

REPORT ON THE THIRD QUARTER 2019



- » In Q3 2019, net sales increased 7% to SEK 98.7 billion (92.3). Adjusted for currency movements, net sales increased by 2%.
- » Both adjusted and reported operating income amounted to SEK 10,885 M (10,247), corresponding to an operating margin of 11.0% (11.1).
- » Currency movements had a positive impact on operating income of SEK 1,273 M.
- » Diluted earnings per share amounted to SEK 3.67 (3.67).
- » Operating cash flow in the Industrial Operations amounted to SEK 1,831 M (1,316).

SEK M unless otherwise stated	Third quarter		First nine months	
	2019	2018	2019	2018
Net sales	98,723	92,282	326,625	285,048
Adjusted operating income ¹	10,885	10,247	38,687	30,063
Adjusted operating margin, %	11.0	11.1	11.8	10.5
Operating income	10,885	10,247	40,153	30,881
Operating margin, %	11.0	11.1	12.3	10.8
Income after financial items	10,129	9,698	37,975	29,110
Income for the period	7,549	7,520	29,664	22,700
Diluted earnings per share, SEK	3.67	3.67	14.36	10.98
Operating cash flow in Industrial Operations	1,831	1,316	18,453	11,126
Return on capital employed in Industrial Operations, %			25.8	25.5
Return on equity, %			24.6	24.1
Net order intake, number of trucks	35,726	65,348	129,431	197,969
Deliveries, number of trucks	52,357	52,993	176,188	164,138
Net order intake, number of construction equipment	14,885	16,342	61,216	63,067
Deliveries, number of construction equipment	16,460	16,861	66,487	63,071

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

CEO'S COMMENTS

Good performance, weakening demand



In Q3 2019 we increased our sales and continued to deliver solid profitability. Sales reached SEK 99 billion (92), the operating income improved to SEK 10.9 billion (10.2) and the operating margin amounted to 11.0% (11.1). Our service revenues were stable in the quarter, as a result of continued good activity levels and fleet utilization among our customers. On the other hand, demand for new vehicles is declining and we are facing a period of tougher market conditions.

Operating cash flow in our Industrial Operations amounted to SEK 1.8 billion (1.3) and at the end of the quarter we had a net cash position of SEK 43.1 billion. Our strong finances give us the ability to continue to invest in our future in order to secure an even more competitive customer offering.

For our truck operations, the trend from previous quarters with improved profitability but also with a decline in order intake continued in Q3. Our truck operation's net sales increased by 6% to SEK 64.4 billion and the operating income improved to SEK 7.5 billion (6.8), corresponding to an operating margin of 11.6% (11.1). During the last couple of years, customers in Europe and North America have renewed and expanded their truck fleets, but with freight volumes having leveled off and with the current uncertainty about the future economic development they are now holding back on investments. This is reflected in our order intake, which declined by 45% compared to the elevated levels, particularly in North America, last year. During Q3, we continued to reduce our production volumes and further adjustments will be implemented in coming quarters. For 2020, we expect markets to come down to more normal replacement levels in both Europe and North America, which we have prepared ourselves for.

After a few years of high market levels, demand for construction equipment is slowing down. In Q3, order intake for construction equipment declined by 9% compared with a year ago. Although many markets are coming off their previous high levels, we expect that low interest rates and the need in many countries to invest in infrastructure will continue to support demand over time. In Q3, net sales decreased by 4% to SEK 17.9 billion and the operating income amounted to SEK 2.2 billion (2.6), corresponding to an operating margin of 12.2% (13.9). Also in Construction Equipment we have lowered our

production volumes, and will continue to do so, to adapt to the lower demand and reduce pipeline stock.

Bus deliveries increased by 20%, and the higher volumes contributed to Volvo Buses improving the operating income to SEK 343 M (254) with a margin of 4.5% (4.4).

Volvo Penta's net sales decreased by 2% as engine deliveries decreased compared to last year, when demand in Europe was high due to a prebuy of industrial engines. The operating margin declined to 12.7% (19.6) mainly as an effect of the lower volumes and high activities within R&D.

Our customer financing operations in Financial Services increased the operating income to SEK 774 M (621) and the return on equity was 15.0% (15.1), reflecting the high portfolio level after some years of increased vehicle deliveries.

Our industry is currently in a transformation phase, with focus on technologies such as connectivity, electrification and automation. We have now passed a milestone with more than one million connected trucks, buses, and construction equipment delivered to customers around the world. The connected solutions bring increased uptime for our customers, better safety and opportunities to improve efficiency. Connectivity will also be an important enabler for autonomous solutions and our customers are excited about the potential for improved efficiency our autonomous solutions can bring. We have decided to create a new business area, Volvo Autonomous Solutions, with full focus on developing, commercializing and scaling up autonomous solutions across the Group.

In all parts of the organization we will continue to take action in order to secure performance and maintain a good profitability over the business cycle. Our ambition is also to continue to accelerate investments in R&D to further reduce fuel consumption and CO₂ emissions as well as to invest in the new technologies and services that are transforming our industry.

Martin Lundstedt
President and CEO

FINANCIAL SUMMARY OF THE THIRD QUARTER 2019

Net sales

In Q3 2019, the Volvo Group's net sales increased by 7% to SEK 98,723 M (92,282). Adjusted for currency movements, net sales increased by 2%.

Vehicle sales increased by 2% adjusted for currency movements, primarily driven by higher bus deliveries. Adjusted for currency movements, service sales increased by 1%.

Operating income

Both the adjusted and reported operating income in Q3 2019 amounted to SEK 10,885 M (10,247), corresponding to an operating margin of 11.0% (11.1).

Compared with Q3 2018, the higher operating income is mainly an effect of improved prices and lower product costs, which were partly offset by higher R&D expenses, negative mix and higher selling expenses.

Earnings for Trucks in Q3 2019 includes a capital gain of SEK 217 M related to the sale of real estate. Earnings for

Volvo CE in Q3 2018 included a capital gain of SEK 225 M from the sale of land.

Currency movements, compared with Q3 2018, had a positive impact of SEK 1,273 M.

Financial items

Compared with Q3 2018, interest income increased to SEK 82 M (48) as a result of higher cash assets. Interest expenses amounted to SEK 376 M (433). The decrease relates to lower outstanding debt, which was partly offset by interest expenses on lease liabilities as a result of applying the new lease accounting standard IFRS 16 as of January 1, 2019.

In Q3 2019 Other financial income and expenses amounted to SEK -463 M (-165). The change compared with the previous year is primarily related to unrealized revaluations and realized results on derivatives.

Net sales SEK M	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
Europe	36,078	36,483	-1	122,017	116,589	5
North America	30,121	26,520	14	102,847	77,348	33
South America	8,622	5,789	49	23,187	15,509	50
Asia	17,584	17,157	2	59,629	57,531	4
Africa and Oceania	6,318	6,332	-	18,944	18,071	5
Total	98,723	92,282	7	326,625	285,048	15
Of which:						
Vehicles ¹	73,866	69,049	7	253,018	217,431	16
Services	21,300	19,997	7	63,616	58,481	9
Financial Services revenue	3,765	3,344	13	11,048	9,633	15
Eliminations	-208	-109	-91	-1,058	-497	-113

¹ Including construction equipment and Volvo Penta engines

Consolidated Income Statement, Volvo Group		Third quarter		First nine months	
SEK M		2019	2018	2019	2018
Net sales		98,723	92,282	326,625	285,048
Cost of sales		-74,461	-69,812	-246,117	-215,770
Gross income		24,263	22,470	80,508	69,278
Research and development expenses		-4,251	-3,327	-13,191	-11,787
Selling expenses		-7,973	-7,320	-24,281	-22,656
Administrative expenses		-1,333	-1,275	-4,283	-4,328
Other operating income and expenses		-86	-535	-8	-1,452
Income/loss from investments in joint ventures and associated companies		227	234	1,128	1,805
Income from other investments		39	1	279	21
Operating income		10,885	10,247	40,153	30,881
Interest income and similar credits		82	48	241	140
Interest expenses and similar charges		-376	-433	-1,289	-1,242
Other financial income and expenses		-463	-165	-1,130	-669
Income after financial items		10,129	9,698	37,975	29,110
Income taxes		-2,580	-2,178	-8,310	-6,410
Income for the period *		7,549	7,520	29,664	22,700
* Attributable to:					
Owners of AB Volvo		7,455	7,459	29,201	22,334
Non-controlling interest		94	61	463	365
		7,549	7,520	29,664	22,700
Basic earnings per share, SEK		3.67	3.67	14.36	10.99
Diluted earnings per share, SEK		3.67	3.67	14.36	10.98

Income taxes

In Q3 2019, the tax expense amounted to SEK 2,580 M (2,178) corresponding to a tax rate of 25% (22). The increased tax rate in Q3 2019 is related to changed country mix as well as tax settlements.

Income for the period and earnings per share

In Q3 2019, income for the period amounted to SEK 7,549 M (7,520). Diluted earnings per share amounted to SEK 3.67 (3.67).

Operating cash flow in the Industrial Operations

During Q3 2019, operating cash flow in the Industrial Operations was positive in an amount of SEK 1,831 M (1,316). When compared with Q3 2018, cash flow was positively impacted by the higher operating income of SEK 485 M. The quarter was negatively impacted by the normal seasonality in working capital.

Volvo Group financial position

During Q3 2019, net financial assets in the Industrial Operations, excluding provisions for post-employment benefits and lease liabilities, increased by SEK 2.1 billion resulting in a net financial asset position of SEK 43.1 billion on September 30, 2019. This is equal to 34.9% of total equity. The change is mainly explained by a positive operating cash flow of SEK 1.8 billion. Currency movements increased net financial assets by SEK 0.1 billion.

Including provisions for post-employment benefits and lease liabilities, the Industrial Operations had net financial assets of SEK 16.3 billion, corresponding to 13.2 % of total equity, on September 30, 2019. Provisions for post-employment benefits and lease liabilities increased by SEK 2.6 billion during the quarter. This was mainly due to remeasurements of defined benefit pension plans of SEK 2.3 billion as an effect of lower long-term interest rates, which increased pension liabilities. Meanwhile, return on assets increased, which led to higher pension assets. Currency movements increased provisions for post-employment benefits and lease liabilities by SEK 0.4 billion.

On September 30, 2019 total equity for the Volvo Group amounted to SEK 137.9 billion compared to SEK 125.8 billion at year-end 2018. The equity ratio was 26.3% (26.5). On the same date the equity ratio in the Industrial Operations amounted to 32.3% (31.9).

Number of employees

On September 30, 2019, the Volvo Group had 105,569 employees, including temporary employees and consultants, which was an increase of 219 employees compared with September 30, 2018. The number of blue-collar employees decreased by 1,185 while the number of white-collar employees increased by 1,404. The increase in employees is primarily related to Trucks. Since June 30, 2019, the number of employees has decreased by 1,760.

