VOLVO CAR GROUP

INTERIM REPORT THIRD QUARTER AND FIRST NINE MONTHS 2019

Third Quarter 2019

- Retail sales 166,878 (154,914) units
- Net revenue MSEK 64,827 (56,776)
- Operating income (EBIT) MSEK 3,492 (1,838)
- Net income MSEK 2,376 (1,138)
- Cash flow from operating and investing activities MSEK 1,976 (–6,631)

First Nine Months 2019

- Retail sales 507,704 (472,553) units
- Net revenue MSEK 194,922 (179,628)
- Operating income (EBIT) MSEK 9,011 (9,680)
- Net income MSEK 5,774 (6,692)
- Cash flow from operating and investing activities MSEK –783 (–5,781)

Key figures (MSEK)	Q3 2019	Q3 2018	Change %	First nine months 2019	First nine months 2018	Change %	Full year 2018
Net revenue	64,827	56,776	14.2	194,922	179,628	8.5	252,653
Research and development expenses	–2,770	–2,805	–1.2	–8,712	–7,699	13,2	–10,903
Operating income (EBIT)	3,492	1,838	90.0	9,011	9,680	–6.9	14,185
Net income	2,376	1,138	108.8	5,774	6,692	–13.7	9,781
EBITDA	7,213	5,102	41.4	20,513	19,538	5.0	27,398
Cash flow from operating and investing activities	1,976	–6,631	129.8	–783	–5,781	86.5	4,705
Net cash	14,403	7,439	93.6	14,403	7,439	93.6	18,029
Gross margin, %	18.9	19.1		18.9	19.7		19.5
EBIT margin, %	5.4	3.2		4.6	5.4		5.6
EBITDA margin, %	11.1	9.0		10.5	10.9		10.8

All amounts are in MSEK unless otherwise stated. Amounts in brackets refer to the same period for the preceding year, unless otherwise stated. All performance measures are further described on page 26.

CEO Comment

During the third quarter, Volvo Cars maintained a strong sales development of 7.7 per cent – growing faster than the industry in Europe, China and the US. The growth in unit sales, revenue and profit was driven by a strong product mix from our SUV range as well as cost efficiency activities implemented earlier this year resulting in reduced staffing and fixed costs, all in line with our expectations.

Volvo Cars commits to the highest standard of sustainability. In October, we launched one of the most ambitious plans in the automotive industry concerning our carbon footprint and electrification strategy. We will address what we control; our own operations and the tailpipe emissions of our cars, but also what we can influence, our supply chain. Our ambition is to reduce the total lifecycle carbon footprint per car by 40 per cent by 2025. This will support our vision toward Volvo Cars' aim of becoming a climate neutral company by 2040.

"Volvo Cars commits to the highest standard of sustainability."

To reach this ambitious plan, we strive to have 50 per cent of global sales from fully electric cars by 2025. As an example, we have now launched our first fully electric XC40. We will also triple our production capacity for plug-in hybrids for the new Recharge carline to take a leading position for premium electrified cars. Over the next five years, Volvo Cars will expand its product offer and launch a fully electric car every year.

The long-term path to electrification is clear, however the transition for the wider industry will be a gradual process. Significant demand for hybrid powertrains will remain alongside fully electric offerings. We intend to increase the industrial collaboration between Volvo Cars and Geely, and we intend to merge our respective combustion engine operations into one business. Hybrid cars need the best internal combustion engines, and a combined new unit would have the resources, scale and expertise to develop these powertrains cost efficiently.

For the remainder of the year 2019, we expect our momentum to continue with robust growth in unit sales and revenue. Challenges in the car industry will continue to put margins under pressure and we are taking measures to offset these factors. In addition to the already initiated cost reduction activities, we are intensifying cost efficiencies in sourcing for our CMA and SPA cars utilising platform synergies across the Geely Group.

We are also taking market share by offering desirable products and gaining brand awareness. By focusing on sustainable production, products and services, we are taking important steps toward ensuring a long-term sustainable business, which is core to Volvo Cars, our customers and the environment.

Håkan Samuelsson
Chief Executive

Sales and Market Development

Third Quarter

Volvo Cars' solid sales momentum continued during the third quarter. Global retail sales increased 7.7 per cent year-over-year to 166,878 (154,914) units, with SUVs accounting for 63.6 (60.5) per cent of total retail sales. Wholesales increased by 11.6 per cent to 160,418 (143,797) units. While all regions reported growth, China registered the strongest sales growth of 20.3 per cent on the back of strong demand for the locally produced S90, XC60 and XC40, with the latter having started production in China in April this year. China continued to be Volvo Cars' largest market, followed by the US and the UK.

Overall, demand for Volvo Cars' XC line-up continued to remain strong in most markets, mainly driven by a boost in sales of the XC40 to 33,611 (24,802) units, particularly in Europe and China where the car has been introduced successfully and is produced locally. The XC60 remained Volvo Cars' bestseller with 48,432 (46,263) units sold, a growth of 4.7 per cent. Sales of the XC90 reached 24,012 (22,671) units, a growth of 5.9 per cent mainly driven by the US, while the S90 also improved, reaching 14,710 (12,857) units driven by stronger demand in China. Sales of the V60 reached 13,636 (11,735) units driven by European sales, in particular Sweden and Germany. Production of the V40 ceased in July this year, as we ended production on our legacy platforms and shifted capacity to newer models, such as the XC40. Thus, V40 sales declined by 32.3 per cent to 12,130 units. The S60 sold 11,581 (9,071) units on the back of higher sales in the US and Europe with the latter seeing highest demand from the UK and Sweden. Sales of the V90 declined 8.8 per cent primarily due to lower sales in the US and other markets, with relatively stable sales in Europe.

Retail sales (units)	Q3 2019	Q3 2018	Change %	First nine months 2019	First nine months 2018	Change %
Europe	73,303	69,318	5.7	247,956	233,932	6.0
China	41,771	34,712	20.3	109,512	96,192	13.8
US	27,312	26,307	3.8	77,432	73,929	4.7
Other	24,492	24,577	–0.3	72,804	68,500	6.3
Retail sales total	**166,878**	**154,914**	**7.7**	**507,704**	**472,553**	**7.4**
Whereof electrified vehicles	*9,324*	*7,497*	*24.4*	*30,339*	*26,667*	*13.8*
Wholesales	**160,418**	**143,797**	**11.6**	**505,604**	**476,467**	**6.1**
Production volume	**167,506**	**146,483**	**14.4**	**522,549**	**492,722**	**6.1**

EUROPE

Market

New car registrations in Europe grew by 2.2 per cent during the third quarter. This growth is a reflection of a weaker third quarter in 2018, which was negatively impacted by the introduction of WLTP emissions regulations.

Volvo Cars

Sales continued to grow at 5.7 per cent in the third quarter, reaching 73,303 (69,318) units, with SUVs accounting for 57.9 (54.2) per cent of total retail sales in Europe. All models in the XC line-up, particularly the XC40, drove growth, while the S60 and V60 also performed well, with the former continuing to ramp up, mainly driven by the performance of the V60 and XC60 in Sweden and Germany, as well as the XC40 in the UK.

CHINA

Market

The passenger car market in China declined by 7.2 per cent in the third quarter of the year, as a slowing economy and trade tensions weigh on consumer sentiment and demand. However, the premium car market remained resilient, recording a 7.7 per cent growth driven by consumer appetite for vehicles in the middle sedan and SUV segment.

Volvo Cars

Strong demand for Volvo cars in China continued to rise, resulting in retail sales growth of 20.3 per cent year-over-year to 41,771 (34,712) units. Sales growth was driven by strong demand for the locally produced S90, followed by the XC40 and the XC60. This led to SUV sales growing 27.8 per cent to 25,294 (19,787) units sold, and a higher share of SUVs, currently standing at 60.6 (57.0) per cent of total retail sales in

China. Sales of the locally produced S90 reached 11,468 (7,832) units, and the S90 2020 model has recently been launched in the country. The decrease in S60 sales was driven by the phase-out of the classic model. V40 is being completely phased out, explaining the sales decrease in that model.

