

REPORT ON THE THIRD QUARTER 2018



- » In Q3 2018 net sales increased by 21% to SEK 92.3 billion (76.4). Adjusted for currency movements and acquired and divested units sales increased by 13%.
- » The adjusted operating income amounted to SEK 10,247 M (6,937), corresponding to an adjusted operating margin of 11.1% (9.1).
- » Reported operating income amounted to SEK 10,247 M (7,337).
- » Currency movements had a positive impact on operating income of SEK 423 M.
- » Diluted earnings per share amounted to SEK 3.67 (2.66).
- » Operating cash flow in the Industrial Operations amounted to SEK 1.3 billion (0.6).

SEK M unless otherwise stated	Third quarter		First nine months	
	2018	2017	2018	2017
Net sales	92,282	76,400	285,048	241,184
Adjusted operating income ¹	10,247	6,937	30,063	22,173
Adjusted operating margin, %	11.1	9.1	10.5	9.2
Operating income	10,247	7,337	30,881	22,573
Operating margin, %	11.1	9.6	10.8	9.4
Income after financial items	9,698	6,947	29,110	21,077
Income for the period	7,520	5,453	22,700	16,019
Diluted earnings per share, SEK	3.67	2.66	10.98	7.77
Operating cash flow in Industrial Operations	1,316	622	11,126	14,020
Return on shareholders' equity, 12 months rolling, %			24.1	21.1
Net order intake, number of trucks	65,348	51,955	197,969	162,842
Deliveries, number of trucks	52,993	46,603	164,138	142,588
Net order intake, number of construction equipment	16,342	13,421	63,067	47,117
Deliveries, number of construction equipment	16,861	14,431	63,071	48,272

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

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

CEO'S COMMENTS

Continued good sales growth and profitability improvement



In the third quarter of 2018, demand was robust, with both our vehicle and service business continuing to grow at a good pace. We increased net sales to SEK 92.3 billion, with a currency-adjusted growth of 13%, and improved the adjusted operating income by SEK 3.3 billion to SEK 10.2 billion and the adjusted operating margin to 11.1% (9.1). Although this is the best third quarter ever for the Group, it does not mean that we have reached our full potential. There is more to do to improve profitability and drive cash flow. A key area is to grow our service business, and our work to increase service contract penetration, workshop performance and service capacity is yielding good results. In combination with growing vehicle populations and high utilization in the fleets, these efforts contributed to service sales growing by 7% in the quarter, adjusted for currency.

Demand in the European truck market continued to be good as a result of high transport activity and customer profitability. Market demand is expected to be on a healthy level also in 2019. The high activity level in the North American economy translates into a strong freight environment with high transport volumes and good freight rates. This leads to customers both renewing and expanding their fleets, a development which is expected to continue into 2019. Growing demand in Brazil, our biggest market in South America, is driven by good growth in sectors such as agriculture as well as the need for fleet renewal in general. The Japanese market for heavy-duty trucks remained on a good level on the back of a positive development in the economy.

Despite some capacity constraints, we delivered 14% more trucks than in Q3 2017. Our truck business improved the operating income to SEK 6.8 billion (4.2) and the operating margin to 11.1% (8.5).

Together with our suppliers we continue to work hard to meet demand, reduce delivery times and improve delivery precision towards our customers. However, given the strong demand, we expect the supply chain constraints in particular in North America to remain in the near-term.

We continue to invest in new products, technologies and services to the benefit of both our customers and society at large. At the Volvo Group Innovation Summit in Berlin in September we presented Vera – a future transport vehicle that is autonomous, fully electric and connected. It can

contribute to more efficient, safer and cleaner transportation in confined and hub-to-hub repetitive transport flows. The system is currently being developed together with customers and business partners.

Construction Equipment sustained the strong development of recent quarters, with both sales and profitability being above the levels of last year. Good demand in most markets and our range of competitive products contributed to order intake increasing by 22% and deliveries by 17%. Volvo CE improved the operating income by 28% to SEK 2.6 billion, corresponding to an operating margin of 13.9% (13.4).

In the quarter Volvo CE and our customer Skanska began testing the viability of the Electric Site concept in a quarry. The system, which incorporates autonomous, electric and connected Volvo machines, will run in a real production environment for some 10 weeks. It is anticipated to deliver a substantial reduction in carbon emissions and total cost of operations.

Bus deliveries declined by 16%, however good growth in the service business contributed to Volvo Buses increasing the operating margin to 4.4% (3.3).

Volvo Penta maintained the strong sales development also in the third quarter while simultaneously improving profitability. Net sales grew by 20% to SEK 3.2 billion and Volvo Penta improved the operating margin to 19.6% (13.3).

Our customer financing operations in Financial Services increased the new financing volume and had low credit losses on the back of good customer profitability and strict credit approvals. Return on equity rose to 15.1% (14.3).

We continue on our journey to improve the Group's performance and volume flexibility while at the same time leveraging our existing technologies and pushing forward with new technologies and innovations.

Martin Lundstedt
President and CEO

FINANCIAL SUMMARY OF THE THIRD QUARTER 2018

Net sales

In Q3 2018, the Volvo Group's net sales increased by 21% to SEK 92,282 M (76,400). Adjusted for currency movements and acquired and divested units, net sales increased by 13%.

Vehicle sales increased by 14% adjusted for currency movements, primarily driven by higher volumes of trucks and construction equipment. All regions contributed to the sales growth. Adjusted for currency movements, service sales increased by 7%, reflecting a growing installed population and good utilization of customer fleets.

Operating income

Adjusted operating income in Q3 2018 amounted to SEK 10,247 M (6,937), corresponding to an adjusted operating margin of 11.1% (9.1). There were no adjustments in Q3 2018. In Q3 2017, adjusted operating income excluded a

capital gain of SEK 400 M from the sale of the Group's holding in Deutz AG.

Compared with Q3 2017, the higher adjusted operating income is primarily an effect of higher truck and construction equipment volumes, improved capacity utilization, increased service sales and slightly lower R&D expenses as a result of higher capitalization of R&D costs. This was partly offset by higher selling expenses.

Earnings for Volvo CE in Q3 2018 include a capital gain of SEK 225 M from the sale of land. In Q3 2017 earnings in Volvo CE was positively impacted in an amount of SEK 253 M from the divestment of a dealer in Great Britain.

Reported operating income in Q3 2018 amounted to SEK 10,247 M (7,337).

Currency movements, compared to Q3 2017, had a positive impact of SEK 423 M.

Net sales SEK M	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
Europe	36,483	30,930	18	116,589	101,633	15
North America	26,520	20,314	31	77,348	62,215	24
South America	5,789	4,413	31	15,509	12,374	25
Asia	17,157	15,600	10	57,531	49,300	17
Africa and Oceania	6,332	5,142	23	18,071	15,661	15
Total	92,282	76,400	21	285,048	241,184	18
Of which:						
Vehicles ¹	69,049	56,375	22	217,431	179,628	21
Services	19,997	17,321	15	58,481	53,398	10
Financial Services revenue	3,344	2,896	15	9,633	8,734	10
Eliminations	-109	-193	44	-497	-576	14

¹ Including construction equipment and Volvo Penta engines

Consolidated Income Statement, Volvo Group SEK M	Third quarter		First nine months	
	2018	2017	2018	2017
Net sales	92,282	76,400	285,048	241,184
Cost of sales	-69,812	-58,239	-215,770	-182,435
Gross income	22,470	18,161	69,278	58,749
Research and development expenses	-3,327	-3,445	-11,787	-11,565
Selling expenses	-7,320	-6,791	-22,656	-20,980
Administrative expenses	-1,275	-1,273	-4,328	-4,001
Other operating income and expenses	-535	-5	-1,452	-1,016
Income/loss from investments in joint ventures and associated companies	234	634	1,805	1,242
Income from other investments	1	56	21	145
Operating income	10,247	7,337	30,881	22,573
Interest income and similar credits	48	44	140	124
Interest expenses and similar charges	-433	-417	-1,242	-1,367
Other financial income and expenses	-165	-17	-669	-253
Income after financial items	9,698	6,947	29,110	21,077
Income taxes	-2,178	-1,495	-6,410	-5,058
Income for the period *	7,520	5,453	22,700	16,019
* Attributable to:				
Equity holders of the parent company	7,459	5,405	22,334	15,798
Minority interests	61	48	365	221
	7,520	5,453	22,700	16,019
Basic earnings per share, SEK	3.67	2.66	10.99	7.78
Diluted earnings per share, SEK	3.67	2.66	10.98	7.77

Financial items

Compared with Q3 2017 interest income increased by SEK 4 M to SEK 48 M while interest expenses increased by SEK 16 M to SEK 433 M.

In Q3 2018 Other financial income and expenses amounted to SEK -165 M (-17). The change compared with the previous year is primarily related to unrealized revaluations and realized results on derivatives.

Income taxes

In Q3 2018 the tax expense amounted to SEK 2,178 M (1,495) corresponding to a tax rate of 22% (22).

Income for the period and earnings per share

In Q3 2018 income for the period amounted to SEK 7,520 M (5,453). Diluted earnings per share amounted to SEK 3.67 (2.66).

Operating cash flow in the Industrial Operations

During Q3 2018, operating cash flow in the Industrial Operations was positive in an amount of SEK 1,316 M (622). The higher cash flow compared to Q3 2017 is primarily related to an increased operating income of SEK 2,755 M, which was partly off-set by an increase in working capital of SEK 2,288 M. The increase in working capital is primarily related to a reduction of trade payables.

Volvo Group financial position

During Q3 2018, net financial assets in the Industrial Operations, excluding provisions for post-employment benefits, increased by SEK 1.7 billion, resulting in a net financial asset position of SEK 29.5 billion on September 30, 2018. This equals 26.4 % of shareholders' equity. Including provisions for post-employment benefits, the Industrial Operations net financial assets amounted to SEK 16.4 billion. In the quarter the financial position was positively impacted by the operating cash flow of SEK 1.3 billion, a positive effect from remeasurements of the defined benefit obligations of SEK 0.5 billion and a positive impact from currency movements of SEK 0.6 billion.

On September 30, 2018 shareholders' equity for the Volvo Group amounted to SEK 124.0 billion compared to SEK 107.8 billion on December 31, 2017. The equity ratio was 27.3% (25.7). On the same date the equity ratio in the Industrial Operations amounted to 33.2% (31.1).

Number of employees

On September 30, 2018, the Volvo Group had 105,350 employees, including temporary employees and consultants, which was an increase of 5,719 employees compared with September 30, 2017. The number of blue-collar employees increased by 3,808 and the number of white-collar employees increased by 1,911. The increase in white-collar employees is primarily related to Trucks.