Number of employees	Sep 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018
Blue-collar	52,321	54,516	54,016	53,065	53,506
Whereof temporary employees and consultants	5,514	7,437	7,173	6,501	7,726
White-collar	53,248	52,813	52,264	52,110	51,844
Whereof temporary employees and consultants	7,050	6,854	6,607	6,545	6,528
Total number of employees	105,569	107,329	106,280	105,175	105,350
Whereof temporary employees and consultants	12,564	14,291	13,780	13,046	14,254

BUSINESS SEGMENT OVERVIEW

Net sales SEK M	Third quarter		Change %	Change % ¹	First nine months		Change %	Change % ¹	12 months rolling	Jan-Dec 2018
	2019	2018			2019	2018				
Trucks	64,381	60,682	6	1	208,454	181,826	15	8	276,986	250,358
Construction Equipment	17,921	18,598	-4	-7	68,889	63,915	8	3	89,212	84,238
Buses	7,681	5,804	32	28	23,413	18,339	28	20	30,900	25,826
Volvo Penta	3,151	3,207	-2	-5	10,241	9,909	3	-1	14,073	13,741
Group Functions & Other	2,825	1,472	92	85	8,098	4,299	88	80	11,367	7,568
Eliminations	-792	-717	-10	-11	-2,461	-2,375	-4	-4	-3,497	-3,411
Industrial Operations	95,167	89,047	7	2	316,634	275,913	15	9	419,041	378,320
Financial Services	3,765	3,344	13	8	11,048	9,633	15	9	14,485	13,070
Reclassifications and eliminations	-208	-109	-	-	-1,058	-497	-	-	-1,116	-555
Volvo Group	98,723	92,282	7	2	326,625	285,048	15	9	432,411	390,834

¹ Adjusted for exchange rate fluctuations.

Adjusted operating income ¹ SEK M	Third quarter		Change %		First nine months		Change %		12 months rolling	Jan-Dec 2018
	2019	2018			2019	2018				
Trucks	7,488	6,757	11		25,329	18,902	34		32,778	26,351
Construction Equipment	2,180	2,587	-16		9,979	9,149	9		12,136	11,306
Buses	343	254	35		1,040	499	108		1,306	765
Volvo Penta	399	630	-37		1,702	1,848	-8		2,195	2,341
Group Functions & Other	-311	-608	49		-1,416	-2,130	34		-1,789	-2,503
Eliminations	12	6	100		-8	-10	20		-10	-12
Industrial Operations	10,111	9,626	5		36,625	28,258	30		46,616	38,249
Financial Services	774	621	25		2,062	1,805	14		2,668	2,411
Volvo Group	10,885	10,247	6		38,687	30,063	29		49,284	40,660
Adjustments ¹	-	-	-		1,466	818	79		-5,534	-6,182
Volvo Group operating income	10,885	10,247	6		40,153	30,881	30		43,750	34,478

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

Adjusted operating margin %	Third quarter				First nine months				12 months rolling	Jan-Dec 2018
	2019	2018			2019	2018				
Trucks	11.6	11.1			12.2	10.4			11.8	10.5
Construction Equipment	12.2	13.9			14.5	14.3			13.6	13.4
Buses	4.5	4.4			4.4	2.7			4.2	3.0
Volvo Penta	12.7	19.6			16.6	18.6			15.6	17.0
Industrial Operations	10.6	10.8			11.6	10.2			11.1	10.1
Volvo Group	11.0	11.1			11.8	10.5			11.4	10.4
Volvo Group operating margin	11.0	11.1			12.3	10.8			10.1	8.8

TRUCKS

Profit growth, weakening demand

- » In Q3 net sales grew by 6% to SEK 64,381 M
- » Both the adjusted and reported operating income amounted to SEK 7,488 M (6,757), with an operating margin of 11.6% (11.1)
- » Order intake declined by 45%

Market development

Over the last couple of years there has been both fleet renewal and fleet expansion in the European and North American truck markets. This has built freight capacity which now has caught up with transport demand, which can be noticed in both lower freight rates and used vehicle prices. Hence, in the near term these markets are expected to be driven primarily by fleet renewals. European heavy-duty truck registrations grew by 6% in the first eight months of 2019 and for North America the heavy-duty market grew by 16%. Transport activity has remained on a good level in both these markets, but customers are holding back on investments in new trucks to assure fleet utilization in times of economic uncertainty.

In Brazil, the market growth has continued and the increase in demand is broad-based. The heavy-duty truck market growth was 52% through September.

The truck market in India continued its decline from the second quarter, affected by tight credit conditions for truck financing, lower economic activity in general and lower investment sentiment.

The shift towards heavy-duty trucks in China has continued. Through September the heavy-duty truck market was slightly down with 1% lower volumes while the medium-duty volumes were down by 25% compared with the same period in 2018.

In Japan, the heavy-duty market grew by 6% in the first three quarters, but the market is expected to decrease post the VAT increase from 8% to 10% which took effect in October.



Volvo VNR Electric was unveiled for the first time.

Orders and deliveries

Total truck net order intake in Q3 2019 decreased by 45% to 35,726 trucks while deliveries decreased by 1% to 52,357 vehicles.

In Europe, order intake of heavy- and medium-duty trucks decreased by 20% to 16,332 vehicles and deliveries decreased by 10% to 17,697 vehicles. Volvo Trucks' heavy-duty market share through August decreased to 15.3% compared with 16.2% in the same period last year. Renault Trucks' market share was 8.6% (8.6). The sharp order decline for light-duty vehicles was caused by dealer destocking of vehicles ahead of a model changeover in connection with a new emission step. There is still a healthy demand for light-duty vehicles from end customers.

North American order intake decreased by 81% to 4,966 vehicles as a result of a very strong last year, expectations of a slowing market and the fact that dealer stocks are at historically high levels. Deliveries increased by 5% to 14,268 trucks. Volvo Trucks' heavy-duty truck market share decreased to 9.3% (10.5) while Mack Trucks' market share increased to 6.8% (6.6).

South American order intake decreased by 27% to 3,832 trucks while deliveries increased by 39% to 6,661 vehicles. The order decline comes post a strong second quarter and the fact that some customers waited to place orders until the commercial vehicle show in October. Volvo Trucks' market share in heavy-duty trucks in Brazil increased to 21.3% (20.7).

In Asia, order intake increased by 4% to 6,353 vehicles primarily driven by the Middle East, while deliveries declined by 4% to 7,319 vehicles. In Japan, UD Trucks grew its heavy-duty truck market share to 17.7% (16.6). Deliveries from the Group's Indian joint venture, VECV, decreased by 41% to 9,498 vehicles while the Chinese joint venture, DFCV, increased its deliveries by 10% to 40,967 vehicles.

Total market development	First nine months		Change %	Full year 2018	Forecast 2019	Change vs. previous 2019 forecast	Forecast 2020
	2019	2018					
Registrations, number of trucks							
Europe 28 ¹ heavy-duty (as of August)	200,252	189,374	6	284,149	-	-	-
Europe 30 ¹ heavy-duty				322,123	320,000	unchanged	275,000
North America heavy-duty (Retail sales)	258,057	222,014	16	310,557	340,000	+15,000	240,000
Brazil heavy-duty	54,863	36,155	52	52,654	75,000	+5,000	75,000
China heavy-duty	889,020	895,941	-1	1,147,884	1,140,000	+170,000	1,075,000
China medium-duty	104,425	138,324	-25	177,206	130,000	-50,000	125,000
India heavy-duty	162,687	239,604	-32	306,113	200,000	-50,000	210,000
India medium-duty	79,465	86,260	-8	114,270	100,000	-10,000	100,000
Japan heavy-duty	39,223	37,004	6	48,242	45,000	unchanged	45,000

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	Third quarter		Change	First nine months		Change
	2019	2018		2019	2018	
Number of trucks			%			%
Europe	18,072	24,324	-26	67,419	82,951	-19
Heavy- and medium-duty	16,332	20,328	-20	57,924	67,742	-14
Light-duty	1,740	3,996	-56	9,495	15,209	-38
North America	4,966	26,085	-81	17,863	65,350	-73
South America	3,832	5,239	-27	14,182	13,649	4
Asia	6,353	6,111	4	21,488	25,275	-15
Africa and Oceania	2,503	3,589	-30	8,479	10,744	-21
Total orders	35,726	65,348	-45	129,431	197,969	-35
Heavy-duty (>16 tons)	30,853	58,062	-47	110,251	171,801	-36
Medium-duty (7-16 tons)	2,994	3,112	-4	9,073	10,227	-11
Light-duty (<7 tons)	1,879	4,174	-55	10,107	15,941	-37
Total orders	35,726	65,348	-45	129,431	197,969	-35
Volvo	19,823	40,626	-51	72,186	114,930	-37
UD	4,453	4,836	-8	14,369	15,661	-8
Renault Trucks	7,901	11,967	-34	32,329	44,215	-27
Heavy- and medium-duty	6,155	7,859	-22	22,729	28,670	-21
Light-duty	1,746	4,108	-57	9,600	15,545	-38
Mack	3,549	7,919	-55	10,547	23,163	-54
Total orders	35,726	65,348	-45	129,431	197,969	-35
Non-consolidated operations						
VE Commercial Vehicles (Eicher)	9,763	15,899	-39	36,460	47,997	-24

Net sales and operating income

The truck operation's net sales amounted to SEK 64,381 M, which was 6% higher than in Q3 2018. Net sales adjusted for currency increased by 1%, with sales of both vehicles and services increasing by 1%.

Both adjusted and reported operating income amounted to SEK 7,488 M (6,757) corresponding to an operating margin of 11.6% (11.1).

Compared with Q3 2018, the higher operating income is mainly an effect of improved prices and lower product cost, which were partly offset by higher R&D expenses and selling expenses.

Earnings in Q3 2019 includes a capital gain of SEK 217 M related to the sale of real estate.

Compared with Q3 2018, currency movements had a positive impact of SEK 535 M.

Deliveries	Third quarter		Change	First nine months		Change
	2019	2018		2019	2018	
Number of trucks			%			%
Europe	20,669	23,512	-12	77,007	78,531	-2
Heavy- and medium-duty	17,697	19,702	-10	63,471	65,894	-4
Light-duty	2,972	3,810	-22	13,536	12,637	7
North America	14,268	13,565	5	50,483	39,805	27
South America	6,661	4,787	39	17,049	11,864	44
Asia	7,319	7,603	-4	21,739	23,710	-8
Africa and Oceania	3,440	3,526	-2	9,910	10,228	-3
Total deliveries	52,357	52,993	-1	176,188	164,138	7
Heavy-duty (>16 tons)	46,402	46,127	1	152,282	140,837	8
Medium-duty (7-16 tons)	2,685	2,910	-8	9,404	10,274	-8
Light-duty (<7 tons)	3,270	3,956	-17	14,502	13,027	11
Total deliveries	52,357	52,993	-1	176,188	164,138	7
Volvo	29,396	30,052	-2	98,497	93,640	5
UD	5,457	5,153	6	15,057	14,689	3
Renault Trucks	10,659	11,712	-9	40,220	38,473	5
Heavy- and medium-duty	7,590	7,835	-3	26,380	25,630	3
Light-duty	3,069	3,877	-21	13,840	12,843	8
Mack	6,845	6,076	13	22,414	17,336	29
Total deliveries	52,357	52,993	-1	176,188	164,138	7
Non-consolidated operations						
VE Commercial Vehicles (Eicher)	9,498	15,968	-41	36,840	47,911	-23
Dongfeng Commercial Vehicle Company (Dongfeng Trucks)	40,967	37,406	10	122,408	117,533	4

Net sales and operating income		Third quarter		Change	First nine months		Change
SEK M		2019	2018	%	2019	2018	%
Europe		24,010	25,320	-5	82,599	80,336	3
North America		19,892	17,833	12	67,895	51,022	33
South America		6,598	4,417	49	17,237	11,721	47
Asia		9,452	9,036	5	27,708	26,910	3
Africa and Oceania		4,428	4,076	9	13,014	11,838	10
Total net sales		64,381	60,682	6	208,454	181,826	15
Of which:							
Vehicles		48,796	46,029	6	161,576	138,745	16
Services		15,585	14,653	6	46,878	43,081	9
Adjusted operating income¹		7,488	6,757	11	25,329	18,902	34
Adjustments		-	-	-	-	-	-
Operating income		7,488	6,757	11	25,329	18,902	34
Adjusted operating margin, %		11.6	11.1		12.2	10.4	
Operating margin, %		11.6	11.1		12.2	10.4	

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

Important events

In September, Volvo Trucks announced the introduction of the successful Volvo Dynamic Steering system in North America. The system is designed to lessen steering force by up to 85%, helping reduce driver fatigue and increase road safety. Volvo Dynamic Steering will be available as an option in the Volvo VNL and VNR models in early 2020.