US

Market

The US vehicle sector recorded a small increase of 0.5 per cent driven by a pick up in light truck sales, which is the main driver of demand in the US, offset by weak passenger car sales across the board.

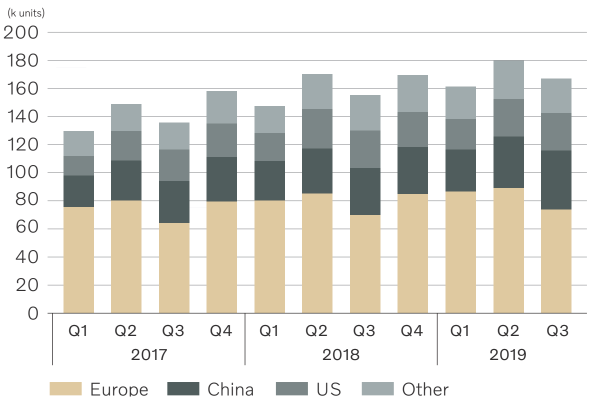
Volvo Cars

In the third quarter of the year, retail sales grew by 3.8 per cent to 27,312 (26,307) units. Growth was mainly driven by sales of the locally produced S60 which sold 3,899 (2,186) units, followed by an increase in XC90 and XC40 sales. The new US produced S60 started reaching dealerships at the end of last year, with sales accounting for 14.3 per cent of total retail sales in the third quarter. Growth was partly offset by declines in sales of the XC60, S90 and V line-up, mainly due to tariffs and the effects thereof, such as decreasing the supply of the XC60 for the US market. Additionally, the market experienced general declines in the segments in which the S90 and V line-up compete. SUV sales remained stable at 77.0 per cent of total retail sales.

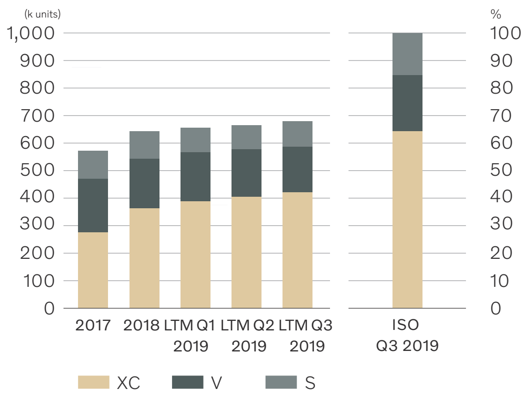
Other Volvo Cars Markets

In other markets, Volvo Cars' retail sales remained relatively stable at 24,577 (24,492) units with Japan, Russia, Canada and Korea remaining the biggest markets. SUV sales accounted for 70.4 (65.6) per cent of total retail sales and grew 6.6 per cent, offset by declines in the V and S line-up. Sales in Japan grew 11.3 per cent to 4,484 (4,027) units, mainly driven by the XC40.

Retail Sales by Market



Retail Sales by Carline



Sales and Market Development

First Nine Months

Volvo Cars sold 507,704 (472,553) units, an increase of 7.4 per cent year-on-year, consistently growing faster than the industry year-to-date. Growth was supported by Volvo Cars' award winning SUV range, with sales accounting for 61.6 (54.2) per cent of total retail sales. Wholesales increased by 6.1 per cent to 505,604 (476,467) units. The best-selling model for the first nine months remained the XC60 which grew 6.3 per cent to 145,640 (137,047) units, mainly driven by China. Demand for the XC40 remained strong across the board with retail sales reaching 95,475 (48,543) units, and sales of the XC90 increased slightly by 2.1 per cent. The decrease in S60 sales year-to-date is due to the fact that the new model is still to be launched in China and in most other markets. The decrease in S90 sales year-to-date is largely due to the previous quarters, and is mainly driven by higher import tariffs in the US and a decline in the overall segment in that market, as well as in Europe. The decline in V90 sales was primarily driven by lower sales in Sweden during the first nine months of the year, in part driven by the taxation scheme Bonus Malus.

EUROPE

Market

The passenger car market in Europe recorded a decline in car registrations for the first nine months of the year of 1.6 per cent as most of the main markets declined, in part due to a high comparative period on the back of new WLTP emissions regulations. The exception was Germany which posted a small 2.5 per cent growth in registrations.

Volvo Cars

Despite slowing passenger car sales in Europe, Volvo Cars' sales growth remained resilient at 6.0 per cent year-over-year to 247,956 (233,932) units. SUVs accounted for 55.2 (48.1) per cent of total retail sales and increased by 21.8 per cent to 136,991 units. This drove our growth in the market, following the full introduction of the XC40 during the year. Sales of the V60 also picked up and grew 41.6 per cent. This offset contractions in the remaining V cars as well as in the S line-up. Apart from a 17.9 per cent decline in Sweden, all main markets reported growth mainly on the back of XC40 demand, as well as V60 and XC60.

CHINA

Market

The passenger car market in China declined by 9.0 per cent during the first nine months of the year. Despite this, the premium car market continued to grow, increasing 8.0 per cent during the period.

Volvo Cars

Strong demand continued for Volvo cars in China, with retail sales growth of 13.8 per cent for the first nine months of the year to 109,512 (96,192) units. SUV sales accounted for 58.6 (48.3) per cent of total retail sales. Sales growth was mainly driven by the locally produced S90, XC60 and XC40, followed by the XC90.

US

Market

Total light vehicle sales in the US declined by 1.2 per cent in the first nine months of the year, as a small growth in the light truck segment was offset by a decline in the passenger car segment.

Volvo Cars

Despite a shrinking local market, retail sales in the US increased by 4.7 per cent in the first nine months of the year to 77,432 (73,929) units. SUV sales accounted for 77.9 (76.0) per cent of total retail sales. Growth was mainly driven by demand for the locally produced S60 with retail sales of 12,313 units, as cars reached dealerships only at the end of 2018. XC40 sales continued to grow reaching 13,223 (9,033) units. Growth was also supported by XC90 sales and somewhat offset by contractions in S90 and V line-up sales.

Other Volvo Cars Markets

Retail sales in other markets grew 6.3 per cent to 72,804 (68,500) units, driven by strong demand for the XC40, moderate sales growth of the XC60 and V60 as well as stable XC90 sales, slightly offset by declines in the S line-up, V40 and V90. SUV sales accounted for 70.8 (59.7) per cent of total retail sales. The largest markets were Japan, Russia and Canada. Sales in Japan grew 9.8 per cent to 13,752 (12,524) units driven by the XC40 and the V60.

Top 10 Retail sales by market (units)	Q3 2019	Q3 2018	Change %	First nine months 2019	First nine months 2018	Change %
China	41,771	34,712	20.3	109,512	96,192	13.8
US	27,312	26,307	3.8	77,432	73,929	4.7
UK	14,477	14,160	2.2	44,513	37,373	19.1
Sweden	11,826	9,947	18.9	43,568	53,049	–17.9
Germany	11,766	10,581	11.2	37,908	30,380	24.8
Italy	4,768	4,533	5.2	15,656	13,572	15.4
Belgium	4,737	4,710	0.6	17,609	15,867	11.0
Japan	4,484	4,027	11.3	13,752	12,524	9.8
France	4,201	3,936	6.7	14,629	13,229	10.6
Netherlands	3,455	3,717	–7.0	13,296	12,680	4.9

Retail sales by model (units)	Q3 2019	Q3 2018	Change %	First nine months 2019	First nine months 2018	Change %
XC60/XC60 Classic	48,432	46,263	4.7	145,640	137,047	6.3
XC40*	33,611	24,802	35.5	95,475	48,543	96.7
XC90	24,012	22,671	5.9	71,830	70,329	2.1
S90	14,710	12,857	14.4	41,674	43,834	–4.9
V60/V60 Cross Country	13,636	11,735	16.2	49,567	39,370	25.9
V40/V40 Cross Country	12,130	17,913	–32.3	45,377	59,501	–23.7
S60	11,581	9,071	27.7	28,110	32,877	–14.5
V90/V90 Cross Country	8,761	9,602	–8.8	30,026	41,052	–26.9
Other (discountinued models)	5	—	—	5	—	—
Total	**166,878**	**154,914**	**7.7**	**507,704**	**472,553**	**7.4**

*The introduction of the new XC40 began end of 2017, explaining the relatively high increase in sales.