Number of employees	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017
Blue-collar	53,506	52,953	51,790	49,308	49,698
Whereof temporary employees and consultants	7,726	8,072	7,497	6,222	7,246
White-collar	51,844	51,636	50,919	50,180	49,933
Whereof temporary employees and consultants	6,528	6,556	6,354	6,162	6,236
Total number of employees	105,350	104,589	102,709	99,488	99,631
Whereof temporary employees and consultants	14,254	14,628	13,851	12,384	13,482

BUSINESS SEGMENT OVERVIEW

Net sales SEK M	Third quarter		Change		First nine months		Change		12 months rolling	Jan-Dec 2017
	2018	2017	%	% ¹	2018	2017	%	% ¹		
Trucks	60,682	49,196	23	15	181,826	154,230	18	15	242,449	214,854
Construction Equipment	18,598	15,042	24	16	63,915	49,583	29	27	80,644	66,313
Buses	5,804	6,363	-9	-14	18,339	18,824	-3	-4	25,394	25,878
Volvo Penta	3,207	2,662	20	12	9,909	8,444	17	14	12,585	11,119
Group Functions & Other	1,472	1,371	7	3	4,299	4,557	-6	-9	6,191	6,449
Eliminations	-717	-938	24	24	-2,375	-2,612	9	9	-2,577	-2,814
Industrial Operations	89,047	73,696	21	13	275,913	233,026	18	16	364,685	321,799
Financial Services	3,344	2,896	15	10	9,633	8,734	10	9	12,710	11,812
Reclassifications and eliminations	-109	-193	44	44	-497	-576	14	14	-793	-873
Volvo Group	92,282	76,400	21	13	285,048	241,184	18	16	376,602	332,738

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

Adjusted operating income ¹ SEK M	Third quarter		Change		First nine months		12 months rolling	Jan-Dec 2017
	2018	2017	%	%	2018	2017		
Trucks	6,757	4,184	61		18,902	14,195	33	24,492
Construction Equipment	2,587	2,023	28		9,149	6,098	50	10,969
Buses	254	208	22		499	615	-19	761
Volvo Penta	630	353	78		1,848	1,252	48	2,035
Group Functions & Other	-608	-393	-55		-2,130	-1,581	-35	-3,483
Eliminations	6	9	-33		-10	-9	-11	1
Industrial Operations	9,626	6,385	51		28,258	20,569	37	34,774
Financial Services	621	553	12		1,805	1,604	13	2,394
Volvo Group	10,247	6,937	48		30,063	22,173	36	37,168
Adjustments ¹	-	400	-		818	400	-	818
Volvo Group operating income	10,247	7,337	40		30,881	22,573	37	37,986

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 2017
	2018	2017	2018	2017		
Trucks	11.1	8.5	10.4	9.2	10.1	9.2
Construction Equipment	13.9	13.4	14.3	12.3	13.6	11.9
Buses	4.4	3.3	2.7	3.3	3.0	3.4
Volvo Penta	19.6	13.3	18.6	14.8	16.2	12.9
Industrial Operations	10.8	8.7	10.2	8.8	9.5	8.4
Volvo Group	11.1	9.1	10.5	9.2	9.9	8.8
Volvo Group operating margin	11.1	9.6	10.8	9.4	10.1	8.9

TRUCKS

Strong profitability improvement – operating margin of 11.1%

- » Strong demand in North America – order intake up 116%; orders in Europe stable on a good level
- » Service sales growing 17% to SEK 14,653 M
- » Operating income amounted to SEK 6,757 M (4,184), with an operating margin of 11.1% (8.5)



Market development

Demand for trucks in Europe has continued on a good level. High transport volumes drives fleet utilization and freight rates higher which supports truck demand. The market forecast for heavy-duty trucks for 2018 has been adjusted upwards to 315,000, while the 2019 market is estimated at about 300,000 vehicles.

In North America, a continued strong economy is resulting in high demand for freight, which combined with a shortage of transport capacity has led to high freight rates and a continued growth in truck demand, especially for highway trucks. The forecast for the total market in 2018 is maintained at 300,000 heavy-duty trucks. The projection for 2019 is for a market of about 310,000 heavy-duty trucks.

In Brazil, demand for new trucks has continued to increase as a consequence of a pent-up replacement need and favorable conditions in the agricultural segment. The heavy-duty truck market forecast has been increased to 50,000 units for 2018. For 2019, market demand is estimated to about 55,000 units.

The Chinese heavy-duty truck market grew through the first eight months in 2018 with 6%, primarily driven by a strong development for construction trucks and tractors. The medium-duty market, on the other hand, declined in the same period by 17%. As expected, demand for trucks has started to slow down, and the 2019 market for heavy- and medium-duty trucks is projected at 1,150,000 vehicles.

In India, demand continued on a high level as an effect of good economic activity and strong business confidence. The market forecast for heavy- and medium-duty trucks in 2018 remains at 405,000 vehicles. The forecast for 2019 is 430,000 vehicles.

In Japan, the heavy-duty truck market has remained on a stable level. The forecast for the total heavy-duty truck market in 2018 is unchanged at 45,000 units and this level is also projected for 2019.

Orders and deliveries

Total net order intake in Q3 2018 increased by 26% to 65,348 trucks and deliveries increased by 14% to 52,993 vehicles.

European order intake of heavy- and medium-duty trucks increased by 5% to 20,328 vehicles while deliveries increased by 4% to 19,702 vehicles. Volvo Trucks' heavy duty market share through August was 16.2% compared to 16.6% in the same period last year. Renault Trucks' market share was 8.6% (8.5%).

North American order intake increased by 116% to 26,085 vehicles and deliveries increased by 39% to 13,565 vehicles. Volvo Trucks has gained heavy duty truck market shares with its new range and recorded 10.5% (8.6%) through September. On the other hand, Mack Trucks has been hampered by supply constraints following the transition into its new range during the spring, which is why Mack's heavy-duty market share declined to 6.6% (7.7%).

Total market development	First nine months		Change %	Full year 2017	Forecast 2018	Change vs. previous forecast	Forecast 2019
	2018	2017					
Registrations, number of trucks							
Europe 28 ¹ heavy-duty (as of August)	189,163	176,981	7	271,032	-	-	-
Europe 30 ¹ heavy-duty	-	-	-	308,755	315,000	+5,000	300,000
North America heavy-duty	193,260	149,144	30	244,417	300,000	unchanged	310,000
Brazil heavy-duty	36,155	21,834	66	32,289	50,000	+5,000	55,000
China heavy-duty	895,941	870,143	3	1,116,851	1,110,000	+50,000	970,000
China medium-duty	138,324	174,365	-21	229,113	190,000	unchanged	180,000
India heavy-duty	239,596	175,214	37	251,448	300,000	unchanged	320,000
India medium-duty	86,084	56,875	51	82,185	105,000	unchanged	110,000
Japan heavy-duty	37,007	35,392	5	46,781	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 %
	2018	2017		2018	2017	
Number of trucks						
Europe	24,324	23,296	4	82,951	80,257	3
Heavy- and medium-duty	20,328	19,408	5	67,742	67,181	1
Light-duty	3,996	3,888	3	15,209	13,076	16
North America	26,085	12,096	116	65,350	33,150	97
South America	5,239	3,725	41	13,649	10,860	26
Asia	6,111	9,478	-36	25,275	27,517	-8
Africa and Oceania	3,589	3,360	7	10,744	11,058	-3
Total orders	65,348	51,955	26	197,969	162,842	22
Heavy-duty (>16 tons)	58,062	44,728	30	171,801	137,918	25
Medium-duty (7-16 tons)	3,112	3,230	-4	10,227	11,455	-11
Light-duty (<7 tons)	4,174	3,997	4	15,941	13,469	18
Total orders	65,348	51,955	26	197,969	162,842	22
Volvo	40,626	28,232	44	114,930	88,576	30
UD	4,836	5,035	-4	15,661	16,212	-3
Renault Trucks	11,967	11,925	0	44,215	40,302	10
Heavy- and medium-duty	7,859	7,994	-2	28,670	27,013	6
Light-duty	4,108	3,931	5	15,545	13,289	17
Mack	7,919	6,763	17	23,163	17,752	30
Total orders	65,348	51,955	26	197,969	162,842	22
Non-consolidated operations						
VE Commercial Vehicles (Eicher)	15,899	12,404	28	47,997	32,900	46

South American order intake increased by 41% to 5,239 vehicles and deliveries increased by 57% to 4,787 vehicles. Volvo Trucks' market share in heavy-duty trucks in Brazil increased to 20.7% (17.7%).

In Asia, order intake declined by 36% to 6,111 vehicles primarily driven by declines in the Middle East and South East Asia while deliveries declined by 9% to 7,603 trucks. Orders for the UD brand declined by 4% to 4,836 units while deliveries declined by 2% to 5,153 units. In Japan, UD recorded a heavy-duty market share of 16.6% (17.3%). The Indian joint venture, VECV, increased deliveries by 30% to 15,968 vehicles while the Chinese joint venture, DFCV, decreased deliveries by 6% to 37,406 vehicles.

Net sales and operating income

The truck operation's net sales amounted to SEK 60,682 M, which was 23% higher than in Q3 2017. Net sales adjusted for currency movements increased by 15%, with sales of vehicles increasing by 17% and service sales increasing by 8%.

Both adjusted and reported operating income in Q3 2018 amounted to SEK 6,757 M (4,184) corresponding to an operating margin of 11.1% (8.5).

Compared to Q3 2017, the operating income was positively impacted by higher vehicle sales, improved capacity utilization, increased service sales and lower R&D expenses as a result of higher capitalization of R&D

Deliveries	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
Number of trucks						
Europe	23,512	22,301	5	78,531	73,589	7
Heavy- and medium-duty	19,702	18,996	4	65,894	62,613	5
Light-duty	3,810	3,305	15	12,637	10,976	15
North America	13,565	9,747	39	39,805	27,532	45
South America	4,787	3,046	57	11,864	7,627	56
Asia	7,603	8,338	-9	23,710	24,631	-4
Africa and Oceania	3,526	3,171	11	10,228	9,209	11
Total deliveries	52,993	46,603	14	164,138	142,588	15
Heavy-duty (>16 tons)	46,127	39,882	16	140,837	120,721	17
Medium-duty (7-16 tons)	2,910	3,312	-12	10,274	10,622	-3
Light-duty (<7 tons)	3,956	3,409	16	13,027	11,245	16
Total deliveries	52,993	46,603	14	164,138	142,588	15
Volvo	30,052	25,722	17	93,640	77,952	20
UD	5,153	5,251	-2	14,689	14,931	-2
Renault Trucks	11,712	10,530	11	38,473	35,173	9
Heavy- and medium-duty	7,835	7,179	9	25,630	24,077	6
Light-duty	3,877	3,351	16	12,843	11,096	16
Mack	6,076	5,100	19	17,336	14,532	19
Total deliveries	52,993	46,603	14	164,138	142,588	15
Non-consolidated operations						
VE Commercial Vehicles (Eicher)	15,968	12,298	30	47,911	33,155	45
Dongfeng Commercial Vehicle Company (Dongfeng Trucks)	37,406	39,871	-6	117,533	115,859	1

Net sales and operating income SEK M	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
Europe	25,320	21,045	20	80,336	69,221	16
North America	17,833	12,793	39	51,022	38,918	31
South America	4,417	3,313	33	11,721	9,130	28
Asia	9,036	8,443	7	26,910	26,373	2
Africa and Oceania	4,076	3,602	13	11,838	10,589	12
Total net sales	60,682	49,196	23	181,826	154,230	18
Of which:						
Vehicles	46,029	36,643	26	138,745	115,257	20
Services	14,653	12,553	17	43,081	38,973	11
Adjusted operating income¹	6,757	4,184	61	18,902	14,195	33
Adjustments ¹	-	-		-	-	-
Operating income	6,757	4,184	61	18,902	14,195	33
Adjusted operating margin, %	11.1	8.5		10.4	9.2	
Operating margin, %	11.1	8.5		10.4	9.2	

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

costs. This was partly offset by higher selling expenses. Compared with Q3 2017, currency movements had a positive impact of SEK 456 M.