Also in September, Volvo Trucks North America, for the first time, showed the Volvo VNR Electric truck for media and customers. Limited commercial production will start in 2020 – with the first deliveries being part of the partnership known as

LIGHTS (Low Impact Green Heavy Transport Solutions) between the Volvo Group, California's South Coast Air Quality Management District, and industry leaders in transportation and electrical charging infrastructure.

As of October 13, the United Auto Workers (UAW) union in the United States has begun a strike, impacting six facilities in North America, including the Mack truck assembly plant in Pennsylvania and the powertrain plant in Maryland, which supports the production of both Mack Trucks and Volvo Trucks. For further information, please see Note 2 Risks and key sources of estimation uncertainty in this report.

CONSTRUCTION EQUIPMENT

Lower earnings

- » Order intake down 9%, with declining demand across most markets except China
- » Both adjusted and reported operating income amounted to SEK 2,180 M (2,587) with an operating margin of 12.2% (13.9)
- » First commercial contract with an autonomous and electrified earth-moving solution



Market development

Through August, the European market for construction equipment was up by 4%, with stable growth in most major markets including Germany, Italy and Russia.

The North American market was 7% above the previous year mainly driven by increased deliveries of large excavators, wheel loaders and articulated haulers.

In South America, the market was 10% above last year's historically low levels as an effect of growth in Brazil.

The Asian market (excluding China) was 11% below last year, as a consequence of a continued decrease in most key markets.

The Chinese market was 7% above last year primarily driven by a continued growth for compact excavators, whereas growth for wheel loaders and large excavators was slower.

Orders and deliveries

Order intake decreased by 9% in Q3 with Volvo branded products being down 23% reflecting softer demand in most markets as well as efforts to reduce pipeline inventory. Order intake for SDLG products increased by 7%.

In Europe order intake declined by 23% with lower intake in key markets such as the UK, Germany, France and Russia.

In North America orders declined by 34% as dealers are holding back on rental fleet expansion and renewal, while at the same time reducing inventories.

In Asia (excluding China) order intake decreased by 24%, while order intake in China increased by 6% driven by SDLG branded wheel loaders and excavators.

Deliveries decreased by 2% in Q3, driven by a decline of 10% for Volvo, partly offset by an increase of 7% for SDLG.

Total market development	Year-to-date August			
	2019	Forecast 2019	Previous forecast	Forecast 2020
Change in % measured in units				
Europe	4	-5% to +5%	-5% to +5%	-15% to -5%
North America	7	0% to +10%	0% to +10%	-10% to 0%
South America	10	+5% to +15%	0% to +10%	-5% to 5%
Asia excl. China	-11	-15% to -5%	-10% to 0%	-10% to 0%
China	7	0% to +10%	0% to +10%	-20% to -10%

Net order intake	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
Number of construction equipment						
Europe	3,435	4,462	-23	13,401	15,208	-12
North America	860	1,305	-34	4,460	5,730	-22
South America	605	495	22	1,490	1,476	1
Asia	9,438	9,434	0	40,185	38,271	5
Africa and Oceania	547	646	-15	1,680	2,382	-29
Total orders	14,885	16,342	-9	61,216	63,067	-3
Large and medium construction equipment	11,349	12,276	-8	45,925	47,852	-4
Compact construction equipment	3,536	4,066	-13	15,291	15,215	0
Total orders	14,885	16,342	-9	61,216	63,067	-3
Of which:						
Volvo	6,598	8,556	-23	27,517	33,961	-19
SDLG	8,260	7,739	7	33,581	28,936	16
Of which in China	7,134	6,534	9	30,104	25,200	19

Deliveries	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
Number of construction equipment						
Europe	4,500	4,298	5	16,487	15,342	7
North America	1,423	1,689	-16	6,102	5,651	8
South America	564	514	10	1,536	1,484	4
Asia	9,473	9,683	-2	40,493	38,319	6
Africa and Oceania	500	677	-26	1,869	2,275	-18
Total deliveries	16,460	16,861	-2	66,487	63,071	5
Large and medium construction equipment	12,424	13,299	-7	49,696	47,558	4
Compact construction equipment	4,036	3,562	13	16,791	15,513	8
Total deliveries	16,460	16,861	-2	66,487	63,071	5
Of which:						
Volvo	8,173	9,075	-10	32,788	33,965	-3
SDLG	8,260	7,739	7	33,581	28,936	16
Of which in China	7,134	6,534	9	30,104	25,200	19

Net sales and operating income	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
SEK M						
Europe	6,629	6,211	7	23,510	20,562	14
North America	3,556	3,843	-7	14,104	11,739	20
South America	703	580	21	1,915	1,698	13
Asia	6,137	6,724	-9	26,002	26,209	-1
Africa and Oceania	895	1,240	-28	3,359	3,706	-9
Total net sales	17,921	18,598	-4	68,889	63,915	8
Of which:						
Construction equipment	14,837	15,696	-5	59,697	55,306	8
Services	3,084	2,902	6	9,192	8,609	7
Adjusted operating income¹	2,180	2,587	-16	9,979	9,149	9
Adjustments	-	-	-	-	818	-100
Operating income	2,180	2,587	-16	9,979	9,967	0
Adjusted operating margin, %	12.2	13.9		14.5	14.3	
Operating margin, %	12.2	13.9		14.5	15.6	

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

Net sales and operating income

Net sales in Q3 2019 decreased by 4% to SEK 17,921 M (18,598). Adjusted for currency movements, net sales decreased by 7%, of which net sales of machines decreased by 9% and service sales increased by 2%.

Both adjusted and reported operating income amounted to SEK 2,180 M (2,587), corresponding to an operating margin of 12.2% (13.9). Earnings were negatively affected by brand, market and product mix as well as higher R&D and selling expenses. This was partly counterbalanced by higher earnings in the service business.

Earnings in Q3 2018 included a capital gain of SEK 225 M from the sale of land.

Compared with Q3 2018, changes in currency exchange rates had a positive impact on operating income in an amount of SEK 618 M.

Important events

In October, Volvo Construction Equipment signed a contract for the first commercial pilot of the autonomous battery-electric load carrier together with customer Harsco Environmental in Sweden – the next step towards an industrialized solution.

BUSES

Higher deliveries and profit

- » Deliveries increased by 20%
- » Both adjusted and reported operating income amounted to SEK 343 M (254) with an operating margin of 4.5% (4.4)
- » Breakthrough order of Euro VI buses to Mexico City



The European market has remained on a good level, following high tender volumes in the Nordic region and overall strong demand in South Europe. The UK market has had a weaker development, and uncertainty regarding Brexit remains. In North America, the market continued to be good for transit buses, whereas the coach market declined. The market in Brazil has continued to improve, while the Indian market is very weak.

Net order intake decreased by 32% to 1,420 units (2,091). The lower order intake reflects overall lower demand in India and the UK. Order intake was strong in Mexico and Spain.

As part of Mexico City's switch towards more sustainable transport, the city has decided to invest in 129 new Volvo Euro VI buses. Other important orders include another 125 coaches to Mexico and 102 units to Spain, including 20 full hybrid buses.

In Q3, Volvo Buses delivered 2,410 units, 20% more than in the same period last year (2,001). The increase

was mainly driven by higher volumes in South America, Mexico and the Nordic region.

In Q3 net sales increased by 32% to SEK 7,681 M (5,804) compared to the same period in 2018. Adjusted for currency movements, sales grew by 28% with vehicle sales increasing by 33% due to higher volumes and a higher share of complete vehicles. Service sales increased by 9%, adjusted for currency movements.

Both adjusted and reported operating income amounted to SEK 343 M (254), corresponding to an operating margin of 4.5% (4.4). Earnings were positively impacted by higher vehicles and service volumes, partly off-set by higher selling expenses.

Compared with Q3 2018, currency movements had a positive impact on operating income in an amount of SEK 26 M.

In early October, 30 new Volvo 7900 Electric buses, started operating on a new line in Gothenburg, Sweden. Adding to two already electrified lines, the new line carries 6.9 million passengers annually.

Net order intake and deliveries	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
Number of buses						
Total orders	1,420	2,091	-32	5,994	7,442	-19
Total deliveries	2,410	2,001	20	7,121	5,954	20

Net sales and operating income	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
SEK M						
Europe	2,072	1,455	42	5,943	5,400	10
North America	3,568	2,829	26	11,336	8,995	26
South America	927	460	102	2,853	1,048	172
Asia	495	463	7	1,779	1,342	33
Africa and Oceania	618	597	4	1,503	1,555	-3
Total net sales	7,681	5,804	32	23,413	18,339	28
Of which:						
Vehicles	6,296	4,558	38	19,375	14,673	32
Services	1,385	1,246	11	4,038	3,666	10
Adjusted operating income ¹	343	254	35	1,040	499	108
Adjustments	-	-	-	-	-	-
Operating income	343	254	35	1,040	499	108
Adjusted operating margin, %	4.5	4.4		4.4	2.7	
Operating margin, %	4.5	4.4		4.4	2.7	

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

VOLVO PENTA

Lower volumes and earnings

- » Lower deliveries (-12%) and order intake (-16%)
- » Both adjusted and reported operating income amounted to SEK 399 M (630), with an operating margin of 12.7% (19.6)
- » Electric proof-of-concept demonstrated at sea



Electric sailing catamaran concept shown in Cannes.

Parts of the marine leisure market have softened. However, there is still growth in large yachts, which is a segment where Volvo Penta is gaining market share.

There was a positive development in the marine commercial market, especially within off-shore energy. Interest for electrified solutions has continued for segments such as people transportation within urban areas.

The market for industrial off-road engines is slowing down due to a decline in construction and agriculture machinery segments, especially in emerging markets. In Europe, the slowdown has been further accentuated by last year's, EU Stage V-related, prebuy. On the other hand, there is a positive development in the global extraction sector, which is expected to support demand for mining equipment.