Events During the Third Quarter

Change of Chief Financial Officer
It was announced that effective from October 1st 2019, Carla De Geyseleer will succeed Hans Oscarsson as CFO and Senior Vice President Finance.

Financial Summary

THIRD QUARTER 2019 – INCOME AND RESULT

The comparative figures refer to the consolidated income statement of the third quarter 2018 if not otherwise stated.

During the third quarter, Volvo Cars generated net revenue of MSEK 64,827 (56,776), an increase of 14.2 per cent. Wholesales increased by 11.6 per cent to 160,418 (143,797) units, mainly driven by the XC40. Volume and sales mix had a positive effect on net revenue, while the price pressure continued during the quarter. The exchange rate effect in net revenue amounted to MSEK 1,850.

Gross income amounted to MSEK 12,282 (10,841), resulting in a gross margin of 18.9 (19.1) per cent. Cost of sales increased to MSEK –52,545 (–45,935), mainly due to higher sales volume, as well as foreign exchange rate effects of MSEK –1,797. The net effect of foreign exchange rate movements in gross income was MSEK 51. The decrease in gross margin was mainly driven by continuous price competition in certain markets, partly offset by a decrease in custom duties in the US.

During the third quarter, effects from the announced cost savings earlier this year started to come through. Despite business growth, selling expenses decreased to MSEK –3,898 (–4,383), mainly due to decreased advertising and sales promotion. Reasearch and development expenses remained flat at MSEK –2,770 (–2,805), with continued investments in technology to drive long-term growth. For details regarding research and development expenses, see table below. Due to increased expenses for digitalisation, administrative expenses increased to MSEK 2,389 (1,862).

Other operating income and expense, net, amounted to MSEK 616 (—) mainly due to foreign exchange rate effects on operating assets and liabilities amounting to MSEK 354 (–315), increased sold services to Polestar amounting to MSEK 252 (—), partly offset by decreased government grants amounting to MSEK 73 (328).

Operating income (EBIT) increased to MSEK 3,492 (1,838). EBIT margin increased to 5.4 (3.2) per cent, as a result of the increased gross income, the decrease in selling expenses and increase in net other operating income and expenses. The increase was partly offset by a decrease in received government grants amounting to MSEK 85 (352). The net effect of foreign exchange rate in EBIT was MSEK 495.

Net financial items amounted to MSEK –261 (–369). The effective tax rate increased to 26.5 (22.5) per cent mainly due to less withholding tax credit. Net income amounted to MSEK 2,376 (1,138). Net income in relation to net revenue was 3.7 (2.0) per cent.

Research and development (MSEK)	Q3 2019	Q3 2018	Change %
Research and development spending	–3,155	–2,916	8.2
Capitalised development costs	1,460	1,205	21.2
Amortisation and depreciation of Research and development	–1,075	–1,094	–1.7
Research and development expenses	**–2,770**	**–2,805**	**–1.2**

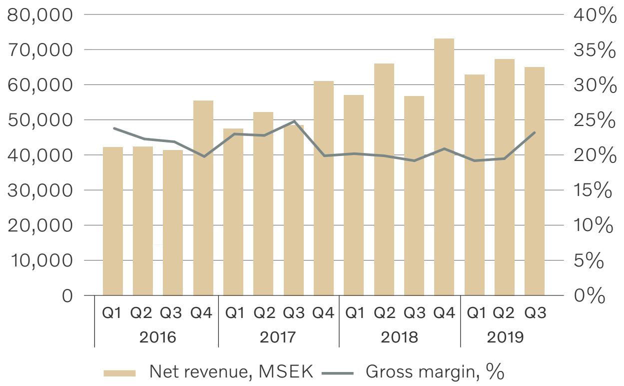
Changes to Net revenue (MSEK)

Net revenue Q3 2018	**56,776**
Volume, sales mix and pricing	5,200
Sale of licences	430
Foreign exchange rates	1,850
Other	571
Net revenue Q3 2019	**64,827**
Change %	**14.2**

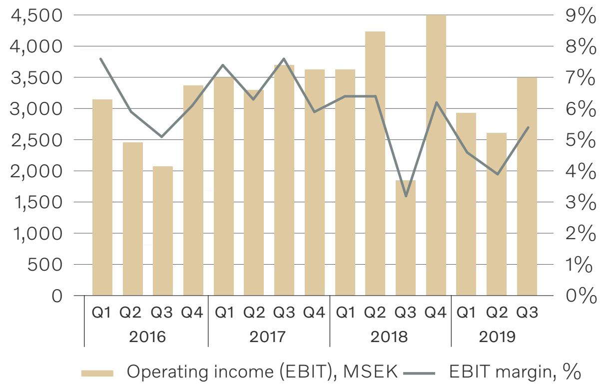
Changes to Operating income (EBIT) (MSEK)

EBIT Q3 2018	**1,838**
Volume, sales mix and pricing	830
Sale of licenses	60
Government grants	–270
Foreign exchange rates	495
Other	539
EBIT Q3 2019	**3,492**
Change %	**90.0**

Net Revenue & Gross Margin



Operating Income & EBIT Margin



FIRST NINE MONTHS 2019 – INCOME AND RESULT

The comparative figures refer to the consolidated income statement of the first nine months 2018 if not otherwise stated.

Volvo Cars net revenue increased by 8.5 per cent to MSEK 194,922 (179,628), mainly driven by sales in China, UK and Germany. Wholesales increased by 6.1 per cent to 505,604 (476,467) units, mainly driven by the XC40. Volume and sales mix had a positive effect on net revenue, while the price pressure continued. Sold licenses increased with MSEK 1,300, and other revenue, such as used car sales, parts and accessories, increased with MSEK 1,010. The exchange rate effect in net revenue amounted to MSEK 5,840.

Gross income increased to MSEK 36,927 (35,328), resulting in gross margin of 18.9 (19.7) per cent. Cost of sales increased to MSEK –157,995 (–144,300), mainly due to higher sales volume and a foreign exchange rate impact in cost of sales of MSEK –5,808. The net effect of foreign exchange rate in gross income was MSEK 33. The decrease in gross margin was mainly due to continuous price competition in certain markets, partly offset by an increased gross income from license sales of MSEK 571.

Research and development expenses increased to MSEK –8,712 (–7,699). The increase was mainly driven by increased research expenses as Volvo Cars continues to invest in technology to drive long-term growth. For details regarding research and development expenses, see table below.

Selling and administrative expenses increased to MSEK –19,062 (–18,398). The increase was mainly driven by administrative expenses of MSEK –7,091 (–5,585) related to personnel and consultants as well as increased expenses for digitalisation. The increase in administrative expenses was partly offset by lower selling expenses of MSEK –11,971 (–12,813), driven by a decrease in advertising and sales promotion.

Other operating income and expense, net, amounted to MSEK 260 (242). Foreign exchange rate effects on operating assets and liabilities amounted to MSEK 543 (–118), partly offset by increased other expenses related to early phaseout of certain components.

Operating income (EBIT) decreased to MSEK 9,011 (9,680). EBIT margin decreased to 4.6 (5.4) per cent, mainly as a result of the decrease in gross margin and the decrease in received government grants to MSEK 247 (1,902), offset by a net effect of MSEK 571 related to sold licences. The net effect of foreign exchange rate in EBIT was MSEK 20.

Net financial items amounted to MSEK –816 (–886). The effective tax rate increased to 29.5 (23.9) per cent mainly due to tax adjustments related to prior years. Net income amounted to MSEK 5,774 (6,692). Net income in relation to net revenue was 3.0 (3.7) per cent.