Important events

On September 12 a new goods transport solution from Volvo Trucks was unveiled for the first time in connection with the Volvo Group's Innovation Summit in Berlin. The solution, named Vera, is built around electrified, autonomous vehicles which are wirelessly connected to a transport control center. It is currently developed together with customers.

On September 27 it was announced that the California Air Resources Board (CARB) had preliminarily awarded

USD 44.8 million to California's South Coast Air Quality Management District (SCAQMD) for the Volvo LIGHTS (Low Impact Green Heavy Transport Solutions) project. The Volvo LIGHTS project is a part of an innovative partnership between the Volvo Group, SCAQMD and industry leaders in transportation and electrical charging infrastructure. If the project is launched, Volvo Trucks plans to introduce all-electric truck demonstrators in California next year, and commercialize them in North America in 2020.

CONSTRUCTION EQUIPMENT

Continued solid sales growth

- » Market momentum continues in Europe and the Americas, with growth rates slowing in China
- » Operating income amounted to SEK 2,587 M (2,023), with an operating margin of 13.9% (13.4)
- » Deliveries and orders increased for both Volvo and SDLG in all markets



Volvo CE's latest concept machine – the Lx2 electric compact wheel loader prototype.

Market development

Through August the European market was up by 11%, driven by strong growth in Russia together with stable growth in Germany, the UK, France and Italy.

In North America, the market was 19% above last year mainly due to increased demand for excavators, articulated haulers, large wheel loaders and road machinery products.

The South American market was 25% above the low levels of last year driven by growth in Brazil.

In Asia (excluding China) the total market was 13% above last year, mainly driven by good demand for backhoe loaders in India. Strong growth continued in Indonesia and the Philippines whilst both Turkey and the Middle East were below last year's levels.

The Chinese market was 42% above 2017, however with growth rates slowing down during the course of the year.

In 2019 the North American market is expected to grow moderately, Europe to remain roughly stable while markets in Asia are expected to decline slightly. For details, please refer to the table below.

Orders and deliveries

Net order intake increased by 22% in Q3 2018 with Volvo branded machines up 12% and SDLG branded machines up 35%. This was largely driven by increased orders in China and Europe.

European order intake increased by 53% with support from large rental orders for small machines. Orders for large machines in Europe were 22% higher than the corresponding period last year.

North American orders increased by 47% driven by medium and large machines. In South America orders increased by 20% from low levels last year.

In Asia order intake grew by 12% with China increasing mainly due to strong demand for SDLG branded wheel loaders and excavators, while orders decreased in Turkey, South Korea and the Middle East.

Deliveries increased by 17% in Q3 2018 (Volvo +5% and SDLG +35%), largely due to higher sales in China and stable growth in most markets.

Total market development	Year-to-date Aug			
	2018	Forecast 2018	Previous forecast	Forecast 2019
Change in % measured in units				
Europe	11	5% to +15%	0% to +10%	-5% to +5%
North America	19	+15% to +25%	+10% to +20%	0% to +10%
South America	25	+10% to +20%	+10% to +20%	-5% to +5%
Asia excl. China	13	+5% to +15%	+5% to +15%	-10% to 0%
China	42	+25% to +35%	+20% to +30%	-10% to 0%

Net order intake	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
Number of construction equipment						
Europe	4,462	2,921	53	15,208	12,157	25
North America	1,305	889	47	5,730	4,430	29
South America	495	413	20	1,476	1,030	43
Asia	9,434	8,407	12	38,271	26,980	42
Africa and Oceania	646	791	-18	2,382	2,520	-5
Total orders	16,342	13,421	22	63,067	47,117	34
Large and medium construction equipment	12,276	10,784	14	47,852	36,210	32
Compact construction equipment	4,066	2,637	54	15,215	10,907	39
Total orders	16,342	13,421	22	63,067	47,117	34
Of which:						
Volvo	8,556	7,615	12	33,961	27,972	21
SDLG	7,739	5,752	35	28,936	18,986	52
Of which in China	6,534	4,893	34	25,200	15,969	58

Deliveries	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
Number of construction equipment						
Europe	4,298	3,938	9	15,342	13,925	10
North America	1,689	1,461	16	5,651	4,601	23
South America	514	359	43	1,484	995	49
Asia	9,683	8,055	20	38,319	26,588	44
Africa and Oceania	677	618	10	2,275	2,163	5
Total deliveries	16,861	14,431	17	63,071	48,272	31
Large and medium construction equipment	13,299	11,165	19	47,558	35,611	34
Compact construction equipment	3,562	3,266	9	15,513	12,661	23
Total deliveries	16,861	14,431	17	63,071	48,272	31
Of which:						
Volvo	9,075	8,625	5	33,965	29,127	17
SDLG	7,739	5,752	35	28,936	18,986	52
Of which in China	6,534	4,893	34	25,200	15,969	58

Net sales and operating income SEK M	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
Europe	6,211	5,172	20	20,562	17,597	17
North America	3,843	2,976	29	11,739	9,615	22
South America	580	460	26	1,698	1,251	36
Asia	6,724	5,483	23	26,209	18,122	45
Africa and Oceania	1,240	952	30	3,706	2,999	24
Total net sales	18,598	15,042	24	63,915	49,583	29
Of which:						
Construction equipment	15,696	12,485	26	55,306	41,799	32
Services	2,902	2,557	13	8,609	7,784	11
Adjusted operating income ¹	2,587	2,023	28	9,149	6,098	50
Adjustments ¹	-	-		818	-	
Operating income	2,587	2,023	28	9,967	6,098	63
Adjusted operating margin, %	13.9	13.4		14.3	12.3	
Operating margin, %	13.9	13.4		15.6	12.3	

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

Net sales and operating income

Net sales in Q3 2018 increased by 24% to SEK 18,598 M (15,042). Adjusted for currency movements net sales increased by 16%, of which net sales of machines increased by 17% and service sales by 6%.

Both adjusted and reported operating income amounted to SEK 2,587 M (2,023) corresponding to an operating margin of 13.9% (13.4). Earnings were positively impacted by the higher equipment and service sales with better utilization of the industrial system while cost levels were maintained.

Operating income in Q3 2018 includes a capital gain of SEK 225 M from the sale of land. In Q3 2017 operating income included a positive impact of SEK 253 M from a capital gain on the sale of the dealer in Great Britain. In Q3 2018, currency movements had a positive impact on operating income in an amount of SEK 19 M.

Important events

During Q3 Volvo CE and one of its key customers Skanska began testing the viability of its Electric Site concept at Skanska's Vikan Kross quarry, near Gothenburg, Sweden. The system, which incorporates electric and autonomous Volvo machines, will be running in a real production environment for 10 weeks, and is expected to deliver a substantial reduction in carbon emissions and total cost of operations.

Volvo CE unveiled its latest concept machine, known as LX2, at the Volvo Group Innovation Summit in Berlin. The electric compact wheel loader prototype delivers zero emissions, significantly lower noise levels, improved efficiency and reduced operational costs, compared to its conventional counterparts.

BUSES

Improved order intake and profitability

- » Order intake improved by 12%
- » Operating income amounted to SEK 254 M (208), with an operating margin of 4.4% (3.3)
- » The new Volvo 9900 premium coach wins the Sustainable Bus Award 2019



The European market has remained stable on a high level with positive development mainly in Southern and Eastern Europe. Tender activity targeting 2019 deliveries continued to be high in the Nordic market. In North America, the market remained good for both coach and transit buses and demand is improving in Brazil.

Compared to Q3 2017, net order intake increased by 12% to 2,091 units in Q3 2018. The increase was mainly driven by the Nordic region, the UK and India.

Among major orders in Q3 were 342 Volvo intercity buses to Norway and 144 Volvo 9800 coaches to Mexico.

Volvo Buses delivered 2,001 units in Q3 2018, 16% fewer than in the same period last year, due to lower deliveries in the Nordic region and Asia.

In Q3 2018 net sales decreased by 9% to SEK 5,804 M (6,363) compared to the same period in 2017. Adjusted for currency movements, sales decreased by 14%. Vehicle

sales decreased by 20%, adjusted for currency, due to lower volumes and lower share of complete vehicle sales. Service sales increased by 14% adjusted for currency.

Both adjusted and reported operating income amounted to SEK 254 M (208), corresponding to an operating margin of 4.4% (3.3%). Earnings were positively impacted by improved service sales and product mix, which were offset by a negative impact from lower vehicle volumes. Compared to Q3 2017, currency movements had a positive impact on operating income in an amount of SEK 53 M.

In September Volvo Buses won the Sustainable Bus Award 2019 in Europe for the new Volvo 9900 premium coach. The award takes into account environmental performance as well as safety, comfort, noise level and recyclability. Production of the new Volvo 9000 range, which was launched in May 2018, began in Q3.