Demand for industrial power generation engines has also shown a slight decline, counterbalanced by growth in the data center back-up business.

Net order intake in Q3 2019 decreased by 16% to 7,930 units and deliveries decreased by 12% to 8,987 units. The comparisons versus last year are affected by the pre-buy of industrial off-road engines in 2018.

Net sales decreased by 2% to SEK 3,151 M (3,207) negatively impacted by the 2018 pre-buy, as well as decreases in the marine leisure gasoline and industrial power generation segments. Adjusted for currency movements, net sales decreased by 5%, of which sales of engines decreased by 7% and sales of services were flat.

In Q3 2019, both adjusted and reported operating income amounted to SEK 399 M (630). The operating margin was 12.7% (19.6). Earnings were negatively impacted by lower volumes as well as increased R&D and selling expenses.

Compared with Q3 2018, the currency impact on operating income was positive in an amount of SEK 96 M.

In Q3, a range of new boat models from different manufacturers with Volvo Penta's new D4/D6 marine propulsion package was revealed, resulting in successful initial market adoption for both marine leisure and commercial segments.

At the Cannes Yachting Festival in September, Volvo Penta revealed an electric saildrive proof-of-concept onboard a Fountaine-Pajot sailing catamaran. Anticipated benefits include onboard comfort, near-soundless and low vibration operation as well as silent mooring.

Net order intake and deliveries	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
Number of Engines						
Total orders	7,930	9,437	-16	28,878	39,063	-26
Total deliveries	8,987	10,155	-12	30,256	33,857	-11

Net sales and operating income	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
SEK M						
Europe	1,547	1,602	-3	5,072	5,112	-1
North America	798	814	-2	2,567	2,268	13
South America	77	58	33	222	206	8
Asia	551	588	-6	1,872	1,894	-1
Africa and Oceania	179	145	23	508	429	18
Total net sales	3,151	3,207	-2	10,241	9,909	3
Of which:						
Engines	2,142	2,234	-4	7,401	7,264	2
Services	1,010	972	4	2,840	2,645	7
Adjusted operating income ¹	399	630	-37	1,702	1,848	-8
Adjustments	-	-	-	-	-	-
Operating income	399	630	-37	1,702	1,848	-8
Adjusted operating margin, %	12.7	19.6		16.6	18.6	
Operating margin, %	12.7	19.6		16.6	18.6	

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

FINANCIAL SERVICES

Profitable portfolio growth

- » New business volume up 7%, currency adjusted
- » Operating income of SEK 774 M (621)
- » Stable portfolio performance



In Q3 2019, new business volume increased 7% currency adjusted as an effect of increased deliveries. The credit portfolio grew by 12% currency-adjusted. As expected, with the lower overall economic activity, delinquencies in the credit portfolio have increased slightly from low levels.

Operating income increased to SEK 774 M (621) due to portfolio growth coupled with efficiency gains.

Return on shareholders' equity was 15.0% (15.1), excluding a positive impact from the revaluation of deferred tax liabilities due to the tax reform legislation in the United States in the prior year.

During the quarter, VFS syndicated approximately SEK 3.0 billion of the credit portfolio across a number of markets, effectively reducing concentration risks.

Financial Services SEK M	Third quarter		First nine months	
	2019	2018	2019	2018
Number of financed units, 12 months rolling			60,177	57,901
Total penetration rate, 12 months rolling, % ¹			24	25
New retail financing volume, SEK billion	19.3	17.2	56.1	49.8
Credit portfolio net, SEK billion			171	142
Credit provision expenses	162	143	509	378
Operating income	774	621	2,062	1,805
Credit reserves, % of credit portfolio			1.55	1.70
Return on equity, %			15.0	22.9
Return on equity excluding effect from US tax reform 2017, % ²			15.0	15.1

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 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

One million connected customer units

On October 3, it was announced that the Volvo Group had delivered more than one million connected customer units, in terms of delivered trucks, buses, and construction equipment. The large amount of data collected is used to improve productivity by increasing vehicle and machine uptime, reducing emissions and noise, as well as improving traffic and site safety.

New business area for autonomous transport solutions

On October 18, the Volvo Group announced that it will create a new business area for autonomous transport solutions. Volvo Autonomous Solutions will accelerate the development, commercialization and sales of autonomous transport solutions. This enables the Volvo Group to meet a growing demand and to offer the best possible solutions

to customers in segments such as mining, ports and transport between logistics centers, as a complement to today's products and services. Volvo Autonomous Solutions will be a new business area from January 1, 2020. Its financial results will be reported as part of the Truck segment.

Previously reported important events

- Sale of shares in WirelessCar completed
- Annual General Meeting of AB Volvo
- Vera's first assignment
- Partnership with NVIDIA
- Strategic alliance with Samsung SDI

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

CONSOLIDATED INCOME STATEMENT THIRD QUARTER

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Net sales	95,167	89,047	3,765	3,344	-208	-109	98,723	92,282
Cost of sales	-72,379	-67,877	-2,290	-2,044	208	109	-74,461	-69,812
Gross income	22,788	21,169	1,475	1,300	-	-	24,263	22,470
Research and development expenses	-4,251	-3,327	-	-	-	-	-4,251	-3,327
Selling expenses	-7,347	-6,758	-627	-562	-	-	-7,973	-7,320
Administrative expenses	-1,330	-1,265	-3	-11	-	-	-1,333	-1,275
Other operating income and expenses	-15	-429	-71	-106	-	-	-86	-535
Income/loss from investments in joint ventures and associated companies	227	234	-	-	-	-	227	234
Income from other investments	39	1	0	0	-	-	39	1
Operating income	10,111	9,626	774	621	-	-	10,885	10,247
Interest income and similar credits	82	48	-	-	0	-	82	48
Interest expenses and similar charges	-376	-433	0	0	0	-	-376	-433
Other financial income and expenses	-463	-165	-	-	-	-	-463	-165
Income after financial items	9,354	9,076	774	621	0	-	10,129	9,698
Income taxes	-2,357	-1,999	-223	-179	-	-	-2,580	-2,178
Income for the period *	6,998	7,076	551	442	0	-	7,549	7,520
* Attributable to:								
Owners of AB Volvo							7,455	7,459
Non-controlling interest							94	61
							7,549	7,520
Basic earnings per share, SEK							3.67	3.67
Diluted earnings per share, SEK							3.67	3.67

Key ratios, %

Gross margin	23.9	23.8	-	-	-	-	24.6	24.3
Research and development expenses as percentage of net sales	4.5	3.7	-	-	-	-	4.3	3.6
Selling expenses as percentage of net sales	7.7	7.6	-	-	-	-	8.1	7.9
Administrative expenses as percentage of net sales	1.4	1.4	-	-	-	-	1.4	1.4
Operating margin	10.6	10.8	-	-	-	-	11.0	11.1

CONSOLIDATED OTHER COMPREHENSIVE INCOME THIRD QUARTER

SEK M	2019	2018
Income for the period	7,549	7,520
Items that will not be reclassified to income statement:		
Remeasurements of defined benefit pension plans	-1,767	368
Holding of shares at fair value	-21	18
Items that may be reclassified subsequently to income statement:		
Exchange differences on translation of foreign operations	2,196	-2,558
Share of OCI related to joint ventures and associated companies	460	0
Accumulated translation difference reversed to income	-	0
Other comprehensive income, net of income taxes	868	-2,172
Total comprehensive income for the period *	8,417	5,348
* Attributable to:		
Owners of AB Volvo	8,264	5,395
Non-controlling interest	153	-47
	8,417	5,348

CONSOLIDATED INCOME STATEMENT FIRST NINE MONTHS

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Net sales	316,634	275,913	11,048	9,633	-1,058	-497	326,625	285,048
Cost of sales	-240,365	-210,473	-6,810	-5,794	1,058	497	-246,117	-215,770
Gross income	76,269	65,440	4,238	3,838	-	-	80,508	69,278
Research and development expenses	-13,191	-11,787	-	-	-	-	-13,191	-11,787
Selling expenses	-22,402	-20,974	-1,879	-1,682	-	-	-24,281	-22,656
Administrative expenses	-4,273	-4,297	-10	-31	-	-	-4,283	-4,328
Other operating income and expenses	280	-1,132	-288	-320	0	-	-8	-1,452
Income/loss from investments in joint ventures and associated companies	1,128	1,805	-	-	-	-	1,128	1,805
Income from other investments	279	21	0	0	-	-	279	21
Operating income	38,090	29,076	2,062	1,805	0	-	40,153	30,881
Interest income and similar credits	241	140	-	-	0	-	241	140
Interest expenses and similar charges	-1,288	-1,242	0	0	0	-	-1,289	-1,242
Other financial income and expenses	-1,131	-669	-	-	-	-	-1,130	-669
Income after financial items	35,912	27,305	2,063	1,805	0	-	37,975	29,110
Income taxes	-7,764	-5,926	-546	-485	-	-	-8,310	-6,410
Income for the period *	28,148	21,379	1,517	1,320	0	-	29,664	22,700
* Attributable to:								
Owners of AB Volvo							29,201	22,334
Non-controlling interest							463	365
							29,664	22,700
Basic earnings per share, SEK							14.36	10.99
Diluted earnings per share, SEK							14.36	10.98

Key ratios, %

Gross margin	24.1	23.7	-	-	-	-	24.6	24.3
Research and development expenses as percentage of net sales	4.2	4.3	-	-	-	-	4.0	4.1
Selling expenses as percentage of net sales	7.1	7.6	-	-	-	-	7.4	7.9
Administrative expenses as percentage of net sales	1.3	1.6	-	-	-	-	1.3	1.5
Operating margin	12.0	10.5	-	-	-	-	12.3	10.8

CONSOLIDATED OTHER COMPREHENSIVE INCOME FIRST NINE MONTHS

SEK M	2019	2018
Income for the period	29,664	22,700
Items that will not be reclassified to income statement:		
Remeasurements of defined benefit pension plans	-3,129	985
Holding of shares at fair value	-20	62
Items that may be reclassified subsequently to income statement:		
Exchange differences on translation of foreign operations	5,689	1,555
Share of OCI related to joint ventures and associated companies	340	0
Accumulated translation difference reversed to income	-	-94
Other comprehensive income, net of income taxes	2,880	2,508
Total comprehensive income for the period *	32,544	25,208
* Attributable to:		
Owners of AB Volvo	31,957	24,822
Non-controlling interest	587	386
	32,544	25,208