Research and development (MSEK)	**First nine months 2019**	**First nine months 2018**	**Change %**
Research and development spending	–10,312	–8,904	15.8
Capitalised development costs	5,160	4,430	16.5
Amortisation and depreciation of Research and development	–3,560	–3,225	10.4
Research and development expenses	**–8,712**	**–7,699**	**13.2**

Changes to Net revenue (MSEK)	
Net revenue First nine months 2018	**179,628**
Volume, sales mix and pricing	5,639
Sale of licences	1,300
Foreign exchange rates	5,840
Other	2,515
Net revenue First nine months 2019	**194,922**
Change %	**8.5**

Changes to Operating income (EBIT) (MSEK)	
EBIT First nine months 2018	**9,680**
Volume, sales mix and pricing	390
Sale of licenses	570
Government grants	–1,655
Foreign exchange rates	20
Other	6
EBIT First nine months 2019	**9,011**
Change %	**–6.9**

THIRD QUARTER 2019 – CASH FLOW

The presented figures refer to the consolidated figures for the third quarter 2019 if not otherwise stated. The comparative figures for the cash flow items refer to the consolidated cash flow statement for the third quarter 2018 if not otherwise stated. The comparative figures for the balance sheet items refer to the consolidated balance sheets of December 31, 2018 if not otherwise stated.

CASH FLOW

Cash flow from operating and investing activities amounted to MSEK 1,976 (–6,631).

Cash flow from operating activities amounted to MSEK 5,472 (–97). The positive cash flow from operating activities consists of positive operating income of MSEK 3,492 (1,838), adjusted for depreciation and amortisation of MSEK 3,721 (3,264) together with income tax paid of MSEK –701 (–833), and change in working capital of MSEK –288 (–2,108).

The cash flow from working capital during the quarter was related to a negative cash flow from increased inventory and accounts receivable reflecting the sales growth. This has been offset by a positive cash flow from increased sales generated obligations and increased inflow from sales under operating lease which is also the main explanation to the improved cash flow compared to previous year.

Cash flow from investing activities amounted to MSEK –3,496 (–6,534). Investments in property, plant and equipment amounted to MSEK –2,399 (–3,293), mainly driven by investments in car and engine production capacity as well as tooling. The decrease compared to previous year is due to the completion of the Charleston plant and high investments in cluster 60 cars in 2018. Investments in intangible assets amounted to MSEK –1,000 (–1,463) as a result of continuous investments in new and upcoming car models, as well as new technology.

Cash flow from financing activities amounted to MSEK 2,101 (213) and is mainly related to sale of marketable securities of MSEK 2,517 (–89). This has been partly offset by repayments of liabilities to credit institutions and other interest bearing liabilities of –793 (–138).

Cash flow statement (MSEK)	Q3 2019	Q3 2018	Change %
Cash flow from operating activities	5,472	–97	5,741.2
Cash flow from investing activities	–3,496	–6,534	46.5
Cash flow from operating and investing activities	1,976	–6,631	–129.8
Cash flow from financing activities	2,101	213	886.4
Cash flow for the period	4,077	–6,418	–163.5

FIRST NINE MONTHS 2019 – CASH FLOW AND EQUITY

The presented figures refer to the consolidated figures for the nine first months 2019 if not otherwise stated. The comparative figures for the cash flow items refer to the consolidated cash flow statement for the first nine months 2018 if not otherwise stated. The comparative figures for the balance sheet items refer to the consolidated balance sheets of December 31, 2018 if not otherwise stated.

CASH FLOW

Cash flow from operating and investing activities amounted to MSEK –783 (–5,781). Cash flow from operating activities amounted to MSEK 13,564 (10,689). The change is due to the positive operating income of MSEK 9,011 (9,680), adjusted for depreciation and amortisation of MSEK 11,502 (9,858) together with tax paid of MSEK –3,374 (–3,566), and a negative working capital development of MSEK –1,484 (–2,909).

The development in working capital is mainly due to increased inventory of MSEK –6,905 (–5,648) and increased accounts receivable of MSEK –2,554 (–108), due to business growth. The negative effect was partly offset by increased contract liabilities of MSEK 4,818 (3,037), mainly driven by increased sales generated obligations. Furthermore, other working capital assets and liabilities had a net positive effect of MSEK 2,843 (957), mainly due to increased cash inflow from sales under operating lease.

Cash flow from investing activities amounted to MSEK –14,347 (–16,470). Investments in tangible assets amounted to MSEK –8,397 (–10,134). The decrease compared to previous year is due to the completion of the Charleston plant and high investments in cluster 60 cars in 2018. The investments are mainly due to the launch and ramp-up of production of new car models, such as the XC40 and the S60, as well as engines. Investments in intangible assets amounted to MSEK –5,968 (–5,165) as a result of continuous investments in new and upcoming car models and new technology.

Cash flow from financing activities amounted to MSEK 3,666 (1,186) mainly related to proceeds from bonds issued of MSEK 8,221 (—), partly offset by repayments of liabilities of MSEK –2,947 (–6,548), dividends paid to shareholders of MSEK –2,898 (–67) and investments in marketable securities (net) of –188 (3,635).

Total cash and cash equivalents including marketable securities have increased to MSEK 46,850 (41,747). Net cash increased to MSEK 14,403 (18,029). Including undrawn credit facilities of MSEK 13,905 (13,328), liquidity is at MSEK 60,755 (55,075).

EQUITY

Total equity decreased to MSEK 59,532 (61,251), resulting in an equity ratio of 24.7 (29.0) per cent. The change is attributable to the positive net income of MSEK 5,774 and capital injection of MSEK 606 into joint venture under common control, somewhat offset by negative effects in other comprehensive income. The latter is related to change in cash flow hedge reserve related to unrealised hedges of MSEK –4,370 (net of tax), whereof hedge contracts recycled to income statement amounts to MSEK 771. The change is mainly due to a weakened SEK against USD and GBP. Re-measurements of provisions for post-employment benefits also gave a negative effect in other comprehensive income of MSEK –2,652 (net of tax) due to changes in actuarial assumptions, mainly lower discount rates. This has partly been offset by a positive foreign exchange translation effect, including hedges of net investments in foreign operations of MSEK 1,821 (net of tax).

Dividend of MSEK 2,898 has been paid to shareholders, whereof MSEK 125 was distributed to the holders of preference shares.

Cash flow statement (MSEK)	First nine months 2019	First nine months 2018	Change %
Cash flow from operating activities	13,564	10,689	26.9
Cash flow from investing activities	–14,347	–16,470	–12.9
Cash flow from operating and investing activities	–783	–5,781	–86.5
Cash flow from financing activities	3,666	1,186	209.1
Cash flow for the period	2,883	–4,595	162.7

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Volvo Cars Moment – Sustainability
In October, Volvo Cars introduced the XC40 Recharge, its first fully electric car and the first model out in the new Recharge car line concept. At the same event, an ambitious plan aiming to reduce the lifecycle carbon footprint per car by 40 per cent until 2025, was launched. This is the first tangible step towards Volvo Cars' ambition of becoming a climate neutral company by 2040.

Merger of combustion engine operations
It was announced that Volvo Cars and Geely intend to merge their existing combustion engine operations into a standalone business in order to establish a new global supplier that will seek to develop next generation combustion engines and hybrid powertrains. The proposed new business would clear the way for Volvo Cars to focus on the development of its all-electric range of premium cars.

RISKS AND UNCERTAINTY FACTORS

Risks are a natural element in all business activities, risk mitigation is as well. As an example, our reaction to higher tariffs is to adjust prices in certain markets, reallocate vehicles to other markets, as well as reallocate production. In order to achieve Volvo Cars' short- and long-term objectives, enterprise risk management is part of the daily activities at Volvo Cars. We are closely following the Brexit development and are taking measures in order to mitigate the potential short and longer term impact. For a more in-depth analysis of risks, see the Volvo Car Group Annual Report 2018 page 82.

Volvo Cars is continuously considering various capital market options.