Net order intake and deliveries	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
Number of buses						
Total orders	2,091	1,869	12	7,442	7,210	3
Total deliveries	2,001	2,391	-16	5,954	6,567	-9

Net sales and operating income	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
SEK M						
Europe	1,455	1,684	-14	5,400	5,281	2
North America	2,829	3,169	-11	8,995	9,170	-2
South America	460	262	76	1,048	809	30
Asia	463	873	-47	1,342	2,374	-43
Africa and Oceania	597	376	59	1,555	1,189	31
Total net sales	5,804	6,363	-9	18,339	18,824	-3
Of which:						
Vehicles	4,558	5,328	-14	14,673	15,551	-6
Services	1,246	1,035	20	3,666	3,273	12
Adjusted operating income¹	254	208	22	499	615	-19
Adjustments ¹	-	-		-	-	
Operating income	254	208	22	499	615	-19
Adjusted operating margin, %	4.4	3.3		2.7	3.3	
Operating margin, %	4.4	3.3		2.7	3.3	

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

VOLVO PENTA

Solid performance continues

- » Sales growth continues, especially for industrial off-road engines
- » Operating income amounted to SEK 630 M (353), with an operating margin of 19.6% (13.3)
- » New easy boating features revealed



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

The market for industrial off-road engines continues to grow and Volvo Penta continues to gain new business in the segment. There is also an increased demand in mining and construction. The market for industrial power generation engines is improving, with positive signs in construction and data centers/e-commerce. The current market in Europe is also being driven by pre-buy ahead of new EU Stage V emissions legislation for off-road and power generation engines, which continued to have positive impact on Volvo Penta's order intake in Q3.

Net order intake in Q3 2018 increased by 8% to 9,437 units and deliveries also increased by 8% to 10,155 units. The growth was driven by the industrial segments.

Net sales increased by 20% to SEK 3,207 M (2,662). Adjusted for currency movements, net sales increased by 12%, of which sales of engines increased by 13% and sales of services increased by 11%. In Q3 2018, both adjusted and reported operating income amounted to SEK 630 M (353). The operating margin was 19.6% (13.3). Earnings were positively impacted by higher volumes, positive product mix and currency. Compared with Q3 2017, the currency impact on operating income was positive in an amount of SEK 52 M.

During Q3, Volvo Penta revealed new easy boating features that deliver increased onboard comfort and control for boat owners. These include advancements in automated features through an update of Volvo Penta's dynamic positioning system and the launch of new watersport control functionality.

Net order intake and deliveries	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
Number of Engines						
Total orders	9,437	8,723	8	39,063	30,677	27
Total deliveries	10,155	9,405	8	33,857	31,027	9

Net sales and operating income	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
SEK M						
Europe	1,602	1,288	24	5,112	4,342	18
North America	814	644	26	2,268	1,844	23
South America	58	71	-18	206	202	2
Asia	588	523	12	1,894	1,624	17
Africa and Oceania	145	136	7	429	432	-1
Total net sales	3,207	2,662	20	9,909	8,444	17
Of which:						
Engines	2,234	1,840	21	7,264	6,057	20
Services	972	822	18	2,645	2,386	11
Adjusted operating income¹	630	353	78	1,848	1,252	48
Adjustments ¹	-	-	-	-	-	-
Operating income	630	353	78	1,848	1,252	48
Adjusted operating margin, %	19.6	13.3		18.6	14.8	
Operating margin, %	19.6	13.3		18.6	14.8	

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

FINANCIAL SERVICES

Good growth in new business volume

- » Good portfolio growth
- » Operating income of SEK 621 M (553)
- » Stable portfolio performance



Volvo Financial Services (VFS) had record third quarter new business volume due primarily to increased deliveries of Group products. Currency adjusted, new business volume increased by 18% for the quarter and the credit portfolio increased by 9% when compared with the prior year.

Overall the portfolio continues to perform well, highlighted by historically low levels of overdues and credit losses in most markets.

During Q3 2018, operating income increased to SEK 621 M (553) mainly due to profitable portfolio growth and favorable currency movements, offset slightly by higher

operating expenses. The return on equity improved to 15.1% (14.3) excluding a positive impact from the revaluation of deferred tax liabilities due to the enacted tax reform legislation in the United States. Reported return on shareholders' equity amounted to 22.9%.

In August, VFS successfully completed an asset-backed securitization transaction under which SEK 2.7 billion of securities tied to US-based dealer floorplan loans were issued. In addition, SEK 1.7 billion of assets were syndicated in the quarter in order to reduce concentration risks.

Financial Services SEK M	Third quarter		First nine months	
	2018	2017	2018	2017
Number of financed units, 12 months rolling			57,901	50,127
Total penetration rate, 12 months rolling, % ¹			25	25
New retail financing volume, SEK billion	17.2	13.8	49.8	40.8
Credit portfolio net, SEK billion			142	125
Credit provision expenses	143	126	378	413
Operating income	621	553	1,805	1,604
Credit reserves, % of credit portfolio ²			1.70	1.39
Return on shareholders' equity, 12 months rolling, %			22.9	14.3
Return on shareholders' equity excluding effect from US tax reform 2017, 12 months rolling, % ³			15.1	14.3

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

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

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

IMPORTANT EVENTS FOR THE VOLVO GROUP

Testing of Electric Site began

On August 29, it was announced that Volvo Construction Equipment and the customer Skanska began testing the viability of its Electric Site concept. The system, which incorporates electric and autonomous Volvo machines, will run in a real production environment for 10 weeks, and is anticipated to deliver a substantial reduction in carbon emissions and total cost of operations.

Ground-breaking innovations for future autonomous and electric transport solutions

In connection with the Volvo Group's Innovation Summit in Berlin on September 12, a new goods transport solution was unveiled. The solution, named Vera, consists of autonomous electric vehicles that are wirelessly connected to a transport control center. Vera is intended for use within areas characterized by short distances, large cargo volumes and high delivery precision, for example between logistic hubs. The new goods transport solution will be further developed in close cooperation with relevant customers.

Volvo Trucks to introduce all-electric trucks in North America

On September 27 it was announced that the California Air Resources Board (CARB) had preliminarily awarded USD 44.8 million to California's South Coast Air Quality Management District (SCAQMD) for the Volvo LIGHTS (Low Impact Green Heavy Transport Solutions) project. The Volvo LIGHTS project is a part of an innovative partnership between the Volvo Group, SCAQMD and industry leaders in

transportation and electrical charging infrastructure. If the project is launched, Volvo Trucks plans to introduce all-electric truck demonstrators in California next year, and commercialize them in North America in 2020.

Volvo Group has detected premature degradation of emissions control component

On October 16 it was announced that the Volvo Group has detected that an emissions control component used in certain markets is degrading more quickly than expected, which could cause the engines to exceed emissions limits for nitrogen oxides (NOx). All products equipped with the component meet emissions limits at delivery; the degradation is due to a materials issue that occurs over time. A full analysis of the issue is not completed and it is not possible to assess the financial impact at this stage; however, the cost could be material.

Previously reported important events

- Electric trucks from Volvo Trucks and Renault Trucks
- Agreement to divest a subsidiary holding shares in NHL
- Annual General Meeting of AB Volvo
- Sale of subsidiary holding shares in NHL completed
- Changes in Volvo's Group Executive Board

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	
	2018	2017	2018	2017	2018	2017	2018	2017
Net sales	89,047	73,696	3,344	2,896	-109	-193	92,282	76,400
Cost of sales	-67,877	-56,703	-2,044	-1,729	109	193	-69,812	-58,239
Gross income	21,169	16,994	1,300	1,167	-	-	22,470	18,161
Research and development expenses	-3,327	-3,445	-	-	-	-	-3,327	-3,445
Selling expenses	-6,758	-6,286	-562	-505	-	-	-7,320	-6,791
Administrative expenses	-1,265	-1,262	-11	-10	-	-	-1,275	-1,273
Other operating income and expenses	-429	95	-106	-100	-	-	-535	-5
Income/loss from investments in joint ventures and associated companies	234	634	-	-	-	-	234	634
Income from other investments	1	56	0	0	-	-	1	56
Operating income	9,626	6,785	621	553	-	-	10,247	7,337
Interest income and similar credits	48	44	-	-	-	0	48	44
Interest expenses and similar charges	-433	-417	0	0	-	0	-433	-417
Other financial income and expenses	-165	-17	-	-	-	-	-165	-17
Income after financial items	9,076	6,395	621	553	-	0	9,698	6,947
Income taxes	-1,999	-1,313	-179	-182	-	-	-2,178	-1,495
Income for the period *	7,076	5,082	442	371	-	0	7,520	5,453
* Attributable to:								
Equity holders of the parent company							7,459	5,405
Minority interests							61	48
							7,520	5,453
Basic earnings per share, SEK							3.67	2.66
Diluted earnings per share, SEK							3.67	2.66
Key ratios, %								
Gross margin	23.8	23.1	-	-	-	-	24.3	23.8
Research and development expenses as percentage of net sales	3.7	4.7	-	-	-	-	3.6	4.5
Selling expenses as percentage of net sales	7.6	8.5	-	-	-	-	7.9	8.9
Administrative expenses as percentage of net sales	1.4	1.7	-	-	-	-	1.4	1.7
Operating margin	10.8	9.2	-	-	-	-	11.1	9.6

CONSOLIDATED OTHER COMPREHENSIVE INCOME THIRD QUARTER

SEK M	2018	2017
Income for the period	7,520	5,453
Items that will not be reclassified to income statement:		
Remeasurements of defined benefit pension plans	368	-819
Items that may be reclassified subsequently to income statement:		
Exchange differences on translation of foreign operations	-2,558	-2,136
Share of OCI related to joint ventures and associated companies	0	-7
Accumulated translation difference reversed to income	0	-56
Available-for-sale investments	18	-52
Change in cash flow hedges	-	-
Other comprehensive income, net of income taxes	-2,172	-3,070
Total comprehensive income for the period *	5,348	2,383
* Attributable to:		
Equity holders of the parent company	5,395	2,377
Minority interests	-47	6
	5,348	2,383

CONSOLIDATED INCOME STATEMENT FIRST NINE MONTHS

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Net sales	275,913	233,026	9,633	8,734	-497	-576	285,048	241,184
Cost of sales	-210,473	-177,767	-5,794	-5,244	497	576	-215,770	-182,435
Gross income	65,440	55,259	3,838	3,490	-	-	69,278	58,749
Research and development expenses	-11,787	-11,565	-	-	-	-	-11,787	-11,565
Selling expenses	-20,974	-19,447	-1,682	-1,533	-	-	-22,656	-20,980
Administrative expenses	-4,297	-3,971	-31	-30	-	-	-4,328	-4,001
Other operating income and expenses	-1,132	-694	-320	-322	-	-	-1,452	-1,016
Income/loss from investments in joint ventures and associated companies	1,805	1,242	-	-	-	-	1,805	1,242
Income from other investments	21	145	0	0	-	-	21	145
Operating income	29,076	20,969	1,805	1,604	-	-	30,881	22,573
Interest income and similar credits	140	124	-	-	-	0	140	124
Interest expenses and similar charges	-1,242	-1,367	0	0	-	0	-1,242	-1,367
Other financial income and expenses	-669	-253	-	-	-	-	-669	-253
Income after financial items	27,305	19,473	1,805	1,604	-	-	29,110	21,077
Income taxes	-5,926	-4,572	-485	-485	-	-	-6,410	-5,058
Income for the period *	21,379	14,901	1,320	1,119	-	-	22,700	16,019
* Attributable to:								
Equity holders of the parent company							22,334	15,798
Minority interests							365	221
							22,700	16,019
Basic earnings per share, SEK							10.99	7.78
Diluted earnings per share, SEK							10.98	7.77

