,331	**75,275**	**39,721**
Customer finance loans	48,786	54,501	
Industrial operations	8,545	20,774	
	57,331	**75,275**	

Volvo Financial Services (VFS)

Financial Services	6 mos. to Jun. 30		12 mos. to Jun. 30	For the year ended December 31				
(SEK millions, where applicable)	**2016**	**2015**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Revenue	5,614	4,819	10,906	11,199	10,111	9,539	9,783	8,883
Pre-tax income	971	788	1,895	2,006	1,712	1,522	1,492	969
Net income	650	475	1,320	1,373	1,145	1,054	1,058	646
Credit portfolio	127,000	123,000	127,000	122,606	117,101	103,873	99,690	94,275
Write-offs	n.a.	n.a.	n.a.	491	715	719	577	804
Reserve as % of portfolio	1.4%	1.4%	1.4%	1.4%	1.3%	1.3%	1.2%	1.3%
Leverage (total debt / equity)	10.7	10.7	10.7	10.7	10.8	10.6	10.6	9.4

- VFS has continued to grow its managed portfolio, which reached SEK 122.6 billion at the end of 2015, an increase of 4.7% from 2014.
- However, the penetration rate has declined modestly in 2015 to 25% from 28% in 2014.
- The credit quality of VFS's portfolio has remained stable, and the asset and funding profile is suitably matched.
- A sharp decline in write-offs in 2015 to SEK 491 million from SEK 715 million in 2014 augurs well for the credit quality of the portfolio.
- Credit reserve as a percent of the credit portfolio was 1.41% in 2015, rising from 1.33% in 2014, and, as such, remains adequate.
- The leverage (gross debt/equity) at 10.7 times remains acceptable, albeit at the high end of the range.
- Revenue and net income have maintained their growth momentum, rising 10.8% and 19.9%, respectively, from 2014.
- A growing portfolio, along with pricing controls, cost controls and disciplined risk management, led to a sharp improvement in net income. A low credit provision also contributed.
- Net income for the first six months of 2016 was modestly higher than the same period in 2015 despite weaker net sales.

AB Volvo

(Financial Services accounted for on an equity basis)

Balance Sheet	June 30	As at December 31			June 30	As at December 31	
(SEK millions, where applicable)	2016	2015	2014		2016	2015	2014
Assets				**Liabilities & Equity**			
Cash & deposits	17,826	21,210	31,105	Accounts payable	50,461	55,250	56,351
Accounts receivable	55,790	54,945	54,096	Short-term debt	10,883	10,105	11,863
Inventories	48,363	44,194	45,364	Other current liabilities	60,907	55,869	51,622
Total current assets	**121,979**	**120,349**	**130,565**	**Total current liabilities**	**122,251**	**121,224**	**119,836**
Financial services (equity)	10,774	10,460	9,943	Long-term debt	17,343	15,657	29,317
Net fixed assets	75,560	74,170	74,571	Post-empl. benefits	17,667	13,621	16,580
Other investment	12,017	12,041	9,825	Other liabilities	31,347	30,764	30,343
Intangibles	38,241	36,314	37,010	Minority interest	1,824	1,801	1,723
Other assets	22,665	20,342	21,210	Common equity	90,803	90,609	85,325
Total	**281,236**	**273,676**	**283,124**	**Total**	**281,235**	**273,676**	**283,124**

Balance Sheet / Coverage Ratios	Annualized	12 mos. to Jun. 30	For the year ended December 31				
	30-Jun.-16	2016	2015	2014	2013	2012	2011
Inventory turnover (days)		80	69	72	70	67	65
Receivable turnover (days)		72	66	67	65	59	56
Accounts payable / inventory		1.0	1.3	1.2	1.3	1.2	1.3
EBITDA / int. covg. 1	10.1	12.8	11.5	9.8	7.3	9.3	12.1
% gross debt in capital structure	23.7%	23.7%	22.1%	32.6%	40.8%	41.7%	39.6%
% gross debt in capital structure 1	28.3%	28.3%	26.9%	37.3%	43.8%	44.1%	41.7%
% net debt in capital structure	10.3%	10.3%	4.8%	10.6%	24.2%	26.7%	18.7%
Net non-finance debt (cash)	10,400	10,400	4,552	10,075	24,263	27,569	19,443
Cash flow / total debt 1	0.97	1.02	1.15	0.45	0.33	0.41	0.57
Asset coverage	2.4	2.4	2.6	1.8	1.5	1.4	1.6
Cash flow / capital expenditure	3.31	3.17	3.40	2.21	1.27	1.25	2.43
Debt / EBITDA 1	1.05	1.09	1.04	2.06	2.54	1.97	1.57