EMPLOYEES

During the first nine months, there has been a reduction of white collar employees following the cost efficiency activities announced earlier this year. During the same period however, higher production volumes led to an increase of blue collar employees, mainly in China, Ghent and the US. In total, this resulted in Volvo Cars employing on average 42,100 (42,000) full-time employees. Furthermore, the Group employed on average 4,200 (4,200) agency personnel. A lower number of white collar agency was offset by an increase in blue collar agency in our plants, which creates more flexibility.

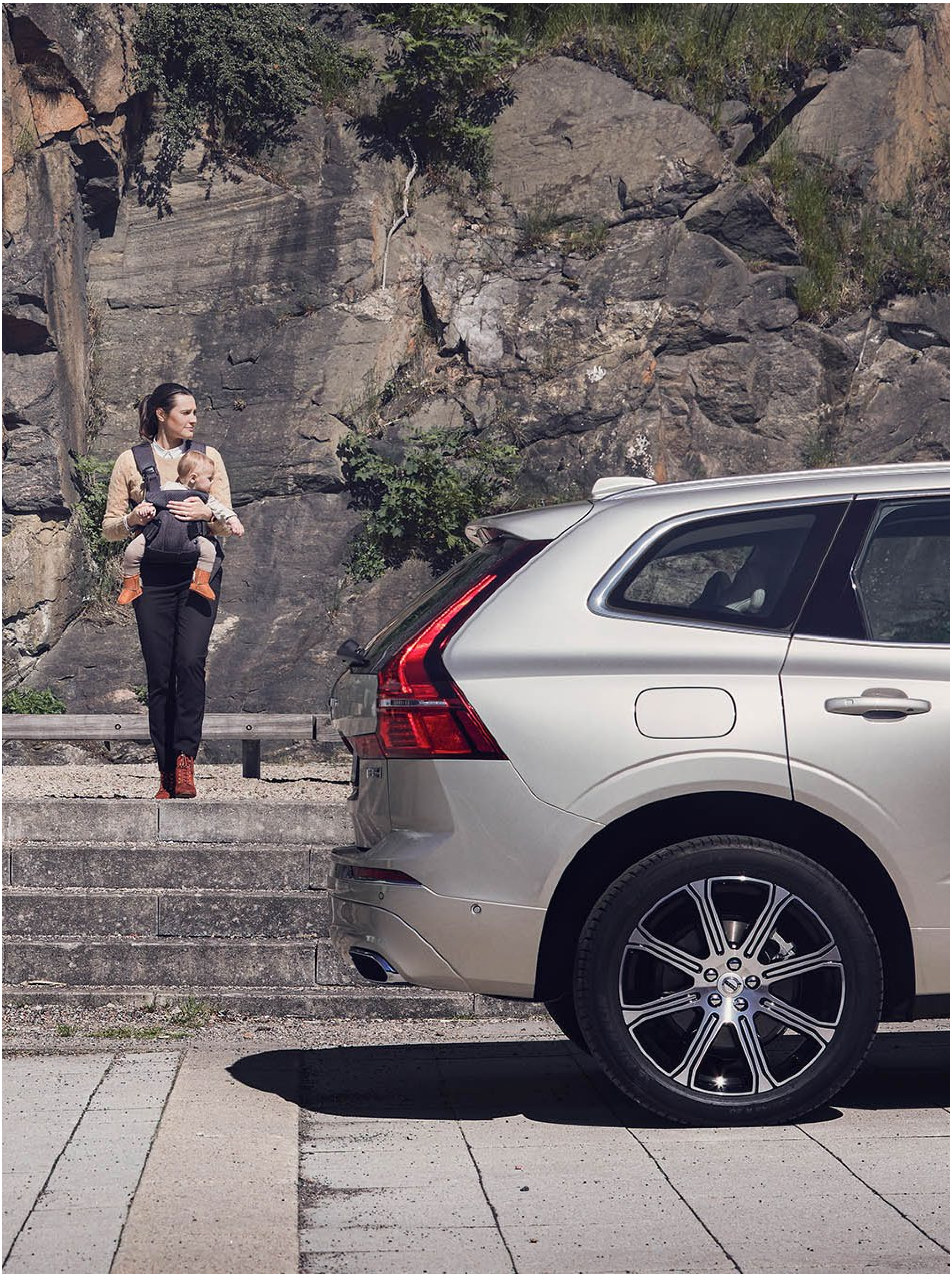
PARENT COMPANY

The parent company conducts no operations and has no employees. The income statements and balance sheets for the parent company are presented on page 21.

OUTLOOK 2019

We expect continued growth in sales and revenue, as we benefit from a fully renewed product portfolio and increased production capacity. We expect market conditions to put continued pressure on margins. Volume growth and initiated cost actions are expected to strengthen the profit in the second half of the year compared with the same period last year. After an intense period of investments in our global footprint and new technologies, we foresee a slightly lower level of capital expenditure.

This report contains statements concerning, among other things, Volvo Car Group's financial condition and results of operations that are forward-looking in nature. Such statements are not historical facts but, rather, represent Volvo Car Group's future expectations. Volvo Car Group believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions, however, forward-looking statements involve inherent risks and uncertainties, and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. Such important factors include, but may not be limited to: Volvo Car Group's market position, growth in the automotive industry, and the effects of competition and other economic, business, competitive and/or regulatory factors affecting the business of Volvo Car Group, its associated companies and joint ventures, and the automotive industry in general. Forward-looking statements speak only as of the date they were made and, other than as required by applicable law, Volvo Car Group undertakes no obligation to update any of them in light of new information or future events.



Consolidated Income Statements

MSEK	Note	Q3 2019	Q3 2018	First nine months 2019	First nine months 2018	Full year 2018
Net revenue	2	64,827	56,776	194,922	179,628	252,653
Cost of sales[1)]		–52,545	–45,935	–157,995	–144,300	–203,322
Gross income		**12,282**	**10,841**	**36,927**	**35,328**	**49,331**
Research and development expenses[1)]		–2,770	–2,805	–8,712	–7,699	–10,903
Selling expenses		–3,898	–4,383	–11,971	–12,813	–17,371
Administrative expenses		–2,389	–1,862	–7,091	–5,585	–8,001
Other operating income		1,261	607	2,714	1,952	3,386
Other operating expenses		–645	–607	–2,454	–1,710	–2,324
Share of income in joint ventures and associates		–349	47	–402	207	67
Operating income		**3,492**	**1,838**	**9,011**	**9,680**	**14,185**
Financial income		143	91	398	258	407
Financial expenses		–404	–460	–1,214	–1,144	–1,675
Income before tax		**3,231**	**1,469**	**8,195**	**8,794**	**12,917**
Income tax		–855	–331	–2,421	–2,102	–3,136
Net income		**2,376**	**1,138**	**5,774**	**6,692**	**9,781**
Net income attributable to						
Owners of the parent company		1,667	440	3,833	4,682	6,840
Non-controlling interests		709	698	1,941	2,010	2,941
		2,376	**1,138**	**5,774**	**6,692**	**9,781**

1) Reclassification of research and development expenses to Cost of sales amounted to MSEK 1,195 in Full year 2018. For further information see Note 1 – Accounting principles.