CONSOLIDATED BALANCE SHEET

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	Sep 30 2019	Dec 31 2018	Sep 30 2019	Dec 31 2018	Sep 30 2019	Dec 31 2018	Sep 30 2019	Dec 31 2018
Assets								
Non-current assets								
Intangible assets	40,226	37,889	252	215	-	-	40,477	38,104
<i>Tangible assets</i>								
Property, plant and equipment	65,031	55,631	85	42	-	-	65,117	55,673
Assets under operating leases	34,209	32,700	21,920	22,154	-12,520	-11,751	43,609	43,103
<i>Financial assets</i>								
Investments in Joint Ventures and associated companies	12,501	11,135	-	-	-	-	12,501	11,135
Other shares and participations	748	731	9	9	-	-	758	740
Non-current customer-financing receivables	985	891	73,484	66,154	-994	-898	73,474	66,148
Prepaid pensions	1,460	1,549	-	-	-	-	1,460	1,549
Non-current interest-bearing receivables	996	1,300	-	-	-115	-5	881	1,296
Other non-current receivables	9,755	9,030	294	244	-652	-538	9,397	8,736
Deferred tax assets	12,836	12,506	1,085	999	-	-	13,920	13,505
Total non-current assets	178,748	163,363	97,129	89,817	-14,282	-13,191	261,595	239,989
Current assets								
Inventories	70,148	65,366	568	417	-	-	70,716	65,783
<i>Current receivables</i>								
Customer-financing receivables	735	669	75,653	60,860	-915	-750	75,473	60,779
Tax assets	3,057	1,326	310	343	-	-	3,367	1,669
Interest-bearing receivables	4,083	2,581	0	1	-1,061	-485	3,022	2,097
Internal funding	19,354	21,465	-	-	-19,354	-21,465	0	-
Accounts receivable	44,684	40,376	1,653	1,530	-	-	46,336	41,906
Other receivables	17,751	15,095	1,274	1,258	-1,012	-1,210	18,013	15,144
Non interest-bearing assets held for sale	87	203	-	-	-	-	87	203
Marketable securities	210	160	0	-	-	-	210	160
Cash and cash equivalents	42,921	43,747	4,209	4,419	-1,007	-1,233	46,123	46,933
Total current assets	203,030	190,989	83,666	68,829	-23,348	-25,143	263,347	234,675
Total assets	381,778	354,351	180,795	158,646	-37,630	-38,334	524,943	474,663
Equity and liabilities								
Equity attributable to owners of AB Volvo	120,396	110,692	14,467	12,687	-	-	134,862	123,379
Non-controlling interest	3,005	2,452	-	-	-	-	3,005	2,452
Total equity	123,401	113,144	14,467	12,687	-	-	137,867	125,831
<i>Non-current provisions</i>								
Provisions for post-employment benefits	20,878	16,374	109	108	-	-	20,987	16,482
Provisions for deferred taxes	583	1,472	2,835	2,656	-	-	3,418	4,128
Other provisions	14,760	13,991	239	278	434	321	15,434	14,590
<i>Non-current liabilities</i>								
Bond loans	69,386	59,115	-	-	-	-	69,386	59,115
Other loans	21,792	13,411	17,777	15,638	-1,056	-954	38,513	28,095
Internal funding	-66,321	-54,024	65,246	58,750	1,075	-4,726	0	-
Other liabilities	43,359	39,369	1,823	1,621	-8,648	-8,040	36,534	32,949
Current provisions	13,252	13,013	193	222	293	213	13,739	13,448
<i>Current liabilities</i>								
Bond loans	33,101	26,657	-	-	-	-	33,101	26,657
Other loans	13,399	12,950	11,672	11,154	-2,914	-2,114	22,157	21,989
Internal funding	-39,553	-32,781	60,194	49,907	-20,641	-17,126	-	-
Trade payables	66,930	72,683	617	947	-	-	67,547	73,630
Tax liabilities	6,934	3,493	573	256	-	-	7,507	3,749
Other liabilities	59,878	55,485	5,049	4,421	-6,174	-5,907	58,753	53,999
Total equity and liabilities	381,778	354,351	180,795	158,646	-37,630	-38,334	524,943	474,663
Key ratios, %								
Equity ratio	32.3	31.9	8.0	8.0	-	-	26.3	26.5
Shareholders' equity per share, excluding non-controlling interest, SEK	-	-	-	-	-	-	66.3	60.7
Return on operating capital	47.1	39.0	-	-	-	-	-	-
Return on capital employed	25.8	22.4	-	-	-	-	-	-
Return on shareholders' equity	-	-	15.0	15.1	-	-	24.6	21.3

¹ As from January 1, 2019, IFRS 16 Leases is applied and the effect is included in the opening balance for 2019 with SEK 6,209 M whereof SEK 6,147 M in Industrial Operations and SEK 62 M in Financial Services. For more information, please see Note 1.

CONSOLIDATED CASH FLOW STATEMENT THIRD QUARTER

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Operating activities								
Operating income	10,111	9,626	774	621	-	-	10,885	10,247
Amortization intangible assets	725	731	16	12	-	-	741	743
Depreciation tangible assets	2,093	1,619	8	2	-	-	2,102	1,621
Depreciation leasing vehicles	513	741	1,078	1,199	0	0	1,591	1,940
Other non-cash items	-537	736	228	203	-94	-17	-403	923
Total change in working capital whereof	-6,120	-7,928	-733	-2,156	-20	-6	-6,873	-10,090
Change in accounts receivables	7,271	2,561	-1	-92	-	0	7,270	2,469
Change in customer-financing receivables	16	-54	-1,307	-2,343	-6	54	-1,298	-2,344
Change in inventories	2,225	-2,594	-96	-66	-	0	2,130	-2,661
Change in trade payables	-12,933	-7,272	-8	-93	-	0	-12,941	-7,365
Other changes in working capital	-2,700	-568	679	438	-13	-60	-2,034	-189
Interest and similar items received	81	42	0	-	5	3	86	45
Interest and similar items paid	-120	-194	0	-	13	13	-107	-182
Other financial items	-162	-61	-	-	-3	-	-165	-61
Income taxes paid	-2,221	-1,682	-115	-29	-	0	-2,336	-1,711
Cash flow from operating activities	4,362	3,630	1,258	-147	-99	-6	5,521	3,476
Investing activities								
Investments in intangible assets	-812	-977	-18	-19	-	-	-830	-996
Investments in tangible assets	-2,141	-1,640	0	-1	-	-	-2,142	-1,642
Investment in leasing vehicles	-18	-4	-2,317	-2,555	-	-	-2,335	-2,559
Disposals of in-/tangible assets and leasing vehicles	441	308	1,539	1,170	-	-	1,980	1,478
Operating cash flow	1,831	1,316	461	-1,552	-99	-6	2,194	-242
Investments and divestments of shares, net							-76	-1
Acquired and divested operations, net							-1	29
Interest-bearing receivables incl. marketable securities							-373	184
Cash flow after net investments							1,745	-31
Financing activities								
Change in loans, net							1,068	877
Dividend to non-controlling interest							-4	-
Other							298	-16
Change in cash and cash equivalents excl. translation differences							3,105	830
Translation difference on cash and cash equivalents							441	-449
Change in cash and cash equivalents							3,546	381

CONSOLIDATED CASH FLOW STATEMENT FIRST NINE MONTHS

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Operating activities								
Operating income	38,090	29,076	2,062	1,805	-	-	40,153	30,881
Amortization intangible assets	2,169	2,262	33	28	0	-	2,201	2,290
Depreciation tangible assets	6,170	4,747	23	5	0	-	6,193	4,752
Depreciation leasing vehicles	2,624	3,099	3,499	3,416	0	0	6,124	6,515
Other non-cash items	-2,796	1,331	720	518	-147	-17	-2,223	1,832
Total change in working capital whereof	-13,559	-17,042	-13,365	-7,594	120	188	-26,804	-24,449
<i>Change in accounts receivables</i>	-2,769	-2,534	-111	-253	0	0	-2,880	-2,786
<i>Change in customer-financing receivables</i>	-31	-91	-13,196	-8,228	159	249	-13,069	-8,070
<i>Change in inventories</i>	-1,160	-13,998	-42	176	0	0	-1,202	-13,823
<i>Change in trade payables</i>	-8,795	524	-364	-8	0	0	-9,158	516
<i>Other changes in working capital</i>	-804	-944	348	719	-38	-62	-495	-286
Interest and similar items received	716	579	0	-	9	2	726	581
Interest and similar items paid	-1,139	-1,141	0	-	58	14	-1,081	-1,127
Other financial items	-319	-179	-	-	-3	-	-322	-179
Income taxes paid	-6,307	-5,543	-318	84	0	0	-6,625	-5,459
Cash flow from operating activities	25,650	17,189	-7,347	-1,737	39	186	18,342	15,638
Investing activities								
Investments in intangible assets	-2,838	-2,374	-52	-43	-	-	-2,890	-2,418
Investments in tangible assets	-4,944	-4,386	-3	-4	0	-	-4,947	-4,389
Investment in leasing vehicles	-90	-10	-6,666	-7,074	-	-	-6,756	-7,084
Disposals of in-/tangible assets and leasing vehicles	675	707	4,544	4,009	-	-	5,220	4,716
Operating cash flow	18,453	11,126	-9,524	-4,849	39	186	8,968	6,463
Investments and divestments of shares, net							204	974
Acquired and divested operations, net							1,188	-129
Interest-bearing receivables incl. marketable securities							-1,114	113
Cash flow after net investments							9,245	7,422
Financing activities								
Change in loans, net							9,042	685
Dividend to owners of AB Volvo							-20,335	-8,636
Dividend to non-controlling interest							-12	-6
Other							244	3
Change in cash and cash equivalents excl. translation differences							-1,816	-531
Translation difference on cash and cash equivalents							1,005	-25
Change in cash and cash equivalents							-811	-556

CONSOLIDATED NET FINANCIAL POSITION

Net financial position excl. post-employment benefits and lease liabilities SEK bn	Industrial Operations		Volvo Group	
	Sep 30 2019	Dec 31 2018	Sep 30 2019	Dec 31 2018
Non-current interest-bearing assets				
Non-current customer-financing receivables	-	-	73.5	66.1
Non-current interest-bearing receivables	1.0	1.3	0.9	1.3
Current interest-bearing assets				
Customer-financing receivables	-	-	75.5	60.8
Interest-bearing receivables	4.1	2.6	3.0	2.1
Internal funding	19.4	21.5	-	-
Marketable securities	0.2	0.2	0.2	0.2
Cash and cash equivalents	42.9	43.7	46.1	46.9
Total interest-bearing financial assets	67.6	69.3	199.2	177.4
Non-current interest-bearing liabilities				
Bond loans	-69.4	-59.1	-69.4	-59.1
Other loans	-16.3	-13.4	-33.0	-28.1
Internal funding	66.3	54.0	-	-
Current interest-bearing liabilities				
Bond loans	-33.1	-26.7	-33.1	-26.7
Other loans	-11.6	-12.9	-20.4	-22.0
Internal funding	39.6	32.8	-	-
Total interest-bearing financial liabilities excl. lease liabilities	-24.5	-25.3	-155.9	-135.9
Net financial position excl. post-employment benefits and lease liabilities	43.1	43.9	43.3	41.6

Provisions for post-employment benefits and lease liabilities, net SEK bn	Industrial Operations		Volvo Group	
	Sep 30 2019	Dec 31 2018	Sep 30 2019	Dec 31 2018
Non-current lease liabilities	-5.5	-	-5.5	-
Current lease liabilities	-1.8	-	-1.8	-
Provisions for post-employment benefits, net	-19.4	-14.8	-19.5	-14.9
Provisions for post-employment benefits and lease liabilities, net	-26.7	-14.8	-26.8	-14.9