Key ratios, %

Gross margin	23.7	23.7	-	-	-	-	24.3	24.4
Research and development expenses as percentage of net sales	4.3	5.0	-	-	-	-	4.1	4.8
Selling expenses as percentage of net sales	7.6	8.3	-	-	-	-	7.9	8.7
Administrative expenses as percentage of net sales	1.6	1.7	-	-	-	-	1.5	1.7
Operating margin	10.5	9.0	-	-	-	-	10.8	9.4

CONSOLIDATED OTHER COMPREHENSIVE INCOME FIRST NINE MONTHS

SEK M	2018	2017
Income for the period	22,700	16,019
Items that will not be reclassified to income statement:		
Remeasurements of defined benefit pension plans	985	37
Items that may be reclassified subsequently to income statement:		
Exchange differences on translation of foreign operations	1,555	-4,614
Share of OCI related to joint ventures and associated companies	0	-28
Accumulated translation difference reversed to income	-94	-56
Available-for-sale investments	62	-18
Change in cash flow hedges	-	-11
Other comprehensive income, net of income taxes	2,508	-4,690
Total comprehensive income for the period *	25,208	11,329
* Attributable to:		
Equity holders of the parent company	24,822	11,081
Minority interests	386	248
	25,208	11,329

CONSOLIDATED BALANCE SHEET

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017
Assets								
Non-current assets								
Intangible assets	36,991	35,716	200	178	-	-	37,191	35,893
<i>Tangible assets</i>								
Property, plant and equipment	54,257	53,308	40	40	-	-	54,296	53,348
Assets under operating leases	32,131	31,373	21,696	21,075	-11,507	-10,857	42,320	41,590
<i>Financial assets</i>								
Investments in Joint Ventures and associated companies	10,782	10,525	-	-	-	-	10,782	10,525
Other shares and participations	813	690	9	10	-	-	821	699
Non-current customer-financing receivables	885	737	62,577	57,180	-892	-744	62,570	57,173
Prepaid pensions	932	252	-	-	-	-	932	252
Non-current interest-bearing receivables	3,292	2,892	-	-	-972	-557	2,320	2,335
Other non-current receivables	8,748	8,000	275	238	-152	-143	8,872	8,094
Deferred tax assets	11,041	11,107	1,001	786	-	-	12,042	11,893
Total non-current assets	159,871	154,599	85,797	79,506	-13,523	-12,301	232,145	221,803
Current assets								
Inventories	67,086	52,231	342	470	-	-	67,428	52,701
<i>Current receivables</i>								
Customer-financing receivables	668	621	58,337	52,294	-811	-711	58,194	52,205
Tax assets	2,941	1,137	274	430	-	-	3,216	1,567
Interest-bearing receivables	2,323	2,075	48	-	-1,072	-908	1,299	1,166
Internal funding	17,401	15,927	-	-	-17,401	-15,927	-	-
Accounts receivable	40,142	37,120	1,326	1,069	-	-	41,467	38,189
Other receivables	14,299	14,420	1,088	1,527	-816	-889	14,571	15,058
Non interest-bearing assets held for sale	130	51	-	-	-	-	130	51
Marketable securities	173	178	-	-	-	-	173	178
Cash and cash equivalents	32,750	32,269	3,364	4,892	-578	-1,069	35,536	36,092
Total current assets	177,914	156,029	64,778	60,682	-20,678	-19,504	222,015	197,207
Total assets	337,786	310,628	150,575	140,188	-34,201	-31,805	454,160	419,010
Equity and liabilities								
Equity attributable to the equity holders of the parent company								
	109,672	94,640	12,046	11,221	-	-	121,718	105,861
Minority interests	2,318	1,941	-	-	-	-	2,318	1,941
Total equity	111,990	96,581	12,046	11,221	-	-	124,036	107,802
<i>Non-current provisions</i>								
Provisions for post-employment benefits	14,058	14,391	91	85	-	-	14,149	14,476
Provisions for deferred taxes	2,326	2,836	2,651	2,280	-	-	4,978	5,116
Other provisions	8,100	8,130	277	264	273	89	8,650	8,484
<i>Non-current liabilities</i>								
Bond loans	59,603	48,962	-	-	-	-	59,603	48,962
Other loans	13,109	12,865	16,711	12,817	-892	-740	28,928	24,942
Internal funding	-54,416	-43,522	54,663	49,934	-247	-6,413	-	-
Other liabilities	38,956	34,601	1,534	1,285	-7,479	-7,156	33,012	28,730
Current provisions	11,232	10,300	223	71	169	45	11,623	10,416
<i>Current liabilities</i>								
Bond loans	22,043	30,749	-	-	-	-	22,043	30,749
Loans	14,242	15,582	11,034	9,312	-2,232	-1,872	23,044	23,022
Internal funding	-28,179	-37,635	46,534	48,527	-18,355	-10,891	-	-
Non interest-bearing liabilities held for sale	-	0	-	-	-	-	-	0
Trade payables	67,452	64,900	446	445	-	-	67,897	65,346
Tax liabilities	4,139	1,556	398	143	-	-	4,537	1,699
Other liabilities	53,132	50,332	3,964	3,803	-5,437	-4,867	51,661	49,267
Total equity and liabilities	337,786	310,628	150,575	140,188	-34,201	-31,805	454,160	419,010
Key ratios, %								
Equity ratio	33.2	31.1	8.0	8.0	-	-	27.3	25.7
Shareholders' equity per share, excluding minority interests, SEK	-	-	-	-	-	-	59.9	52.1
Return on operating capital, 12 months rolling	43.5	32.2	-	-	-	-	-	-
Return on shareholders' equity, 12 months rolling	-	-	22.9	22.6	-	-	24.1	20.5

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

CONSOLIDATED CASH FLOW STATEMENT THIRD QUARTER

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Operating activities								
Operating income	9,626	6,871	621	553	-	-	10,247	7,424
Depreciation tangible assets	1,619	1,588	2	2	-	-	1,621	1,590
Amortization intangible assets	731	675	12	9	-	-	743	684
Depreciation leasing vehicles	741	763	1,199	1,019	0	0	1,940	1,782
Other non-cash items	736	-385	203	148	-17	-18	923	-255
Total change in working capital whereof	-7,928	-5,640	-2,156	-1,830	-6	-191	-10,090	-7,662
Change in accounts receivables	2,561	-361	-92	-53	0	0	2,469	-414
Change in customer financing receivables	-54	-6	-2,343	-1,686	54	-97	-2,344	-1,789
Change in inventories	-2,594	-1,054	-66	-72	0	0	-2,661	-1,125
Change in trade payables	-7,272	-3,697	-93	-122	0	0	-7,365	-3,819
Other changes in working capital	-568	-522	438	102	-60	-94	-189	-514
Interest and similar items received	42	45	-	-	3	4	45	49
Interest and similar items paid	-194	-207	-	-	13	14	-182	-193
Other financial items	-61	-40	-	-	-	-	-61	-40
Income taxes paid	-1,682	-1,099	-29	-70	0	0	-1,711	-1,169
Cash flow from operating activities	3,630	2,572	-147	-171	-6	-191	3,476	2,210
Investing activities								
Investments in tangible assets	-1,640	-1,427	-1	-1	-	-	-1,642	-1,427
Investments in intangible assets	-977	-512	-19	-14	-	-	-996	-526
Investment in leasing vehicles	-4	-46	-2,555	-2,950	-	-	-2,559	-2,996
Disposals of fixed assets and leasing vehicles	308	35	1,170	1,421	-	-12	1,478	1,444
Operating cash flow	1,316	622	-1,552	-1,714	-6	-203	-242	-1,294
Investments and divestments of shares, net							-1	2,165
Acquired and divested operations, net							29	822
Interest-bearing receivables incl. marketable securities							184	234
Cash flow after net investments							-31	1,928
Financing activities								
Change in loans, net							877	121
Dividend to AB Volvo shareholders							-	-
Dividend to minority shareholders							-	0
Other							-16	-27
Change in cash and cash equivalents excl. translation differences							830	2,021
Translation difference on cash and cash equivalents							-449	-308
Change in cash and cash equivalents							381	1,713

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

CONSOLIDATED CASH FLOW STATEMENT FIRST NINE MONTHS

SEK M	Industrial Operations		Financial Services		Eliminations		Volvo Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Operating activities								
Operating income	29,076	21,390	1,805	1,604	-	-	30,881	22,994
Depreciation tangible assets	4,747	4,819	5	5	-	-	4,752	4,824
Amortization intangible assets	2,262	2,396	28	25	-	-	2,290	2,421
Depreciation leasing vehicles	3,099	2,105	3,416	3,124	0	0	6,515	5,230
Other non-cash items	1,331	-423	518	424	-17	-3	1,832	-2
Total change in working capital whereof	-17,042	-6,771	-7,594	-1,307	188	-452	-24,449	-8,530
<i>Change in accounts receivables</i>	-2,534	-4,023	-253	-100	0	0	-2,786	-4,122
<i>Change in customer financing receivables</i>	-91	130	-8,228	-1,009	249	-345	-8,070	-1,224
<i>Change in inventories</i>	-13,998	-7,830	176	-124	0	-	-13,823	-7,953
<i>Change in trade payables</i>	524	3,534	-8	24	0	0	516	3,558
<i>Other changes in working capital</i>	-944	1,418	719	-99	-62	-107	-286	1,212
Interest and similar items received	579	227	-	-	2	-8	581	219
Interest and similar items paid	-1,141	-1,404	-	-	14	11	-1,127	-1,394
Other financial items	-179	-118	-	-	-	-	-179	-118
Income taxes paid	-5,543	-3,089	84	-407	0	0	-5,459	-3,496
Cash flow from operating activities	17,189	19,132	-1,737	3,469	186	-453	15,638	22,148
Investing activities								
Investments in tangible assets	-4,386	-3,786	-4	-3	-	-	-4,389	-3,789
Investments in intangible assets	-2,374	-1,474	-43	-45	-	-	-2,418	-1,519
Investment in leasing vehicles	-10	-54	-7,074	-8,082	-	-	-7,084	-8,136
Disposals of fixed assets and leasing vehicles	707	202	4,009	3,878	-	-	4,716	4,081
Operating cash flow	11,126	14,020	-4,849	-782	186	-453	6,463	12,785
Investments and divestments of shares, net							974	2,165
Acquired and divested operations, net							-129	822
Interest-bearing receivables incl. marketable securities							113	1,731
Cash flow after net investments							7,422	17,504
Financing activities								
Change in loans, net							685	-6,125
Dividend to AB Volvo shareholders							-8,636	-6,603
Dividend to minority shareholders							-6	-13
Other							3	83
Change in cash and cash equivalents excl. translation differences							-531	4,847
Translation difference on cash and cash equivalents							-25	-878
Change in cash and cash equivalents							-556	3,969