Consolidated Comprehensive Income

MSEK	Q3 2019	Q3 2018	First nine months 2019	First nine months 2018	Full year 2018
Net income for the period	**2,376**	**1,138**	**5,774**	**6,692**	**9,781**
Other comprehensive income					
Items that will not be reclassified subsequently to income statement:					
Remeasurements of provisions for post-employment benefits	–1,294	41	–3,363	–1,337	–1,925
Tax on items that will not be reclassified to income statement	268	–9	711	275	404
Items that may be reclassified subsequently to income statement:					
Translation difference on foreign operations	770	–1,106	2,068	741	805
Translation difference of hedge instruments of net investments in foreign operations	–149	54	–314	–48	–16
Change in fair value of cash flow hedge related to currency and electricity risks	–2,715	986	–6,274	–3,926	–3,236
Currency and electricity risk hedge contracts recycled to income statement	274	–171	771	–422	–603
Tax on items that may be reclassified to income statement	536	–178	1,200	928	815
Other comprehensive income, net of income tax	**–2,310**	**–383**	**–5,201**	**–3,789**	**–3,756**
Total comprehensive income for the period	**66**	**755**	**573**	**2,903**	**6,025**
Total comprehensive income attributable to					
Owners of the parent company	–787	448	–1,843	801	2,965
Non-controlling interests	853	307	2,416	2,102	3,060
	66	**755**	**573**	**2,903**	**6,025**

Consolidated Balance Sheets

MSEK	Note	Sept 30, 2019	Dec 31, 2018
ASSETS			
Non-current assets			
Intangible assets		31,063	29,626
Property, plant and equipment	1	70,388	61,208
Assets held under operating leases		3,163	2,523
Receivables on parent company		54	54
Investments in joint ventures and associates		6,977	7,003
Other long-term securities holdings		282	190
Deferred tax assets		8,314	6,586
Other non-current assets	3	3,051	2,982
Total non-current assets		**123,292**	**110,172**
Current assets			
Inventories		43,681	35,163
Accounts receivable	4	16,683	13,704
Current tax assets		1,411	573
Other current assets	3	9,236	9,875
Marketable securities	3	1,790	1,577
Cash and cash equivalents	3	45,060	40,170
Total current assets		**117,861**	**101,062**
TOTAL ASSETS		**241,153**	**211,234**
EQUITY & LIABILITIES			
Equity			
Equity attributable to owners of the parent company		50,069	52,873
Non-controlling interests		9,463	8,378
Total equity		**59,532**	**61,251**
Non-current liabilities			
Provisions for post-employment benefits		12,197	8,425
Deferred tax liabilities		860	1,688
Other non-current provisions		7,043	6,189
Liabilities to credit institutions	3	6,247	8,273
Bonds	3	22,059	13,200
Non-current contract liabilities to customers		5,048	4,184
Other non-current interest bearing liabilities	1	5,193	—
Other non-current liabilities	3	6,385	4,609
Total non-current liabilities		**65,032**	**46,568**
Current liabilities			
Current provisions		7,793	6,936
Liabilities to credit institutions	3	4,093	2,175
Current contract liabilities to customers		20,322	17,511
Accounts payable	4	43,700	43,633
Current tax liabilities		1,875	1,645
Other current interest bearing liabilities	1	1,051	—
Other current liabilities	3, 4	37,755	31,515
Total current liabilities		**116,589**	**103,415**
TOTAL EQUITY & LIABILITIES		**241,153**	**211,234**

Condensed Changes in Consolidated Equity

MSEK	Sept 30, 2019	Sept 30, 2018	Dec 31, 2018
Opening balance	**61,251**	**54,660**	**54,660**
Net income for the period	5,774	6,692	9,781
Other comprehensive income, net of income tax	–5,201	–3,789	–3,756
Total comprehensive income	**573**	**2,903**	**6,025**
Group contributions	—	—	418
Capital contribution from non-controlling interests	—	662	662
Divestment of non-controlling interests	—	–1,288	–1,288
Change in the Group's composition	—	–5	–5
Capital injection into joint venture under common control[1)]	606	—	846
Dividend to shareholders	–2,898	–67	–67
Transactions with owners	**–2,292**	**–698**	**566**
Closing balance	**59,532**	**56,865**	**61,251**
Attributable to			
Owners of the parent company	50,069	49,444	52,873
Non-controlling interests	9,463	7,421	8,378
Closing balance	**59,532**	**56,865**	**61,251**

1) Refers to the effect of Geely's capital injection into Polestar, see Note 4 – Related party transactions.

Consolidated Statement of Cash Flows

MSEK	Q3 2019	Q3 2018	First nine months 2019	First nine months 2018	Full year 2018
OPERATING ACTIVITIES					
Operating income	3,492	1,838	9,011	9,680	14,185
Depreciation and amortisation of non-current assets	3,721	3,264	11,502	9,858	13,213
Interest and similar items received	143	91	398	258	408
Interest and similar items paid	−138	−410	−603	−726	−818
Other financial items	—	393	−250	412	−203
Income tax paid	−701	−833	−3,374	−3,566	−4,132
Adjustments for other items not affecting cash flow	−757	−2,332	−1,636	−2,318	68
	5,760	**2,011**	**15,048**	**13,598**	**22,721**
Movements in working capital					
Change in inventories	−1,665	920	−6,905	−5,648	−3,706
Change in accounts receivable	−623	1,708	−2,554	−108	−2,627
Change in accounts payable	65	−2,650	−219	−394	4,372
Change in provisions	495	521	533	−753	−608
Change in contract liabilities to customers	929	−624	4,818	3,037	6,093
Change in other working capital assets/liabilities[2]	511	−1,983	2,843	957	520
Cash flow from movements in working capital	**−288**	**−2,108**	**−1,484**	**−2,909**	**4,044**
Cash flow from operating activities	**5,472**	**−97**	**13,564**	**10,689**	**26,765**
INVESTING ACTIVITIES					
Investments in shares and participations, net[1]	−107	−1,789	−52	−1,518	−1,565
Dividend received from joint ventures and associates	2	—	51	240	240
Investments in intangible assets[2]	−1,000	−1,463	−5,968	−5,165	−7,283
Investments in property, plant and equipment	−2,399	−3,293	−8,397	−10,134	−13,574
Disposal of property, plant and equipment	8	11	19	107	122
Cash flow from investing activities	**−3,496**	**−6,534**	**−14,347**	**−16,470**	**−22,060**
Cash flow from operating and investing activities	**1,976**	**−6,631**	**−783**	**−5,781**	**4,705**
FINANCING ACTIVITIES					
Proceeds from credit institutions	367	−81	1,209	2,989	3,087
Proceeds from bond issuance	—	—	8,221	—	—
Repayment of liabilities to credit institutions	−455	−138	−1,980	−6,548	−7,354
Repayment of interest bearing liabilities	−338	—	−967	—	—
Dividend paid to shareholders	−4	−4	−2,898	−67	−67
Investments in marketable securities, net	2,517	−89	−188	3,635	2,558
Other	14	525	269	1,177	1,033
Cash flow from financing activities	**2,101**	**213**	**3,666**	**1,186**	**−743**
Cash flow for the period	**4,077**	**−6,418**	**2,883**	**−4,595**	**3,962**
Cash and cash equivalents at beginning of period	**40,261**	**38,881**	**40,170**	**35,402**	**35,402**
Exchange rate difference on cash and cash equivalents	722	−1,106	2,007	550	806
Cash and cash equivalents at end of period	**45,060**	**31,357**	**45,060**	**31,357**	**40,170**

1) Investments in shares and participations, net includes; investments in shares and participations and effects from loss of control of Polestar Group in the third quarter 2018.
2) For comparison reasons, the line items Investments in intangible assets and Change in other working capital assets/liabilities have been restated. For more information, see Note 1 – Accounting principles. For the third quarter and full year 2018, the effect amounted to MSEK 333 and MSEK 938 respectivly.

Condensed Parent Company Income Statements

MSEK	Q3 2019	Q3 2018	First nine months 2019	First nine months 2018	Full year 2018
Administrative expenses	–5	–1	–13	–8	–12
Operating income	**–5**	**–1**	**–13**	**–8**	**–12**
Financial income[1]	147	87	1,893	257	345
Financial expenses	–149	–313	–395	–609	–770
Income before tax	**–7**	**–227**	**1,485**	**–360**	**–437**
Income tax	2	47	6	–73	–80
Net income	**–5**	**–180**	**1,491**	**–433**	**–517**

Other comprehensive income and net income are consistent since there are no items in other comprehensive income.

1) Received dividend in March 2019 of MSEK 1,512.