Net financial position incl. post-employment benefits and lease liabilities SEK bn	Industrial Operations		Volvo Group	
	Sep 30 2019	Dec 31 2018	Sep 30 2019	Dec 31 2018
Net financial position excl. post-employment benefits and lease liabilities	43.1	43.9	43.3	41.6
Provisions for post-employment benefits and lease liabilities, net	-26.7	-14.8	-26.8	-14.9
Net financial position incl. post-employment benefits and lease liabilities	16.3	29.1	16.5	26.6

Equity				
Equity attributable to owners of AB Volvo	-120.4	-110.7	-134.9	-123.4
Non-controlling interest	-3.0	-2.5	-3.0	-2.5
Total equity	-123.4	-113.1	-137.9	-125.8

Key ratios, %				
Net financial position excl. post-employment benefits and lease liabilities as percentage of shareholders' equity	34.9	38.8		
Net financial position incl. post-employment benefits and lease liabilities as percentage of shareholders' equity	13.2	25.7		

CHANGES IN NET FINANCIAL POSITION, INDUSTRIAL OPERATIONS

SEK bn	Third quarter 2019	First nine months 2019
Net financial position excl. post-employment benefits and lease liabilities at the end of previous period	41.0	43.9
Operating cash flow	1.8	18.5
Investments and divestments of shares, net	-0.1	0.2
Acquired and divested operations, net	0.0	1.2
Capital injections to/from Financial Services	0.3	0.5
Currency effect	0.1	-0.6
Dividend to owners of AB Volvo	-	-20.3
Dividend to non-controlling interest	0.0	0.0
Other changes	-0.1	-0.3
Net financial position excl. post-employment benefits and lease liabilities at the end of period	43.1	43.1
Provisions for post-employment benefits and lease liabilities at the end of previous period	-24.1	-14.8
Transition effect IFRS 16	-	-6.1
Provisions for post-employment benefits and lease liabilities after transitional effect IFRS 16 at the beginning of period	-24.1	-20.9
Investments in lease contracts	-0.3	-1.4
Remeasurements of defined benefit pension plans	-2.3	-4.0
Currency effect	-0.4	-0.8
Other changes	0.4	0.5
Provisions for post-employment benefits and lease liabilities at the end of period	-26.7	-26.7
Net financial position incl. post-employment benefits and lease liabilities at the end of period	16.3	16.3

CONSOLIDATED CHANGES IN TOTAL EQUITY

SEK bn	Sep 30 2019	Dec 31 2018
Total equity at the end of previous period	125.8	107.8
Transition effect IFRS 9	-	-0.4
Total equity after transition effect IFRS 9 at the beginning of period	125.8	107.4
Equity attributable to shareholders of AB Volvo at the end of previous period	123.4	105.9
Transition effect IFRS 9	-	-0.4
Equity attributable to shareholders of AB Volvo after transition effect IFRS 9 at the beginning of period	123.4	105.5
Income for the period	29.2	24.9
Other comprehensive income	2.8	1.6
Total comprehensive income	32.0	26.5
Dividend to AB Volvo shareholders	-20.3	-8.6
Share-based payments	-	0.0
Other changes	-0.1	0.0
Equity attributable to shareholders of AB Volvo at end of period	134.9	123.4
Non-controlling interest at beginning of period	2.5	1.9
Income for the period	0.5	0.5
Other comprehensive income	0.1	0.1
Total comprehensive income	0.6	0.5
Dividend to non-controlling interest	0.0	0.0
Other changes	0.0	0.0
Non-controlling interest at end of period	3.0	2.5
Total equity at end of period	137.9	125.8

QUARTERLY FIGURES

Income Statements, Volvo Group						First nine months	First nine months
SEK M unless otherwise stated	3/2019	2/2019	1/2019	4/2018	3/2018	2019	2018
Net sales	98,723	120,694	107,208	105,786	92,282	326,625	285,048
Cost of sales	-74,461	-91,116	-80,540	-87,707	-69,812	-246,117	-215,770
Gross income	24,263	29,578	26,667	18,079	22,470	80,508	69,278
Research and development expenses	-4,251	-4,814	-4,125	-4,112	-3,327	-13,191	-11,787
Selling expenses	-7,973	-8,456	-7,853	-8,234	-7,320	-24,281	-22,656
Administrative expenses	-1,333	-1,476	-1,474	-1,470	-1,275	-4,283	-4,328
Other operating income and expenses	-86	-425	503	-821	-535	-8	-1,452
Income/loss from investments in Joint Ventures and associated companies	227	476	425	144	234	1,128	1,805
Income from other investments	39	222	18	11	1	279	21
Operating income	10,885	15,105	14,162	3,597	10,247	40,153	30,881
Interest income and similar credits	82	86	73	58	48	241	140
Interest expenses and similar charges	-376	-459	-455	-416	-433	-1,289	-1,242
Other financial income and expenses	-463	-167	-500	-201	-165	-1,130	-669
Income after financial items	10,129	14,566	13,280	3,038	9,698	37,975	29,110
Income taxes	-2,580	-3,213	-2,517	-374	-2,178	-8,310	-6,410
Income for the period *	7,549	11,352	10,763	2,664	7,520	29,664	22,700
* Attributable to:							
Owners of AB Volvo	7,455	11,131	10,615	2,563	7,459	29,201	22,334
Non-controlling interest	94	221	148	101	61	463	365
	7,549	11,352	10,763	2,664	7,520	29,664	22,700
Key ratios, Volvo Group, %							
Gross margin	24.6	24.5	24.9	17.1	24.3	24.6	24.3
Research and development expenses as percentage of net sales	4.3	4.0	3.8	3.9	3.6	4.0	4.1
Selling expenses as percentage of net sales	8.1	7.0	7.3	7.8	7.9	7.4	7.9
Administrative expenses as percentage of net sales	1.4	1.2	1.4	1.4	1.4	1.3	1.5
Operating margin	11.0	12.5	13.2	3.4	11.1	12.3	10.8
Key ratios, Industrial Operations, %							
Gross margin	23.9	24.0	24.3	16.4	23.8	24.1	23.7
Research and development expenses as percentage of net sales	4.5	4.1	4.0	4.0	3.7	4.2	4.3
Selling expenses as percentage of net sales	7.7	6.7	6.9	7.5	7.6	7.1	7.6
Administrative expenses as percentage of net sales	1.4	1.3	1.4	1.4	1.4	1.3	1.6
Operating margin	10.6	12.3	13.0	2.9	10.8	12.0	10.5
EBITDA margin, Industrial Operations							
Operating income Industrial Operations	10,111	14,419	13,560	2,991	9,626	38,090	29,076
Product and software development, amortization	657	673	636	659	662	1,966	2,045
Other intangible assets, amortization	67	68	67	67	69	202	216
Tangible assets, depreciation	2,605	3,136	3,054	2,956	2,715	8,794	7,848
Total depreciation and amortization	3,330	3,876	3,756	3,681	3,445	10,962	10,109
Operating income before depreciation and amortization (EBITDA)	13,441	18,295	17,316	6,672	13,071	49,052	39,185
EBITDA margin, %	14.1	15.6	16.6	6.5	14.7	15.5	14.2
Net capitalization of research and development							
Capitalization	737	892	1,023	1,190	908	2,652	2,177
Amortization	-635	-645	-604	-631	-631	-1,884	-1,945
Net capitalization and amortization	102	247	419	559	277	768	232
Return on operating capital in Industrial Operations, %	47.1	47.7	45.6	39.0	43.5		
Return on capital employed in Industrial Operations, %	25.8	26.3	25.5	22.4	25.5		

QUARTERLY FIGURES

Net sales						First nine months	First nine months
SEK M	3/2019	2/2019	1/2019	4/2018	3/2018	2019	2018
Trucks	64,381	75,872	68,201	68,532	60,682	208,454	181,826
Construction Equipment	17,921	26,814	24,155	20,323	18,598	68,889	63,915
Buses	7,681	8,885	6,847	7,487	5,804	23,413	18,339
Volvo Penta	3,151	3,667	3,423	3,832	3,207	10,241	9,909
Group Functions & Other	2,825	2,956	2,318	3,269	1,472	8,098	4,299
Eliminations	-792	-884	-785	-1,035	-717	-2,461	-2,375
Industrial Operations	95,167	117,310	104,158	102,407	89,047	316,634	275,913
Financial Services	3,765	3,774	3,509	3,437	3,344	11,048	9,633
Reclassifications and eliminations	-208	-390	-459	-59	-109	-1,058	-497
Volvo Group	98,723	120,694	107,208	105,786	92,282	326,625	285,048

Operating income						First nine months	First nine months
SEK M	3/2019	2/2019	1/2019	4/2018	3/2018	2019	2018
Trucks	7,488	9,548	8,293	640	6,757	25,329	18,902
Construction Equipment	2,180	4,153	3,646	2,157	2,587	9,979	9,967
Buses	343	403	294	76	254	1,040	499
Volvo Penta	399	618	684	493	630	1,702	1,848
Group Functions & Other	-311	-302	662	-373	-608	49	-2,130
Eliminations	12	-2	-18	-3	6	-8	-10
Industrial Operations	10,111	14,419	13,560	2,991	9,626	38,090	29,076
Financial Services	774	686	602	605	621	2,062	1,805
Volvo Group	10,885	15,105	14,162	3,597	10,247	40,153	30,881

Adjusted operating income ¹						First nine months	First nine months
SEK M	3/2019	2/2019	1/2019	4/2018	3/2018	2019	2018
Trucks	7,488	9,548	8,293	7,450	6,757	25,329	18,902
Construction Equipment	2,180	4,153	3,646	2,157	2,587	9,979	9,149
Buses	343	403	294	266	254	1,040	499
Volvo Penta	399	618	684	493	630	1,702	1,848
Group Functions & Other	-311	-302	-804	-373	-608	-1,416	-2,130
Eliminations	12	-2	-18	-3	6	-8	-10
Industrial Operations	10,111	14,419	12,095	9,991	9,626	36,625	28,258
Financial Services	774	686	602	605	621	2,062	1,805
Volvo Group	10,885	15,105	12,696	10,597	10,247	38,687	30,063

Operating margin						First nine months	First nine months
%	3/2019	2/2019	1/2019	4/2018	3/2018	2019	2018
Trucks	11.6	12.6	12.2	0.9	11.1	12.2	10.4
Construction Equipment	12.2	15.5	15.1	10.6	13.9	14.5	15.6
Buses	4.5	4.5	4.3	1.0	4.4	4.4	2.7
Volvo Penta	12.7	16.9	20.0	12.9	19.6	16.6	18.6
Industrial Operations	10.6	12.3	13.0	2.9	10.8	12.0	10.5
Volvo Group	11.0	12.5	13.2	3.4	11.1	12.3	10.8

Adjusted operating margin						First nine months	First nine months
%	3/2019	2/2019	1/2019	4/2018	3/2018	2019	2018
Trucks	11.6	12.6	12.2	10.9	11.1	12.2	10.4
Construction Equipment	12.2	15.5	15.1	10.6	13.9	14.5	14.3
Buses	4.5	4.5	4.3	3.6	4.4	4.4	2.7
Volvo Penta	12.7	16.9	20.0	12.9	19.6	16.6	18.6
Industrial Operations	10.6	12.3	11.6	9.8	10.8	11.6	10.2
Volvo Group	11.0	12.5	11.8	10.0	11.1	11.8	10.5

QUARTERLY FIGURES

Share data	3/2019	2/2019	1/2019	4/2018	3/2018	First nine months 2019	First nine months 2018
Earnings per share, SEK ¹	3.67	5.47	5.22	1.26	3.67	14.36	10.99
Earnings per share, SEK ¹ , 12 months rolling	15.62	15.62	14.69	12.25	13.30	-	-
Diluted earnings per share, SEK	3.67	5.47	5.22	1.26	3.67	14.36	10.98
Number of outstanding shares in millions	2,033	2,033	2,033	2,033	2,032	2,033	2,032
Average number of shares before dilution in millions	2,033	2,033	2,033	2,033	2,032	2,033	2,032
Average number of shares after dilution in millions	2,033	2,033	2,034	2,033	2,033	2,033	2,034
Number of own shares in millions	95	95	95	96	96	95	96
Average number of own shares in millions	95	95	95	96	96	95	96

¹ Earnings per share are calculated as Income for the period (excl. Non-controlling interest) 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 and definitions are consistently applied with those described in the Volvo Group Annual and Sustainability Report 2018 (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 2019

As of January 1, 2019 Volvo Group applies IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatment.