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

CONSOLIDATED NET FINANCIAL POSITION

SEK bn	Industrial Operations		Volvo Group	
	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017
<i>Non-current interest-bearing assets</i>				
Non-current customer-financing receivables	-	-	62.6	57.2
Non-current interest-bearing receivables	3.3	2.9	2.3	2.3
<i>Current interest-bearing assets</i>				
Customer-financing receivables	-	-	58.2	52.2
Interest-bearing receivables	2.3	2.1	1.3	1.2
Internal funding	17.4	15.9	-	-
Marketable securities	0.2	0.2	0.2	0.2
Cash and cash equivalents	32.8	32.3	35.5	36.1
Total interest-bearing financial assets	55.9	53.3	160.1	149.1
<i>Non-current interest-bearing liabilities</i>				
Bond loans	-59.6	-49.0	-59.6	-49.0
Other loans	-13.1	-12.9	-28.9	-24.9
Internal funding	54.4	43.5	-	-
<i>Current interest-bearing liabilities</i>				
Bond loans	-22.0	-30.7	-22.0	-30.7
Other loans	-14.2	-15.6	-23.0	-23.0
Internal funding	28.2	37.6	-	-
Total interest-bearing financial liabilities	-26.4	-27.0	-133.6	-127.7
Net financial position excl. post-employment benefits	29.5	26.3	26.5	21.5
Provisions for post-employment benefits, net	-13.1	-14.1	-13.2	-14.2
Net financial position incl. post-employment benefits	16.4	12.2	13.3	7.3
Key ratios, %				
Net financial position excl. post-employment benefits as percentage of shareholders' equity	26.4	26.9		
Net financial position incl. post-employment benefits as percentage of shareholders' equity	14.7	12.5		

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

CHANGES IN NET FINANCIAL POSITION, INDUSTRIAL OPERATIONS

SEK bn	Third quarter 2018	First nine months 2018
Net financial position at beginning of period	13.7	12.2
Cash flow from operating activities	3.6	17.2
Investments in fixed assets	-2.6	-6.8
Disposals	0.3	0.7
Operating cash flow	1.3	11.1
Investments and divestments of shares, net	0.0	1.0
Acquired and divested operations, net	0.0	-0.1
Capital injections to/from Financial Services	0.2	0.3
Currency effect	0.6	-0.4
Dividend paid to AB Volvo shareholders	-	-8.6
Remeasurements of defined benefit pension plans	0.5	1.4
Pension payments and costs, net	0.3	0.1
Other changes	-0.3	-0.6
Total change	2.7	4.2
Net financial position at end of period	16.4	16.4

CONSOLIDATED CHANGES IN TOTAL EQUITY

SEK bn	Sep 30 2018	Dec 31 2017
Total equity at the end of previous period	107.8	97.8
Transition effect IFRS 15	-	-0.7
Transition effect IFRS 9	-0.4	-
Total equity after transition effect IFRS 9 and IFRS 15 at the beginning of period	107.4	97.1
Shareholders' equity attributable to equity holders of the parent company at the end of previous period	105.9	96.1
Transition effect IFRS 15	-	-0.7
Transition effect IFRS 9	-0.4	-
Shareholders' equity attributable to equity holders of the parent company after transition effect IFRS at the beginning of period	105.5	95.3
Income for the period (restated due to IFRS 15)	22.3	20.5
Other comprehensive income	2.5	-3.4
Total comprehensive income	24.8	17.1
Dividend to AB Volvo's shareholders	-8.6	-6.6
Share-based payments	0.0	0.0
Other changes	0.0	0.0
Shareholders' equity attributable to equity holders of the parent company at end of period	121.7	105.9
Minority interests at beginning of period	1.9	1.7
Income for the period (restated due to IFRS 15)	0.4	0.3
Other comprehensive income	0.0	-0.1
Total comprehensive income	0.4	0.2
Dividend to minority shareholders	0.0	0.0
Other changes	0.0	0.0
Minority interests at end of period	2.3	1.9
Total equity at end of period	124.0	107.8

QUARTERLY FIGURES

Income Statements, Volvo Group						First nine months	First nine months
SEK M unless otherwise stated	3/2018	2/2018	1/2018	4/2017	3/2017	2018	2017
Net sales	92,282	103,623	89,143	91,554	76,400	285,048	241,184
Cost of sales	-69,812	-78,150	-67,809	-70,785	-58,239	-215,770	-182,435
Gross income	22,470	25,474	21,335	20,769	18,161	69,278	58,749
Research and development expenses	-3,327	-4,192	-4,268	-4,533	-3,445	-11,787	-11,565
Selling expenses	-7,320	-7,992	-7,344	-7,602	-6,791	-22,656	-20,980
Administrative expenses	-1,275	-1,622	-1,431	-1,640	-1,273	-4,328	-4,001
Other operating income and expenses	-535	-525	-392	-45	-5	-1,452	-1,016
Income/loss from investments in Joint Ventures and associated companies	234	1,187	385	166	634	1,805	1,242
Income from other investments	1	9	12	-10	56	21	145
Operating income	10,247	12,337	8,297	7,105	7,337	30,881	22,573
Interest income and similar credits	48	54	38	39	44	140	124
Interest expenses and similar charges	-433	-386	-424	-484	-417	-1,242	-1,367
Other financial income and expenses	-165	-319	-184	-132	-17	-669	-253
Income after financial items	9,698	11,685	7,727	6,528	6,947	29,110	21,077
Income taxes	-2,178	-2,300	-1,932	-1,761	-1,495	-6,410	-5,058
Income for the period *	7,520	9,384	5,796	4,767	5,453	22,700	16,019
* Attributable to:							
Equity holders of the parent company	7,459	9,221	5,654	4,686	5,405	22,334	15,798
Minority interests	61	163	142	81	48	365	221
	7,520	9,384	5,796	4,767	5,453	22,700	16,019
Key ratios, Volvo Group, %							
Gross margin	24.3	24.6	23.9	22.7	23.8	24.3	24.4
Research and development expenses as percentage of net sales	3.6	4.0	4.8	5.0	4.5	4.1	4.8
Selling expenses as percentage of net sales	7.9	7.7	8.2	8.3	8.9	7.9	8.7
Administrative expenses as percentage of net sales	1.4	1.6	1.6	1.8	1.7	1.5	1.7
Operating margin	11.1	11.9	9.3	7.8	9.6	10.8	9.4
Key ratios, Industrial Operations, %							
Gross margin	23.8	24.0	23.3	22.0	23.1	23.7	23.7
Research and development expenses as percentage of net sales	3.7	4.2	4.9	5.1	4.7	4.3	5.0
Selling expenses as percentage of net sales	7.6	7.4	7.9	7.9	8.5	7.6	8.3
Administrative expenses as percentage of net sales	1.4	1.6	1.6	1.8	1.7	1.6	1.7
Operating margin	10.8	11.7	8.9	7.3	9.2	10.5	9.0
EBITDA margin, Industrial Operations							
Operating income Industrial Operations	9,626	11,755	7,695	6,516	6,785	29,076	20,969
Product and software development, amortization	662	687	697	740	600	2,045	2,067
Other intangible assets, amortization	69	75	72	76	75	216 ¹	329
Tangible assets, depreciation	2,715	2,536 ²	2,597 ²	2,461	2,351	7,848	6,925
Total depreciation and amortization	3,445	3,298	3,366	3,276	3,027	10,109	9,321
Operating income before depreciation and amortization (EBITDA)	13,071	15,053	11,061	9,792	9,812	39,185	30,290
EBITDA margin, %	14.7	15.0	12.8	11.0	13.3	14.2	13.0
Net capitalization of research and development							
Capitalization	908	853	415	405	457	2,177	1,354
Amortization	-631	-651	-663	-701	-558	-1,945	-1,933
Net capitalization and amortization	277	202	-248	-296	-101	232	-579

¹Including impairment of intangible assets.²Depreciation of tangible assets has been restated for Q1 and Q2 2018 which impacts the measurement of EBITDA, but has no effect on the reported operating income.

QUARTERLY FIGURES

Net sales						First nine months	First nine months
SEK M	3/2018	2/2018	1/2018	4/2017	3/2017	2018	2017
Trucks	60,682	65,155	55,989	60,622	49,196	181,826	154,230
Construction Equipment	18,598	24,403	20,914	16,730	15,042	63,915	49,583
Buses	5,804	6,847	5,687	7,055	6,363	18,339	18,824
Volvo Penta	3,207	3,555	3,147	2,676	2,662	9,909	8,444
Group Functions & Other	1,472	1,504	1,323	1,892	1,371	4,299	4,557
Eliminations	-717	-903	-756	-202	-937	-2,375	-2,612
Industrial Operations	89,047	100,562	86,304	88,773	73,696	275,913	233,026
Financial Services	3,344	3,263	3,026	3,078	2,896	9,633	8,734
Reclassifications and eliminations	-109	-202	-186	-296	-193	-497	-576
Volvo Group	92,282	103,623	89,143	91,554	76,400	285,048	241,184

Operating income						First nine months	First nine months
SEK M	3/2018	2/2018	1/2018	4/2017	3/2017	2018	2017
Trucks	6,757	7,236	4,909	5,590	4,184	18,902	14,195
Construction Equipment	2,587	4,493	2,888	1,820	2,023	9,967	6,098
Buses	254	260	-15	261	208	499	615
Volvo Penta	630	709	509	187	353	1,848	1,252
Group Functions & Other	-608	-932	-591	-1,353	7	-2,130	-1,181
Eliminations	6	-11	-4	11	9	-10	-9
Industrial Operations	9,626	11,755	7,695	6,516	6,785	29,076	20,969
Financial Services	621	582	602	588	553	1,805	1,604
Volvo Group	10,247	12,337	8,297	7,105	7,337	30,881	22,573

Adjusted operating income ¹						First nine months	First nine months
SEK M	3/2018	2/2018	1/2018	4/2017	3/2017	2018	2017
Trucks	6,757	7,236	4,909	5,590	4,184	18,902	14,195
Construction Equipment	2,587	3,675	2,888	1,820	2,023	9,149	6,098
Buses	254	260	-15	261	208	499	615
Volvo Penta	630	709	509	187	353	1,848	1,252
Group Functions & Other	-608	-932	-591	-1,353	-393	-2,130	-1,581
Eliminations	6	-11	-4	11	9	-10	-9
Industrial Operations	9,626	10,937	7,695	6,516	6,385	28,258	20,569
Financial Services	621	582	602	588	553	1,805	1,604
Volvo Group	10,247	11,519	8,297	7,105	6,937	30,063	22,173