Condensed Parent Company Balance Sheets

MSEK	Sept 30, 2019	Dec 31, 2018
ASSETS		
Non-current assets	34,380	25,543
Current assets	4,576	4,709
TOTAL ASSETS	**38,956**	**30,252**
EQUITY & LIABILITIES		
Equity		
Restricted equity	51	51
Non-restricted equity	6,842	6,864
Total equity	**6,893**	**6,915**
Non-current liabilities[2]	31,820	23,165
Current liabilities	243	172
Total liabilities	**32,063**	**23,337**
TOTAL EQUITY & LIABILITIES	**38,956**	**30,252**

2) Increased due to issued bonds of SEK 2bn and MEUR 600, listed on the Luxembourg Stock Exchange.

NOTE 1 – Accounting principles

The interim report has been prepared in accordance with IAS 34 – Interim Financial Reporting and the Swedish Annual Accounts Act. The Volvo Car Group applies International Reporting Standards (IFRS) as endorsed by the European Union. The parent company applies RFR 2 – Reporting for legal entities and the Swedish Annual Accounts Act. The accounting Principles for Volvo Car Group are, in all material aspects, consistent with those described in the Volvo Car Group Annual Report 2018 Note 1 – Accounting Principles for Volvo Car Group and the parent company respectively (available at www.volvocars.com), together with the addition in below paragraphs.

On January 1, 2019, IFRS 16 – Leasing were being applied. Accounting principles adopted are, in all material aspects, consistent with those described in the Volvo Car Group Annual Report 2018 Note 34 – New accounting standard implemented on January 1, 2019. As described in Note 34, IFRS 16 mainly affects the lessee and introduces a single lessee accounting model which requires a lessee to recognise assets and liabilities for all lease contracts with a term of more than 12 months, unless the underlying asset is of low value. The lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. As described in note 34, the adoption to IFRS 16 have resulted in an increase in assets of MSEK 6,978 (as of Q3 6,350) and an increase in liabilities of MSEK 6,698 (as of Q3 6,244) from January 1, 2019. The difference is due to the land-used-rights in China that are prepaid and therefore not included as a liability. Volvo Car Group has decided to present the right-of-use asset as a part of property, plant and equipment and in Q3 2019 the right-of-use assets amounts MSEK 6,350. Please see specification below:

MSEK	Whereof right-of-use assets	Whereof adjustments to property, plant and equipment	Sept 30, 2019	Dec 31, 2018
Property, plant and equipment	6,350	2,829	70,388	61,208

The lease liabilities related to the leasing contracts are presented as other interest bearing liabilities, as non-current and current liabilities respectively.

Volvo Car Group has customer contracts related to the development of customer unique IP. Revenue is recognized as control over the customer unique IP has been transferred to the client. Revenue is recognized as control is transferred and this is made over time in accordance to the contractual terms between the parties. An input based method is applied as this depicts progress in the project. Up until the second quarter, expenses related to customer contracts were capitalised as intangible assets and then recognised as research and development expenses, when transferred to the customer. The change has not had any effect on either the balance sheet or the net result presented in this report.

NOTE 2 – Net revenue

Net revenue allocated to geographical regions:

MSEK	Q3 2019	Q3 2018	First nine months 2019	First nine months 2018	Full year 2018
China	16,737	13,531	43,911	40,243	54,653
US	8,335	8,956	28,366	28,410	39,366
Europe	29,095	25,267	92,303	84,719	121,671
of which Sweden	*5,730*	*4,503*	*18,362*	*19,107*	*28,034*
of which United Kingdom	*3,995*	*4,030*	*12,995*	*10,467*	*14,993*
of which Germany	*4,552*	*3,680*	*14,295*	*11,962*	*18,366*
Other markets	10,660	9,022	30,342	26,256	36,963
of which Japan	*1,949*	*1,433*	*5,708*	*4,492*	*6,593*
of which Russia	*850*	*869*	*2,469*	*2,368*	*3,554*
Total	**64,827**	**56,776**	**194,922**	**179,628**	**252,653**

Net revenue allocated to category:

MSEK	Q3 2019	Q3 2018	First nine months 2019	First nine months 2018	Full year 2018
Sales of new cars and related goods and services [1)]	59,659	52,423	179,895	167,540	233,130
Sales of used cars	3,781	3,529	11,014	9,550	13,808
Revenue from subscription, leasing and rental business	601	520	1,721	1,685	2,087
Sales of licenses	449	24	1,368	72	2,542
Other Net revenue [2)]	337	280	924	781	1,086
Total	**64,827**	**56,776**	**194,922**	**179,628**	**252,653**

1) Includes realised effect of cash flow hedge contracts amounting to MSEK –1,061 (–623 in the third quarter and MSEK –2,794 (–1,179) for the first nine months).
2) Other Net revenue mainly consists of income from financial services.

NOTE 3 – Fair value of financial instruments

Valuation principles for financial instruments as described in Volvo Car Group Annual Report 2018 Note 21 – Financial risks and financial instruments, have been consistently applied throughout the reporting period. The comparative figures in this note refer to December 31, 2018.

In Volvo Car Group's balance sheet, financial instruments reported at fair value through the income statement consist of derivatives, equity investments as well as commercial papers, see table 'Financial instruments recorded at fair value through the income statement' in this note. Fair value of financial instruments is established according to three levels, depending on market information available. All derivative financial instruments and commercial papers that Volvo Car Group holds as of September 30, 2019 belong to level 2. In level 3, the amount invested in other long-term securities holdings of MSEK 282 (190) is valued at cost, being the best approximate of fair value. No transfers between the levels of the fair value hierarchy have occurred. Valuation of financial instruments at fair value, belonging to level 2, is based on prevailing market data and on a discounting of estimated cash flows using the deposit/swap curve of the cash flow currency and include risk assumptions. For currency option instruments, the valuation is based on Black & Scholes formula. Fair value of commodity contracts is calculated by discounting the difference between the contracted forward price and the contracted forward price that can be obtained on the balance sheet date for the remaining contract period.

The total fair value of the derivative portfolio as of September 30, 2019, amounted to MSEK –7,585 (–2,235). The major part is related to cash flow hedging of currency risk. The table below shows the percentage of the forecasted cash flows that were hedged expressed in nominal terms and in Cash Flow at Risk (CFaR), which is the maximum loss at a 95 per cent confidence level in one year. The CFaR is based on the cash flow forecast, market volatility and correlations.

	0–24 months		25–48 months	
	Sept 30, 2019	Dec 31, 2018	Sept 30, 2019	Dec 31, 2018
Nominal hedge %	32	33	6	8
CFaR incl. hedges %	41	51	11	19

NOTE 3 – Fair value of financial instruments – continued

Financial instruments recorded at fair value through the income statement

MSEK	Sept 30, 2019	Dec 31, 2018
Other non-current assets		
Derivative assets	39	310
Other long-term securities holdings	282	190
Other current assets		
Derivative assets	398	906
Marketable securities		
Commercial papers	1,010	1,064
Cash and cash equivalents		
Commercial papers	—	1,088
Total assets	**1,729**	**3,558**
Other non-current liabilities		
Derivative liabilities	3,773	1,610
Other current liabilities		
Derivative liabilities	4,249	1,841
Total liabilities	**8,022**	**3,451**

For financial liabilities valued at amortised cost, reported as current and non-current liabilities to credit institutions and as bonds, the carrying amount totalled MSEK 32,399 (23,648), see table below.

Financial liabilities valued at amortised cost	Carrying amount	Fair value	Carrying amount	Fair value
MSEK	Sept 30, 2019		Dec 31, 2018	
Bonds and liabilities to credit institutions	32,399	33,393	23,648	23,687
Total	**32,399**	**33,393**	**23,648**	**23,687**

Carrying amount of financial liabilities recorded at amortised cost, as stated in the table above, includes the MEUR 500 bond issued in May 2016. Carrying amount of the bond is MSEK 5,361 (5,105). A fair value adjustment related to the interest component of the bond is included in the carrying amount of the bond. The fair value component of the carrying value amounts to MSEK 36 (14). Changes to fair value of the interest component of the bond is hedged through a fair value hedge by means of interest rate swaps. The interest rate component of the issued bond, level 2, is calculated by discounting the future coupon payments and face value of the bond, using the deposit/swap curve of the cash flow. The remaining bonds are recorded at amortised cost and are not subject to hedge accounting.