IFRS 16 Leases

IFRS 16 is the new accounting standard for leases and the main impact relates to the lessee accounting, as lease contracts are recognized in the balance sheet. For the Volvo Group this implies a change in accounting of lease contracts for real estate, company cars and other leased items.

Implementing the new lease accounting standard results in increased assets and interest-bearing liabilities in the balance sheet, thereby affecting the net financial position. It has also a positive impact on operating income in the income statement, as a part of the lease expenses is recognized as an interest expense within the finance net. In the cash flow statement, the lease payments are allocated between interests paid within the operating cash flow and repayment of lease liabilities within the financing activities. Thus, it has a positive effect on the operating cash flow.

IFRS 16 is applied retrospectively but prior period financial information has not been restated. Hence, the opening

balance for 2019 was adjusted in accordance with the new standard. For leases previously classified as operating leases with the Volvo Group as the lessee, a lease liability was recognized at the present value of future lease payments, amounting to SEK 6,209 M as of January 1, 2019. The asset was recognized at an amount equal to the lease liability; therefore no transition effect was presented in equity.

IFRIC 23 Uncertainty over Income Tax Treatment

IFRIC 23 is a new interpretation of uncertain income tax treatments within scope of IAS 12 Income Taxes. For the Volvo Group this implies a changed classification for identified income tax-related risks that were previously recognized as a provision for tax charges that are probable to regulate the obligation. Uncertain income tax treatments are now reported as tax liabilities.

IFRIC 23 is applied retrospectively but prior period financial information has not been restated. Hence, the opening balance for 2019 was adjusted in accordance with the new interpretation. Income tax risks previously recognized as current and non-current provisions were reclassified to tax liabilities with an amount of SEK 295 M as of January 1, 2019. Thus no transition effect was presented in equity.

The effect of implementing IFRS 16 is summarized in the table below. As the effect of implementing IFRIC 23 only was a reclassification within liabilities it is not included in the table. More details from the transition, restated financial information and a description of the new accounting policies are presented in the Volvo Group Annual and Sustainability Report 2018 in note 32.

Effect on the opening balance as of January 1, 2019 SEK M	Previously reported Dec 31, 2018	Restatement IFRS 16	After restatement Jan 1, 2019
Total assets	474,663	6,209	480,872
Total equity	125,831	-	125,831
Total liabilities	348,832	6,209	355,041
Total equity and liabilities	474,663	6,209	480,872

Effect on net financial position as of January 1, 2019 SEK bn	Previously reported Dec 31, 2018	Restatement IFRS 16	After restatement Jan 1, 2019
Net financial position incl. post-employment benefits	26,6	-6,2	20,4

NOTE 2 | RISKS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Each of the Volvo Group's Business Areas is responsible for its own risk management. In addition, the Volvo Group works with Enterprise Risk Management (ERM), which is a systematic and structured process to report and analyze risk assessments and mitigations as well as to follow-up on the risks that might impact the Group's business. The objective of the ERM process is to improve business performance and to minimize the cost of managing risks; thus protecting the Group's enterprise value as well as enhancing and protecting the Group's assets. The risks within the Volvo Group are classified into four categories:

Strategic risks – such as geopolitical instability, intense competition, technology shift and convergence and extensive government regulations;

Operational risks – such as customer satisfaction, cyclical nature of the commercial vehicles industry, reliance on suppliers and scarce materials, interruptions, inefficiencies in the industrial system, residual value commitments, risk related to human capital and human rights and risk related to natural disasters, malicious intent or accident risks, as well as corruption and non-compliance with competition law;

Compliance risks – such as non-compliance with data privacy laws, protection and maintenance of intangible assets, complaints and legal actions by customers and other third parties, environmental regulations and contractual conditions related to takeover bids; and

Financial risks – such as currency fluctuations, interest level fluctuations, valuation of shares or similar instruments, credit risks, liquidity risks, as well as impairment on goodwill and other intangible assets.

For a more elaborate account of these risks, please refer to the Risk Management section on pages 108-115 in the Volvo Group Annual and Sustainability Report 2018 (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.

Uncertainty regarding customers' access to the financing of products in emerging markets might have a negative impact on demand. Changes in demand in the automotive and commercial vehicle industries combined with required investments in new technologies, might negatively impact suppliers' financial performance and stability and thus their ability to deliver parts and components to the Volvo Group.

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 a business recovery and volatility in interest and currency rates may be indications of impairment.

The reported amounts for contingent liabilities reflect a part of Volvo Group's risk exposure. Total contingent liabilities as of September 30, 2019, amounted to SEK 14.9 billion, an increase of SEK 0.7 billion compared with December 31, 2018. The gross exposure of SEK 14.9 billion is partly reduced by counter guarantees and collaterals.

Following the adoption of the European Commission's settlement decision, the Volvo Group has received and will be defending itself against numerous private damages claims brought by customers and other third parties alleging that they suffered loss by reason of the conduct covered in the decision. The claims are being brought in various countries by claimants either acting individually or as part of a wider group or class of claimants. Further claims are likely to be commenced. At this stage, it is not possible to make a reliable estimate 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 and Sustainability Report 2018 are progressing. No material changes have occurred in these matters in Q3 2019.

As previously communicated, the Volvo Group has detected that an emissions control component used in certain markets and models, may degrade more quickly than expected, affecting the vehicles emission performance negatively. The Volvo Group made a provision of SEK 7 billion impacting the operating income in Q4 2018, relating to the estimated costs to address the issue. Negative cash flow effects have started in 2019 and will gradually ramp up in the coming years. The Volvo Group will continuously assess the size of the provision as the matter develops.

A sub-supplier in the supply chain of medium-duty engines to Volvo CE as well as Volvo Buses and Volvo Penta is in financial difficulties. Supply to the Volvo Group is currently not affected, but the production and sales of Volvo Group products may be impacted going forward.

As of October 13, the United Auto Workers (UAW) union in the United States has begun a strike, impacting six facilities in North America, including the Mack truck assembly plant in Pennsylvania and the powertrain plant in Maryland, which supports the production of both Mack Trucks and Volvo Trucks. In total, about 3,500 employees are on strike. If the strike continues for an extended period of time, it may result in negative financial consequences for the Volvo Group.

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, which is when it is delivered. For maintenance services and other aftermarket products, revenue is normally recognized over time, which is during the contract period. 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

The Volvo Group has not made any acquisitions or divestments of operations during the third quarter that have had a significant impact on the Volvo Group. During the third quarter, real estate has been divested resulting in a positive effect on operating income of SEK 217 M.

Assets and liabilities held for sale

Assets held for sale amounted to net SEK 87 (203) M in Q3. The amount decreased in the quarter due to the sale of real estate. The remaining balance corresponds mainly to the reclassification of planned property divestments.

NOTE 5 | CURRENCY AND FINANCIAL INSTRUMENTS

Fair value of financial instruments

Valuation principles and classifications of Volvo Group financial instruments, as described in Volvo Group Annual and Sustainability Report 2018 Note 30 (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 3.8 billion (4.5) and derivatives with negative fair values

amounted to SEK 4.1 billion (1.5) as of September 30, 2019. 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 159.9 billion (134.7) in reported carrying value with a fair value of SEK 161.4 billion (135.8). In the Volvo Group consolidated financial position, financial liabilities include loan-related derivatives with negative fair values amounting to SEK 3.3 billion (1.2).

Currency effect on operating income, Volvo Group	Compared to third quarter 2018			Compared to second quarter 2019		
	Third quarter 2019	Third quarter 2018	Change	Third quarter 2019	Second quarter 2019	Change
SEK M						
Net flow in foreign currency			376			-20
Realized and unrealized gains and losses on derivatives	9	-3	12	9	-26	35
Unrealized gains and losses on receivables and liabilities in foreign currency	114	-247	361	114	-183	297
Translation effect on operating income in foreign subsidiaries			524			100
Total currency effect on operating income, Volvo Group			1,273			412

Applicable currency rates	Quarterly exchange rates		Close rates	
	Third quarter 2019	Third quarter 2018	Sep 30 2019	Sep 30 2018
BRL	2.42	2.27	2.36	2.21
CNY	1.37	1.32	1.37	1.29
EUR	10.66	10.41	10.73	10.29
GBP	11.81	11.66	12.07	11.57
USD	9.59	8.95	9.80	8.86
JPY	0.0893	0.0803	0.0909	0.0781
KRW	0.0080	0.0080	0.0082	0.0080

NOTE 6 | TRANSACTIONS WITH RELATED PARTIES

	Sales of goods, services and other income		Purchases of goods, services and other expenses	
	Third quarter 2019	Third quarter 2018	Third quarter 2019	Third quarter 2018
SEK M				
Associated companies	751	359	41	21
Joint ventures	264	230	116	259
Other related parties	18	19	175	199

	Receivables		Payables	
	Sep 30 2019	Dec 31 2018	Sep 30 2019	Dec 31 2018
SEK M				
Associated companies	667	290	56	33
Joint ventures	215	353	19	166
Other related parties	119	80	265	252

NOTE 7 | RECONCILIATION OF ADJUSTED OPERATING INCOME

Adjusted operating income						First nine months	First nine months
SEK M	3/2019	2/2019	1/2019	4/2018	3/2018	2019	2018
Trucks	7,488	9,548	8,293	7,450	6,757	25,329	18,902
Construction Equipment	2,180	4,153	3,646	2,157	2,587	9,979	9,149
Buses	343	403	294	266	254	1,040	499
Volvo Penta	399	618	684	493	630	1,702	1,848
Group Functions & Other	-311	-302	-804	-373	-608	-1,416	-2,130
Eliminations	12	-2	-18	-3	6	-8	-10
Industrial Operations	10,111	14,419	12,095	9,991	9,626	36,625	28,258
Financial Services	774	686	602	605	621	2,062	1,805
Volvo Group	10,885	15,105	12,696	10,597	10,247	38,687	30,063

Adjustments						First nine months	First nine months
SEK M	3/2019	2/2019	1/2019	4/2018	3/2018	2019	2018
Adjustment items (segment)							
Provision for addressing the issue with an emission control component (Trucks)	-	-	-	-6,810	-	-	-
Provision for addressing the issue with an emission control component (Buses)	-	-	-	-190	-	-	-
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 WirelessCar (Group functions & Other)	-	-	1,466	-	-	1,466	-

Total adjustments							
Trucks	-	-	-	-6,810	-	-	-
Construction Equipment	-	-	-	-	-	-	818
Buses	-	-	-	-190	-	-	-
Group Functions & Other	-	-	1,466	-	-	1,466	-
Industrial Operations	-	-	1,466	-7,000	-	1,466	818
Volvo Group	-	-	1,466	-7,000	-	1,466	818

Operating income						First nine months	First nine months
SEK M	3/2019	2/2019	1/2019	4/2018	3/2018	2019	2018
Trucks	7,488	9,548	8,293	640	6,757	25,329	18,902
Construction Equipment	2,180	4,153	3,646	2,157	2,587	9,979	9,967
Buses	343	403	294	76	254	1,040	499
Volvo Penta	399	618	684	493	630	1,702	1,848
Group Functions & Other	-311	-302	662	-373	-608	49	-2,130
Eliminations	12	-2	-18	-3	6	-8	-10
Industrial Operations	10,111	14,419	13,560	2,991	9,626	38,090	29,076
Financial Services	774	686	602	605	621	2,062	1,805
Volvo Group	10,885	15,105	14,162	3,597	10,247	40,153	30,881

For reconciliations of other Key Ratios, see www.volvogroup.com.