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

Operating margin						First nine months	First nine months
%	3/2018	2/2018	1/2018	4/2017	3/2017	2018	2017
Trucks	11.1	11.1	8.8	9.2	8.5	10.4	9.2
Construction Equipment	13.9	18.4	13.8	10.9	13.4	15.6	12.3
Buses	4.4	3.8	-0.3	3.7	3.3	2.7	3.3
Volvo Penta	19.6	19.9	16.2	7.0	13.3	18.6	14.8
Industrial Operations	10.8	11.7	8.9	7.3	9.2	10.5	9.0
Volvo Group	11.1	11.9	9.3	7.8	9.6	10.8	9.4

Adjusted operating margin						First nine months	First nine months
%	3/2018	2/2018	1/2018	4/2017	3/2017	2018	2017
Trucks	11.1	11.1	8.8	9.2	8.5	10.4	9.2
Construction Equipment	13.9	15.1	13.8	10.9	13.4	14.3	12.3
Buses	4.4	3.8	-0.3	3.7	3.3	2.7	3.3
Volvo Penta	19.6	19.9	16.2	7.0	13.3	18.6	14.8
Industrial Operations	10.8	10.9	8.9	7.3	8.7	10.2	8.8
Volvo Group	11.1	11.1	9.3	7.8	9.1	10.5	9.2

QUARTERLY FIGURES

Share data						First nine	First nine
	3/2018	2/2018	1/2018	4/2017	3/2017	months 2018	months 2017
Earnings per share, SEK ¹	3.67	4.54	2.78	2.31	2.66	10.99	7.78
Earnings per share, SEK ¹ , 12 months rolling	13.30	12.29	10.61	10.08	10.15	-	-
Diluted earnings per share, SEK	3.67	4.53	2.78	2.30	2.66	10.98	7.77
Number of outstanding shares in millions	2,032	2,032	2,032	2,032	2,032	2,032	2,032
Average number of shares before dilution in millions	2,032	2,032	2,032	2,032	2,032	2,032	2,032
Average number of shares after dilution in millions	2,033	2,033	2,033	2,033	2,033	2,034	2,033
Number of own shares in millions	96	96	96	97	97	96	97
Average number of own shares in millions	96	96	96	97	97	96	97

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

NOTE 1 | ACCOUNTING POLICIES

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

New accounting policies for 2018

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

IFRS 9 Financial instruments

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

IFRS 15 Revenue from Contracts with Customers

The major impact of implementation of IFRS 15 is related to sales transactions of vehicles with residual value commitments, e.g. buybacks and tradebacks, and the assessment if control has been transferred from the Volvo Group to the customer. The criteria of transferring control are based on if the customer has a significant economic incentive to exercise the residual value commitment or not. If the customer is considered to have a significant economic incentive to exercise the residual value commitment to return the vehicle, revenue is recognized over the residual value commitment period as an operating lease transaction in accordance with IAS 17. If the customer is not considered to have a significant economic incentive to exercise the residual value commitment to return the vehicle, the revenue is recognized in accordance with the right of return model. The effect of both models is a later recognition of revenue.

IFRS 9 and IFRS 15 are applied retrospectively but with a difference when it comes to presenting comparative financial

information for 2017. For IFRS 15, the reported financial information for 2017 is restated for comparison purposes. For IFRS 9, the reported financial information for 2017 is not restated.

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

New accounting policies for 2019

As from January 1, 2019 the Volvo Group will apply the new accounting standard IFRS 16 Leases.

IFRS 16 Leases

The main impact of IFRS 16 is related to the lessee accounting, as leasing contracts will be 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 of significant value.

Applying the new lease accounting for lessees will result in increased assets and interest-bearing liabilities in the balance sheet, thereby affecting the net financial position. It will also have a positive impact on operating income in the income statement, as a part of the lease expenses going forward will be recognized as an interest expense within the finance net instead. In the cash flow statement the lease payments will be allocated between interests paid in the operating cash flow and amortization of lease liabilities within the financing activities. Thus, it implies a positive effect on the operating cash flow.

IFRS 16 will be applied retrospectively but prior period reported numbers will not be restated. Hence, the opening balance for 2019 will be adjusted in accordance with the new standard. For leases previously classified as operating leases with the Volvo Group as the lessee, the lease liability will be recognized at January 1, 2019 at the present value of future lease payments. The asset will be recognized at an amount equal to the lease liability; therefore no transition effect will be presented in equity.

A qualitative summary of the effects will be presented in the report for the fourth quarter 2018 and in the Annual Report for 2018.

NOTE 2 | RISKS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

Risk updates for the reporting period

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

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

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

Volvo Group verifies annually, or more frequently if necessary, the goodwill value and other intangible assets for possible impairment. The size of the surplus value differs between the business areas and they are, to a varying degree, sensitive to changes in the business environment. Instability in 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, 2018, amounted to SEK 14.3 billion, an increase of SEK 1.1 billion compared to December 31, 2017. The increase is mainly related to credit guarantees and bid and performance guarantees. The gross exposure of SEK 14.3 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 the amount of any liability that could arise from any such proceedings.

The other legal proceedings and investigations described in note 21 and note 24 in the Volvo Group Annual Report 2017 are progressing but no material changes have occurred in these matters in the third quarter of 2018.

The Volvo Group has detected that an emissions control component used in certain markets with stringent emissions standards is degrading more quickly than expected, reducing its ability to convert nitrogen oxides (NOx) as efficiently as intended, which in turn could cause the engines or vehicles to exceed emissions limits for NOx. The investigation so far indicates that the degradation does not seem to affect all vehicles and engines in the same way and to the same extent. The company is now in the process of informing the appropriate authorities in various markets, and beginning discussions regarding remediation plans. The degradation of the component does not pose a product safety issue, nor does it negatively affect vehicle or engine performance in areas other than emissions control. The degradation is a result of a materials issue that occurs over time. All engines and vehicles equipped with the component meet emissions limits at delivery. The largest volume of potentially affected engines has been sold in North America and Europe. A full analysis of the issue and plans with regulatory authorities are not completed and the company is therefore not yet able to estimate the volume of engines or vehicles that may need to be addressed. Consequently it is not possible to assess the financial impact at this stage; however the cost to redeem the issue could be material.

NOTE 3 | REVENUE

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

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

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

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

NOTE 4 | ACQUISITIONS AND DIVESTMENTS

Acquisitions and divestments

During the third quarter, the Volvo Group divested a piece of land. The divestment resulted in a positive effect on operating income of SEK 225 M. The Volvo Group has not made any other acquisitions or divestments of operations during the third quarter that have had a significant impact on the Volvo Group.

Assets and liabilities held for sale

At the end of third quarter SEK 130 M (51) is classified as assets held for sale, this mainly refers to planned property divestments.

NOTE 5 | CURRENCY AND FINANCIAL INSTRUMENTS**Fair value of financial instruments**

Valuation principles and classification of Volvo Group financial instruments, as described in Volvo Group Annual Report 2017 Note 30 and Note 31 (available at www.volvogroup.com), have been consistently applied throughout the reporting period. Financial instruments in the Volvo Group reported at fair value through profit and loss consist mainly of interest and currency derivatives. Derivatives with positive fair values amounted to SEK 4.7 billion (4.6) and derivatives with negative fair values

amounted to SEK 1.0 billion (0.7) as of September 30, 2018. The derivatives are accounted for on gross-basis. Financial liabilities valued at amortized cost, reported as current and non-current bond loans and other loans, amounted to SEK 132.8 billion (127.2) in reported carrying value with a fair value of SEK 134.1 billion (129.8). In the Volvo Group consolidated financial position, financial liabilities include loan-related derivatives with negative fair values amounting to SEK 0.8 billion (0.5).

Currency effect on operating income, Volvo Group	Compared to third quarter 2017			Compared to second quarter 2018		
	Third quarter	Third quarter	Change	Third quarter	Second quarter	Change
	2018	2017		2018	2018	
SEK M						
Net flow in foreign currency			548			-8
Realized and unrealized gains and losses on hedging contracts	-3	-2	-1	-3	1	-4
Unrealized gains and losses on receivables and liabilities in foreign currency	-247	234	-481	-247	-93	-154
Translation effect on operating income in foreign subsidiaries			357			22
Total currency effect on operating income, Volvo Group			423			-144

Applicable currency rates	Quarterly exchange rates		Close rates	
	Third quarter	Third quarter	Sep 30	Sep 30
	2018	2017		
BRL	2.27	2.57	2.21	2.55
CNY	1.32	1.22	1.29	1.22
EUR	10.41	9.57	10.29	9.58
GBP	11.66	10.65	11.57	10.87
USD	8.95	8.14	8.86	8.11
JPY	0.0803	0.0734	0.0781	0.0722
KRW	0.0080	0.0072	0.0080	0.0071

NOTE 6 | TRANSACTIONS WITH RELATED PARTIES

Sales to associated companies amounted to SEK 359 M (307) and purchases from associated companies amounted to SEK 21 M (64) during the third quarter of 2018. As of September 30, 2018, receivables from associated companies amounted to SEK 351 M (369) and liabilities to associated companies to SEK 27 M (93).

Sales to joint ventures amounted to SEK 230 M (545) and purchases from joint ventures amounted to SEK 259 M (225) during the third quarter of 2018. As of September 30, 2018, receivables from joint ventures amounted to SEK 261 M (419) and liabilities to joint ventures to SEK 91 M (63).