NOTE 4 – Related party transactions

Group companies entered into the following transactions with related parties which are not consolidated in the Group. The information in the table below includes all current assets and liabilities to related parties.

Sales of goods, services and other

MSEK	Q3 2019	Q3 2018	First nine months 2019	First nine months 2018	Full year 2018
Related companies [1) 3) 4)]	1,352	735	3,561	2,080	5,715
Associated companies and joint ventures [2)]	169	248	668	724	981

Purchases of goods, services and other

MSEK	Q3 2019	Q3 2018	First nine months 2019	First nine months 2018	Full year 2018
Related companies [1) 4)]	–188	–18	–861	–99	–217
Associated companies and joint ventures [2)]	–610	–409	–1,811	–1,308	–1,659

	Receivables		Payables	
	Sept 30, 2019	Dec 31, 2018	Sept 30, 2019	Dec 31, 2018
Related companies [1) 4)]	8,620	7,999	2,875	4,145
Associated companies and joint ventures [2)]	811	465	206	271

1) Related companies are companies within the Geely sphere of companies.
2) Associated companies and joint ventures are companies in which Volvo Car Group has a significant but not controlling influence, which generally is when Volvo Car Group holds between 20 and 50 per cent of the shares. Joint ventures within the Geely sphere of companies are reported as related companies.
3) License revenue represent a value of MSEK 429 (4) in the third quarter and MSEK 1,313 (14) for the first nine months, whereof a value of 429 (-) in the third quarter and MSEK 1,300 (-) for the first nine months refer to the Polestar Group
4) Transactions with Polestar and other joint ventures within the Geely sphere, are presented as Related companies.

Investments in Polestar Group, by Geely, amounted to MRMB 900 for the first nine months 2019. 50 per cent of these investments has had an effect on equity in Volvo Car Group.

GENERAL DEFINITIONS

Volvo Car Group and Volvo Cars
Volvo Car AB (publ.), Volvo Car Corporation and all its subsidiaries.

Volvo Car AB (publ.), with its registered office in Gothenburg, is majority owned (99 per cent) by Geely Sweden Holdings AB, owned by Shanghai Geely Zhaoyuan International Investment Co., Ltd., registered in Shanghai, China, ultimately owned by Zhejiang Geely Holding Group Ltd., registered in Hangzhou, China.

Volvo Car AB (publ.) holds shares in its subsidiary Volvo Car Corporation and provides the Group with certain financing solutions. Volvo Car AB (publ.) indirectly, through Volvo Car Corporation and its subsidiaries, operates in the automotive industry with business relating to the design, development, manufacturing, marketing and sales of cars and thereto related services. Volvo Car Group and its global operations are referred to as "Volvo Cars".

Joint venture companies
Joint ventures refer to companies in which Volvo Car Group, through contractual cooperation together with one or more parties, has a joint control over the operational and financial management.

Retail sales
Retail sales refers to sales to end customers (including a portion of cars used as customer loaner and demo cars) and is a relevant measure of the demand for Volvo Cars from an end customer point of view.

Wholesales
Wholesales refers to new car sales to dealers and other customers including rentals.

Europe
Europe is defined as EU28+EFTA.

Passenger cars
Passenger cars are vehicles with at least four wheels, used for the transport of passengers, and comprising no more than eight seats in addition to the driver's seat.

Electrified vehicles
Electrified vehicles are defined as plug-in hybrids and fully electric vehicles.

Agency personnel
Agency personnel is referred to as specific competence that is sourced externally and assigned to meet fluctuating business resource needs.

DEFINITIONS OF PERFORMANCE MEASURES

Performance measures disclosed in the interim report are those that are deemed to give a relevant view of Volvo Car Group's financial performance for a reader of the interim report. For a reconciliation of performance measures, refer to page 27.

Gross margin
Gross margin is Gross income as a percentage of Net revenue and represents the per cent of total Net revenue that Volvo Cars retains after incurring the direct costs associated with producing the goods and services sold.

EBIT
EBIT represents earnings before interest and taxes. EBIT is synonymous with operating income which measures the profit Volvo Car Group generates from its operations.

EBIT margin
EBIT margin is EBIT as a percentage of Net revenue and measures Volvo Car Group's operating efficiency.

EBITDA
EBITDA represents earnings before interest, taxes, depreciations and amortisation, and is another measurement of the operating performance. It measures the profit Volvo Car Group generate from its operations without effect from previous periods' capitalisation levels.

EBITDA margin
EBITDA margin is EBITDA in percentage of Net revenue.

Equity ratio
Total equity divided by total assets, is a measurement of Volvo Car Group's long-term solvency and financial leverage.

Net cash
Net cash is an indicator of Volvo Car Group's ability to meet its financial obligations. It is represented by cash and cash equivalents and marketable securities less liabilities to credit institutions, bonds and other interest-bearing non-current liabilities.

Liquidity
Liquidity consists of cash and cash equivalents, undrawn credit facilities and marketable securities.

RECONCILIATION TABLES OF PERFORMANCE MEASURES

Gross Margin	Q3 2019	Q3 2018	Sept 30, 2019	Sept 30, 2018	Full year 2018
Gross income in % of Net revenue	**18.9**	**19.1**	**18.9**	**19.7**	**19.5**

EBIT Margin	Q3 2019	Q3 2018	Sept 30, 2019	Sept 30, 2018	Full year 2018
Operating income (EBIT) in % of Net revenue	**5.4**	**3.2**	**4.6**	**5.4**	**5.6**

EBITDA/EBITDA Margin	Q3 2019	Q3 2018	Sept 30, 2019	Sept 30, 2018	Full year 2018
Operating income	3,492	1,838	9,011	9,680	14,185
Depreciation and amortisation of non-current assets	3,721	3,264	11,502	9,858	13,213
EBITDA	**7,213**	**5,102**	**20,513**	**19,538**	**27,398**
EBITDA in % of Net revenue	**11.1**	**9.0**	**10.5**	**10.9**	**10.8**

EQUITY RATIO	Sept 30, 2019	Dec 31, 2018
Total equity	59,532	61,251
Total assets	241,153	211,234
Equity in % total assets	**24.7**	**29.0**

NET CASH	Sept 30, 2019	Dec 31, 2018
Cash and cash equivalents	45,060	40,170
Marketable securities	1,790	1,577
Liabilities to credit institutions (non-current)	–6,247	–8,273
Bonds [1)]	–22,023	–13,186
Other interest-bearing non-current liabilities	–84	–84
Liabilities to credit institutions (current)	–4,093	–2,175
Net cash [2)]	**14,403**	**18,029**

1) The bonds are presented above at amortised cost. The MEUR 500 bond is recognised in the balance sheet with a fair value adjustment and the fair value component amounted to MSEK 36 (14).
2) The net cash calculation excludes financial liabilities related to the new leasing standard IFRS 16 amounting to MSEK –6,160.

LIQUIDITY	Sept 30, 2019	Dec 31, 2018
Cash and cash equivalents	45,060	40,170
Marketable securities	1,790	1,577
Undrawn credit facilities	13,905	13,328
Liquidity	**60,755**	**55,075**

The President and Chief Executive Officer certifies that the interim report gives a fair view of the performance of the business, position and income statements of Volvo Car AB (publ.) and Volvo Car Group, and describes the principal risks and uncertainties to which Volvo Car AB (publ.) and the Volvo Car Group is exposed.

Gothenburg October 23rd 2019

Håkan Samuelsson
Chief Executive

REVIEW REPORT

Volvo Car AB (publ.) org. nr 556810-8988

Introduction
We have reviewed the condensed interim financial information (interim report) of Volvo Car AB (publ.) as of September 30, 2019 and the nine-month period then ended. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review
We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

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

Gothenburg, October 23rd 2019

Deloitte AB

Jan Nilsson
Authorized Public Accountant

The Volvo Car Group interim report on the fourth quarter 2019 will be published on February 6th, 2020.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