1 Adjusted for captilized operating leases as debt.

Income Statement	6 mos. to Jun. 30		12 mos. to Jun. 30	For the year ended December 31				
(SEK millions)	2016	2015	2016	2015	2014	2013	2012	2011
Sales	145,652	154,993	294,241	303,582	275,999	265,420	292,198	303,589
Cost of sales	107,046	114,264	216,518	223,736	204,577	194,834	215,759	220,097
Depreciation	6,000	6,300	12,275	12,575	12,674	14,473	11,986	11,419
Other operating expenses	22,185	24,866	46,221	48,902	48,373	48,347	47,010	45,809
Operating expenses	**135,231**	**145,430**	**275,014**	**285,213**	**265,624**	**257,654**	**274,755**	**277,325**
Operating earnings	**10,421**	**9,563**	**19,227**	**18,369**	**10,375**	**7,766**	**17,443**	**26,264**
Interest expenses	883	1,115	2,134	2,366	1,994	2,810	2,949	2,912
Income after interest expense	**9,538**	**8,448**	**17,093**	**16,003**	**8,381**	**4,956**	**14,494**	**23,352**
Finance services income	991	971	2,026	2,006	1,712	1,522	1,496	942
Other income / (expenses)	(328)	(670)	(332)	(674)	1,354	457	432	634
Pre-tax income	10,201	8,749	18,787	17,335	11,447	6,935	16,422	24,928
Income taxes	**3,673**	**3,208**	**6,242**	**5,777**	**4,761**	**1,584**	**4,394**	**6,814**
Income after taxes	6,528	5,541	12,545	11,558	6,686	5,352	12,028	18,114
Non-controlling interest	(35)	(30)	(46)	(41)	(136)	(219)	(219)	(364)
Net inc. before non-recurring items	**6,493**	**5,511**	**12,499**	**11,517**	**6,550**	**5,133**	**11,809**	**17,750**
Non-recurring items	(749)	3,888	(1,096)	3,541	(4,451)	(1,551)	(650)	0
Net income	**5,744**	**9,399**	**11,403**	**15,058**	**2,099**	**3,582**	**11,159**	**17,750**

	6 mos. to Jun. 30		12 mos. to Jun. 30	For the year ended December 31				
Cash Flow (Ex. finance)	**2016**	**2015**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Cash flow from operations	13,248	13,882	28,056	28,690	17,611	16,677	21,626	31,014
Less: capital expenditure	4,000	3,600	8,840	8,440	7,982	13,183	17,244	12,749
Less: dividends	6,100	6,100	6,090	6,090	6,084	6,246	6,083	5,071
Cash flow (pre-W/C)	**3,148**	**4,182**	**13,126**	**14,160**	**3,545**	**(2,752)**	**(1,701)**	**13,194**
Changes in working capital	(12,100)	(5,800)	(8,962)	(2,662)	(1,387)	(194)	(7,924)	(562)
Cash flow after W/C	**(8,952)**	**(1,618)**	**4,164**	**11,498**	**2,158**	**(2,946)**	**(9,625)**	**12,632**
Profitability Ratios								
Gross margin	26.5%	26.3%	26.4%	26.3%	25.9%	26.6%	26.2%	27.5%
Operating margin	7.2%	6.2%	6.5%	6.1%	3.8%	2.9%	6.0%	8.7%
Pre-tax margin (incl. financial services)	7.0%	5.6%	6.4%	5.7%	4.1%	2.6%	5.6%	8.2%
Net margin (inc. financial services)	4.5%	3.6%	4.2%	3.8%	2.4%	1.9%	4.0%	5.8%
Return on equity	14.6%	13.8%	15.0%	13.1%	8.1%	6.8%	14.7%	22.5%
Return on capital	10.9%	9.1%	10.5%	9.9%	5.2%	4.0%	9.1%	12.7%

Rating History

Issuer	Debt	Current	2015	2014	2013	2012	2011
AB Volvo	Issuer Rating	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	--
AB Volvo	Senior Unsecured Debt	--	--	BBB (high)	BBB (high)	BBB (high)	BBB (high)
AB Volvo	Short-Term Debt	--	--	R-2 (high)	R-2 (high)	R-2 (high)	R-2 (high)
Volvo Treasury Canada Inc.	Senior Unsecured Debt	--	--	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Volvo Treasury Canada Inc.	Short-Term Debt	--	--	R-2 (high)	--	--	--
Volvo Treasury Canada Inc.	Commercial Paper	--	--	--	R-2 (high)	R-2 (high)	R-2 (high)

Previous Report

- *AB Volvo: Rating Report*, September 2, 2015.

Notes:
All figures are in Swedish krona unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.