PARENT COMPANY

Income from investments in Group companies for the third quarter includes dividends amounting to SEK 92 M (1,121).

Financial net debt amounted to SEK 32,912 M (27,785) at the end of the third quarter.

Income Statement				
SEK M	Third quarter		First nine months	
	2019	2018	2019	2018
Net sales¹	72	161	292	504
Cost of sales ¹	-72	-161	-292	-504
Gross income	0	0	0	0
Operating expenses ¹	-293	-330	-1,024	-1,017
Income from investments in Group companies	97	1,220	1,803	1,980
Income from investments in joint ventures and associated companies	-	-	451	389
Operating income (loss)	-196	890	1,230	1,352
Interest income and expenses	-204	-174	-633	-556
Other financial income and expenses	-1	0	-18	-19
Income after financial items	-401	716	579	777
Income taxes	136	92	373	310
Income for the period	-265	808	953	1,087

¹ Of net sales in the third quarter, SEK 57 M (146) pertained to Group companies, while purchases from Group companies amounted to SEK 153 M (111).

Other comprehensive income				
Income for the period	-265	808	953	1,087
Other comprehensive income, net of income taxes	-	-	-	-
Total comprehensive income for the period	-265	808	953	1,087

Balance Sheet		
SEK M	Sep 30 2019	Dec 31 2018
Assets		
Non-current assets		
Tangible assets	7	7
Financial assets		
Shares and participations in Group companies	70,211	72,765
Investments in joint ventures and associated companies	8,894	8,894
Other shares and participations	4	4
Deferred tax assets	525	186
Total non-current assets	79,641	81,856
Current assets		
Current receivables from Group companies	212	35,027
Tax assets	1,639	-
Other current receivables	317	118
Total current assets	2,168	35,145
Total assets	81,809	117,001
Equity and liabilities		
Equity		
Restricted equity	9,891	9,891
Unrestricted equity	32,272	51,653
Total Equity	42,163	61,544
Untaxed reserves	6,001	6,001
Provisions	256	258
Non-current liabilities ¹	13,977	13,977
Current liabilities ²	19,412	35,221
Total equity and liabilities	81,809	117,001

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

² Of which SEK 18,792 M (34,050) pertains to Group companies.

Events after the balance sheet date

For important events, please see page 13. No other significant events have occurred after the end of the third quarter 2019 that are expected to have a substantial effect on the Volvo Group.

Gothenburg, October 18, 2019
AB Volvo (publ)

Martin Lundstedt
President and CEO

This report has not been reviewed by AB Volvo's auditors.

NET ORDER INTAKE

Net order intake of trucks	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
Number of trucks						
Europe	18,072	24,324	-26	67,419	82,951	-19
Heavy- and medium-duty	16,332	20,328	-20	57,924	67,742	-14
Light-duty	1,740	3,996	-56	9,495	15,209	-38
North America	4,966	26,085	-81	17,863	65,350	-73
South America	3,832	5,239	-27	14,182	13,649	4
Asia	6,353	6,111	4	21,488	25,275	-15
Africa and Oceania	2,503	3,589	-30	8,479	10,744	-21
Total trucks	35,726	65,348	-45	129,431	197,969	-35
Heavy-duty (>16 tons)	30,853	58,062	-47	110,251	171,801	-36
Medium-duty (7-16 tons)	2,994	3,112	-4	9,073	10,227	-11
Light-duty (<7 tons)	1,879	4,174	-55	10,107	15,941	-37
Total trucks	35,726	65,348	-45	129,431	197,969	-35

Net order intake of trucks by brand

Volvo						
Europe	11,190	13,213	-15	38,370	42,647	-10
North America	1,682	18,311	-91	7,748	43,047	-82
South America	3,441	4,893	-30	12,990	12,185	7
Asia	2,357	2,492	-5	8,551	11,801	-28
Africa and Oceania	1,153	1,717	-33	4,527	5,250	-14
Total Volvo	19,823	40,626	-51	72,186	114,930	-37
Heavy-duty (>16 tons)	19,036	39,716	-52	69,717	112,238	-38
Medium-duty (7-16 tons)	787	910	-14	2,469	2,692	-8
Total Volvo	19,823	40,626	-51	72,186	114,930	-37

UD						
North America	23	7	-	41	40	3
South America	186	70	166	341	258	32
Asia	3,623	3,602	1	11,920	12,334	-3
Africa and Oceania	621	1,157	-46	2,067	3,029	-32
Total UD	4,453	4,836	-8	14,369	15,661	-8
Heavy-duty (>16 tons)	3,456	3,832	-10	11,415	12,317	-7
Medium-duty (7-16 tons)	864	938	-8	2,447	2,948	-17
Light-duty (<7 tons)	133	66	102	507	396	28
Total UD	4,453	4,836	-8	14,369	15,661	-8

Renault Trucks						
Europe	6,882	11,111	-38	29,049	40,304	-28
Heavy- and medium-duty	5,142	7,115	-28	19,554	25,095	-22
Light-duty	1,740	3,996	-56	9,495	15,209	-38
North America	19	311	-94	675	830	-19
South America	27	66	-59	136	236	-42
Asia	373	17	-	1,017	1,140	-11
Africa and Oceania	600	462	30	1,452	1,705	-15
Total Renault Trucks	7,901	11,967	-34	32,329	44,215	-27
Heavy-duty (>16 tons)	4,812	6,595	-27	18,572	24,083	-23
Medium-duty (7-16 tons)	1,343	1,264	6	4,157	4,587	-9
Light-duty (<7 tons)	1,746	4,108	-57	9,600	15,545	-38
Total Renault Trucks	7,901	11,967	-34	32,329	44,215	-27

Mack						
North America	3,242	7,456	-57	9,399	21,433	-56
South America	178	210	-15	715	970	-26
Africa and Oceania	129	253	-49	433	760	-43
Total Mack	3,549	7,919	-55	10,547	23,163	-54
Heavy-duty (>16 tons)	3,549	7,919	-55	10,547	23,163	-54
Total Mack	3,549	7,919	-55	10,547	23,163	-54

DELIVERIES

Deliveries of trucks	Third quarter		Change %	First nine months		Change %
	2019	2018		2019	2018	
Number of trucks						
Europe	20,669	23,512	-12	77,007	78,531	-2
Heavy- and medium-duty	17,697	19,702	-10	63,471	65,894	-4
Light-duty	2,972	3,810	-22	13,536	12,637	7
North America	14,268	13,565	5	50,483	39,805	27
South America	6,661	4,787	39	17,049	11,864	44
Asia	7,319	7,603	-4	21,739	23,710	-8
Africa and Oceania	3,440	3,526	-2	9,910	10,228	-3
Total trucks	52,357	52,993	-1	176,188	164,138	7
Heavy-duty (>16 tons)	46,402	46,127	1	152,282	140,837	8
Medium-duty (7-16 tons)	2,685	2,910	-8	9,404	10,274	-8
Light-duty (<7 tons)	3,270	3,956	-17	14,502	13,027	11
Total trucks	52,357	52,993	-1	176,188	164,138	7

Deliveries of trucks by brand

Volvo						
Europe	11,376	12,531	-9	40,678	43,125	-6
North America	7,514	7,955	-6	28,379	23,613	20
South America	6,318	4,387	44	15,997	10,945	46
Asia	2,558	3,381	-24	8,366	11,034	-24
Africa and Oceania	1,630	1,798	-9	5,077	4,923	3
Total Volvo	29,396	30,052	-2	98,497	93,640	5
Heavy-duty (>16 tons)	28,790	29,424	-2	96,053	91,092	5
Medium-duty (7-16 tons)	606	628	-4	2,444	2,548	-4
Total Volvo	29,396	30,052	-2	98,497	93,640	5

UD						
North America	18	14	29	54	53	2
South America	125	120	4	285	206	38
Asia	4,487	3,990	12	12,429	11,510	8
Africa and Oceania	827	1,029	-20	2,289	2,920	-22
Total UD	5,457	5,153	6	15,057	14,689	3
Heavy-duty (>16 tons)	4,333	3,994	8	11,859	11,239	6
Medium-duty (7-16 tons)	923	1,080	-15	2,536	3,266	-22
Light-duty (<7 tons)	201	79	154	662	184	260
Total UD	5,457	5,153	6	15,057	14,689	3

Renault Trucks						
Europe	9,293	10,981	-15	36,329	35,406	3
Heavy- and medium-duty	6,321	7,171	-12	22,793	22,769	0
Light-duty	2,972	3,810	-22	13,536	12,637	7
North America	331	70	-	1,153	182	-
South America	54	32	69	144	170	-15
Asia	274	232	18	944	1,166	-19
Africa and Oceania	707	397	78	1,650	1,549	7
Total Renault Trucks	10,659	11,712	-9	40,220	38,473	5
Heavy-duty (>16 tons)	6,434	6,633	-3	21,956	21,170	4
Medium-duty (7-16 tons)	1,156	1,202	-4	4,424	4,460	-1
Light-duty (<7 tons)	3,069	3,877	-21	13,840	12,843	8
Total Renault Trucks	10,659	11,712	-9	40,220	38,473	5

Mack						
North America	6,405	5,526	16	20,897	15,957	31
South America	164	248	-34	623	543	15
Africa and Oceania	276	302	-9	894	836	7
Total Mack	6,845	6,076	13	22,414	17,336	29
Heavy-duty (>16 tons)	6,845	6,076	13	22,414	17,336	29
Total Mack	6,845	6,076	13	22,414	17,336	29

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 CEST on October 18, 2019.

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 fourth quarter and full year 2019	January 30, 2020
Annual and Sustainability Report 2019	March 11, 2020
Annual General Meeting 2020	April 8, 2020
Report on the first quarter 2020	April 23, 2020
Report on the second quarter 2020	July 17, 2020
Report on the third quarter 2020	October 20, 2020

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