NOTE 7 | RECONCILIATION OF ADJUSTED OPERATING INCOME

Adjusted operating income						First nine months	First nine months
SEK M	3/2018	2/2018	1/2018	4/2017	3/2017	2018	2017
Trucks	6,757	7,236	4,909	5,590	4,184	18,902	14,195
Construction Equipment	2,587	3,675	2,888	1,820	2,023	9,149	6,098
Buses	254	260	-15	261	208	499	615
Volvo Penta	630	709	509	187	353	1,848	1,252
Group Functions & Other	-608	-932	-591	-1,353	-393	-2,130	-1,581
Eliminations	6	-11	-4	11	9	-10	-9
Industrial Operations	9,626	10,937	7,695	6,516	6,385	28,258	20,569
Financial Services	621	582	602	588	553	1,805	1,604
Volvo Group	10,247	11,519	8,297	7,105	6,937	30,063	22,173

Adjustments						First nine months	First nine months
SEK M	3/2018	2/2018	1/2018	4/2017	3/2017	2018	2017

Adjustment items (segment)

Capital gain on sale of shares in Inner Mongolia North Hauler Joint Stock Co., Ltd (Construction Equipment)	-	818	-	-	-	818	-
Capital gain on sale of shares in Deutz AG (Group functions & Other)	-	-	-	-	400	-	400

Total adjustments

Construction Equipment	-	818	-	-	-	818	-
Group Functions & Other	-	-	-	-	400	-	400
Industrial Operations	-	818	-	-	400	818	400
Volvo Group	-	818	-	-	400	818	400

Operating income						First nine months	First nine months
SEK M	3/2018	2/2018	1/2018	4/2017	3/2017	2018	2017
Trucks	6,757	7,236	4,909	5,590	4,184	18,902	14,195
Construction Equipment	2,587	4,493	2,888	1,820	2,023	9,967	6,098
Buses	254	260	-15	261	208	499	615
Volvo Penta	630	709	509	187	353	1,848	1,252
Group Functions & Other	-608	-932	-591	-1,353	7	-2,130	-1,181
Eliminations	6	-11	-4	11	9	-10	-9
Industrial Operations	9,626	11,755	7,695	6,516	6,785	29,076	20,969
Financial Services	621	582	602	588	553	1,805	1,604
Volvo Group	10,247	12,337	8,297	7,105	7,337	30,881	22,573

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 1,121 M (37).

During the third quarter 2017, the divestment of Deutz AG resulted in a capital gain of SEK 524 M reported in Income from investments in joint ventures and associated companies.

Financial net debt amounted to SEK 27,200 M (33,413) at the end of the third quarter.

Income Statement SEK M	Third quarter		First nine months	
	2018	2017	2018	2017
Net sales¹	161	136	504	320
Cost of sales ¹	-161	-136	-504	-320
Gross income	0	0	0	0
Operating expenses ¹	-330	-312	-1,017	-1,102
Income from investments in Group companies	1,220	-78	1,980	1,061
Income from investments in joint ventures and associated companies	-	524	389	590
Operating income (loss)	890	134	1,352	549
Interest income and expenses	-174	-188	-556	-603
Other financial income and expenses	0	3	-19	-10
Income after financial items	716	-51	777	-64
Income taxes	92	216	310	539
Income for the period	808	165	1,087	475

¹ Of net sales in the third quarter, SEK 146 M (119) pertained to Group companies, while purchases from Group companies amounted to SEK 111 M (136).

Other comprehensive income				
Income for the period	808	165	1,087	475
Other comprehensive income, net of income taxes	-	-	-	-
Total comprehensive income for the period	808	165	1,087	475

Balance Sheet		
SEK M	Sep 30 2018	Dec 31 2017
Assets		
Non-current assets		
Tangible assets	8	8
Financial assets		
Shares and participations in Group companies	70,549	69,244
Receivables from Group companies	-	19
Investments in joint ventures and associated companies	8,895	8,895
Other shares and participations	7	7
Deferred tax assets	498	195
Total non-current assets	79,957	78,368
Current assets		
Current receivables from Group companies	303	25,826
Tax assets	1,619	23
Other current receivables	113	96
Total current assets	2,035	25,945
Total assets	81,992	104,313
Shareholders' equity and liabilities		
Shareholders' equity		
Restricted equity	9,891	9,891
Unrestricted equity	38,117	45,643
Untaxed reserves	6,001	6,001
Provisions	97	103
Non-current liabilities ¹	13,979	13,981
Current liabilities ²	13,907	28,694
Total shareholders' equity and liabilities	81,992	104,313

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

² Of which SEK 13,232 M (27,459) pertains to Group companies.

Events after the balance sheet date

For important events, please see page 14. No other significant events have occurred after the end of the third quarter 2018 that are expected to have a substantial effect on the Volvo Group.

Gothenburg, October 19, 2018
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 %
	2018	2017		2018	2017	
Number of trucks						
Europe	24,324	23,296	4	82,951	80,257	3
Heavy- and medium-duty	20,328	19,408	5	67,742	67,181	1
Light-duty	3,996	3,888	3	15,209	13,076	16
North America	26,085	12,096	116	65,350	33,150	97
South America	5,239	3,725	41	13,649	10,860	26
Asia	6,111	9,478	-36	25,275	27,517	-8
Africa and Oceania	3,589	3,360	7	10,744	11,058	-3
Total trucks	65,348	51,955	26	197,969	162,842	22
Heavy-duty (>16 tons)	58,062	44,728	30	171,801	137,918	25
Medium-duty (7-16 tons)	3,112	3,230	-4	10,227	11,455	-11
Light-duty (<7 tons)	4,174	3,997	4	15,941	13,469	18
Total trucks	65,348	51,955	26	197,969	162,842	22

Net order intake of trucks by brand

Volvo

Europe	13,213	12,359	7	42,647	43,951	-3
North America	18,311	5,896	211	43,047	16,773	157
South America	4,893	3,542	38	12,185	9,823	24
Asia	2,492	5,143	-52	11,801	13,033	-9
Africa and Oceania	1,717	1,292	33	5,250	4,996	5
Total Volvo	40,626	28,232	44	114,930	88,576	30
Heavy-duty (>16 tons)	39,716	27,315	45	112,238	85,495	31
Medium-duty (7-16 tons)	910	917	-1	2,692	3,081	-13
Total Volvo	40,626	28,232	44	114,930	88,576	30

UD

North America	7	20	-65	40	34	18
South America	70	27	159	258	180	43
Asia	3,602	4,056	-11	12,334	13,179	-6
Africa and Oceania	1,157	932	24	3,029	2,819	7
Total UD	4,836	5,035	-4	15,661	16,212	-3
Heavy-duty (>16 tons)	3,832	3,881	-1	12,317	12,117	2
Medium-duty (7-16 tons)	938	1,088	-14	2,948	3,915	-25
Light-duty (<7 tons)	66	66	0	396	180	120
Total UD	4,836	5,035	-4	15,661	16,212	-3

Renault Trucks

Europe	11,111	10,937	2	40,304	36,306	11
Heavy- and medium-duty	7,115	7,049	1	25,095	23,230	8
Light-duty	3,996	3,888	3	15,209	13,076	16
North America	311	72	332	830	389	113
South America	66	28	136	236	136	74
Asia	17	279	-94	1,140	1,295	-12
Africa and Oceania	462	609	-24	1,705	2,176	-22
Total Renault Trucks	11,967	11,925	0	44,215	40,302	10
Heavy-duty (>16 tons)	6,595	6,769	-3	24,083	22,554	7
Medium-duty (7-16 tons)	1,264	1,225	3	4,587	4,459	3
Light-duty (<7 tons)	4,108	3,931	5	15,545	13,289	17
Total Renault Trucks	11,967	11,925	0	44,215	40,302	10

Mack

North America	7,456	6,108	22	21,433	15,954	34
South America	210	128	64	970	721	35
Asia	-	-	-	-	10	-
Africa and Oceania	253	527	-52	760	1,067	-29
Total Mack	7,919	6,763	17	23,163	17,752	30
Heavy-duty (>16 tons)	7,919	6,763	17	23,163	17,752	30
Total Mack	7,919	6,763	17	23,163	17,752	30

DELIVERIES

Deliveries of trucks	Third quarter		Change %	First nine months		Change %
	2018	2017		2018	2017	
Number of trucks						
Europe	23,512	22,301	5	78,531	73,589	7
Heavy- and medium-duty	19,702	18,996	4	65,894	62,613	5
Light-duty	3,810	3,305	15	12,637	10,976	15
North America	13,565	9,747	39	39,805	27,532	45
South America	4,787	3,046	57	11,864	7,627	56
Asia	7,603	8,338	-9	23,710	24,631	-4
Africa and Oceania	3,526	3,171	11	10,228	9,209	11
Total trucks	52,993	46,603	14	164,138	142,588	15
Heavy-duty (>16 tons)	46,127	39,882	16	140,837	120,721	17
Medium-duty (7-16 tons)	2,910	3,312	-12	10,274	10,622	-3
Light-duty (<7 tons)	3,956	3,409	16	13,027	11,245	16
Total trucks	52,993	46,603	14	164,138	142,588	15

Deliveries of trucks by brand

Volvo

Europe	12,531	12,924	-3	43,125	41,994	3
North America	7,955	5,076	57	23,613	14,225	66
South America	4,387	2,767	59	10,945	6,852	60
Asia	3,381	3,657	-8	11,034	11,133	-1
Africa and Oceania	1,798	1,298	39	4,923	3,748	31
Total Volvo	30,052	25,722	17	93,640	77,952	20
Heavy-duty (>16 tons)	29,424	24,870	18	91,092	75,367	21
Medium-duty (7-16 tons)	628	852	-26	2,548	2,585	-1
Total Volvo	30,052	25,722	17	93,640	77,952	20

UD

North America	14	7	100	53	20	165
South America	120	52	131	206	55	275
Asia	3,990	4,207	-5	11,510	12,166	-5
Africa and Oceania	1,029	985	4	2,920	2,690	9
Total UD	5,153	5,251	-2	14,689	14,931	-2
Heavy-duty (>16 tons)	3,994	3,784	6	11,239	10,912	3
Medium-duty (7-16 tons)	1,080	1,409	-23	3,266	3,870	-16
Light-duty (<7 tons)	79	58	36	184	149	23
Total UD	5,153	5,251	-2	14,689	14,931	-2

Renault Trucks

Europe	10,981	9,377	17	35,406	31,595	12
Heavy- and medium-duty	7,171	6,072	18	22,769	20,619	10
Light-duty	3,810	3,305	15	12,637	10,976	15
North America	70	40	75	182	110	65
South America	32	24	33	170	156	9
Asia	232	473	-51	1,166	1,331	-12
Africa and Oceania	397	616	-36	1,549	1,981	-22
Total Renault Trucks	11,712	10,530	11	38,473	35,173	9
Heavy-duty (>16 tons)	6,633	6,128	8	21,170	19,910	6
Medium-duty (7-16 tons)	1,202	1,051	14	4,460	4,167	7
Light-duty (<7 tons)	3,877	3,351	16	12,843	11,096	16
Total Renault Trucks	11,712	10,530	11	38,473	35,173	9

Mack

North America	5,526	4,624	20	15,957	13,177	21
South America	248	203	22	543	564	-4
Africa and Oceania	302	272	11	836	790	6
Total Mack	6,076	5,100	19	17,336	14,532	19
Heavy-duty (>16 tons)	6,076	5,100	19	17,336	14,532	19
Total Mack	6,076	5,100	19	17,336	14,532	19

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

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

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

Financial calendar

Report on the fourth quarter 2018	January 30, 2019
Annual and Sustainability Report 2018	March 12, 2019
Annual General Meeting 2019	April 3, 2019
Report on the first quarter 2019	April 24, 2019
Report on the second quarter 2019	July 18, 2019
Report on the third quarter 2019	October 18, 2019

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