

V O L V O



*Freedom to move
in a personal, sustainable
and safe way.*

VOLVO CAR GROUP
INTERIM REPORT THIRD QUARTER 2021

Volvo Cars showed strong revenue growth and profitability for the first nine months in spite of a challenging third quarter with temporary production halts impacting volumes.

JULY–SEPTEMBER 2021

- Strong demand and order intake.
- In addition to general semi-conductor shortage, new COVID-19 outbreaks in Southeast Asia affected our suppliers leading to temporary production halts in our plants. Production was approximately 50,000 cars lower compared with the same period in 2020.
- Retail sales decreased by 17% to 149.9 (181.2) thousand units.
- Revenue decreased by 7% to SEK 60.8 (65.8) bn, with positive mix effects and a strong price realisation countering the impact of lower volumes.
- EBIT margin was 5.5 (6.9)% supported by increasing share of high margin car models. Increased raw material cost impacted the margin.
- CO₂ emissions per car reduced by 8.0% compared with the 2018 level, in line with plan.
- Basic earnings per share was SEK 43.10 (54.30)¹⁾.
- Operating and investing cash flow was SEK –9.2 (10.2) bn mainly impacted by production halts.
- Volvo Cars' affiliate Polestar announced its intention to be listed in planned combination with Gores Guggenheim, implying an enterprise value of approximately USD 20bn.

SIGNIFICANT EVENTS AFTER THE PERIOD

- On 29 October, Volvo Cars welcomed over 200,000 new shareholders to Volvo Cars in an IPO on Nasdaq Stockholm. The IPO was substantially oversubscribed and raised SEK 20 bn, supporting Volvo Cars' fast transformation.
- Volvo Cars also entered into a framework agreement to acquire full ownership of the Taizhou (previously called Luqiao) manufacturing plant in China.
- Volvo Cars started production of its second fully electric model C40 Recharge in Ghent. This production facility will have an electric car production capacity of 135,000 units per year after summer 2022.

Current trading 30 November

- Strong demand continue to drive positive price realisation and mix.
- Supply still restrained but production has improved month by month since September. The supply of cars is still lower than demand.
- Preliminary figures for retail sales in November show sales volumes of about 52,000 cars, down compared with the same month last year due to lower production and build-up of in-transit inventory
- Full year outlook for 2021 remains.

1) Number of shares per 30 September 2021 was 51,138,794, including preference shares. For more information, refer to Note 7. Number of shares after IPO is 2,979,524,179.

VOLVO CAR GROUP

SEKbn unless otherwise stated	3 Months			9 Months			12 Months	
	Jul-Sep 2021	Jul-Sep 2020	Δ%	Jan-Sep 2021	Jan-Sep 2020	Δ%	LTM ⁴	FY2020
Retail sales, k units ³⁾	149.9	181.2	-17	530.6	451.1	18	741.2	705.5
Revenue	60.8	65.8	-7	202.0	177.5	14	287.3	262.8
Research and development expenses ¹⁾	-2.7	-3.3	-18	-9.8	-9.3	6	-11.9	-11.4
Operating income (EBIT) ²⁾	3.3	4.6	-27	16.6	3.6	363	21.5	8.5
Net income ¹⁾	2.3	3.3	-31	11.9	2.1	455	17.6	7.8
Basic earnings per share, SEK ^{1) 5)}	43.10	54.30	-21	206.74	18.29	1,030	302.61	114.15
EBITDA ²⁾	6.9	8.2	-16	27.9	15.0	85	36.0	23.0
Cash flow from operating activities ¹⁾	-2.2	15.6	-114	-1.2	12.1	-110	20.3	34.0
Cash flow from investing activities ¹⁾	-7.0	-5.3	32	-14.9	-14.6	2	-20.6	-20.6
Net cash ²⁾	12.1	21.4	-43	12.1	21.4	-43	12.1	35.2
Gross margin, % ²⁾	22.6	19.5	—	21.7	17.0	—	20.8	17.5
EBIT margin, % ²⁾	5.5	6.9	—	8.2	2.0	—	7.5	3.2
EBITDA margin, % ²⁾	11.4	12.5	—	13.8	8.5	—	12.5	8.7
Return on invested capital, ROIC, % ^{2) 6)}	N/A	N/A	—	N/A	N/A	—	18.1	8.4

1) IFRS measure.

2) Non-IFRS measure (alternative performance measure).

3) Non-financial operating metric.

4) Last twelve months.

5) Number of shares per 30 September 2021 was 51,138,794, including preference shares. For more information, refer to Note 7 – Earnings per share.
Number of shares after IPO is 2,979,524,179.

6) Based on EBIT last twelve months.

CEO Comment

When I joined industry colleagues and government representatives in Glasgow earlier this month to sign the Declaration on Zero Emission Cars and Vans at the UN climate conference COP26, it was to send one clear message: The time for action is now.

For Volvo Cars that means we aim to be the fastest transformer in our industry, become a fully electric carmaker by 2030 and a climate neutral company by 2040.

To get there we need concrete actions already today and that is why Volvo Cars has set its comprehensive fastest transformer strategy with clear mid-decade ambitions.

MID-DECADE AMBITIONS

- Sales of 1.2 million cars a year
 - Profit margin of 8–10 per cent
 - 40 per cent reduction of CO₂ full life cycle footprint per car
 - 50 per cent of sales will be fully electric cars
 - 50 per cent in-house software
 - 50 per cent of sales online
 - To be the employer of choice and preferred development partner
-

Looking at the first nine months we continued to grow both in terms of sales and revenue, even as a Covid-19 outbreak in Southeast Asia caused an industry-wide supply shortage which impacted our production and sales in the third quarter. Production was approximately 50,000 cars lower in the quarter compared with the same period in 2020, while sales in the period fell by approximately 30,000 cars as the drop in production volumes was compensated for by lowered inventory.

The supply situation has improved going into the fourth quarter, but the industry-wide shortage of semi-conductors is expected to remain a constraining factor.

Profitability in the third quarter was positively impacted by strong price realisation as demand was greater than supply and an increased share of SUVs and Recharge models compensated for lower volumes. This resulted in a considerably higher gross margin despite increased raw material costs.

Our electrification journey continues. Having delivered the first fully electric Volvo a year ago, fully electric cars represented 4 per cent of total sales in the third quarter, in line with our ramp-up plan. In October, we started production of our second pure electric car, the C40 Recharge, and we will increase annual capacity for fully electric cars in Ghent, Belgium and in Taizhou (previously called Luqiao), China, from approximately 15,000 cars today to at least 150,000 cars after summer 2022.



But electrification is not enough to reach our sustainability ambitions. We also need to reduce CO₂ emission across our entire operations to reduce the life cycle footprint per car. By the end of the third quarter we have reached a reduction in CO₂ emissions of 8.0 per cent per car compared with 2018. To further accelerate our carbon footprint reduction, we have introduced an internal carbon price of 1,000 SEK per tonne to be used in every investment decision across our business.

The fact that Volvo Cars has started this transformation journey is one of the reasons we could ring the bell in Stockholm on 29 October as the company listed its shares on Nasdaq Stockholm. We are especially pleased to welcome over 200,000 new shareholders, who invested a total of SEK 20 billion in our company and share our vision of the future. We will now focus on executing our plan and create value for all stakeholders.

Approaching year-end, I'm confident we will reach the outlook stated at the beginning of 2021.

Håkan Samuelsson
Chief Executive

Fastest transformer progress update

Our industry is changing, and we strive to lead that change. Our fastest transformer strategy ensures delivery on our mid-decade ambitions. The purpose of this section is to keep our stakeholders updated on this progress.

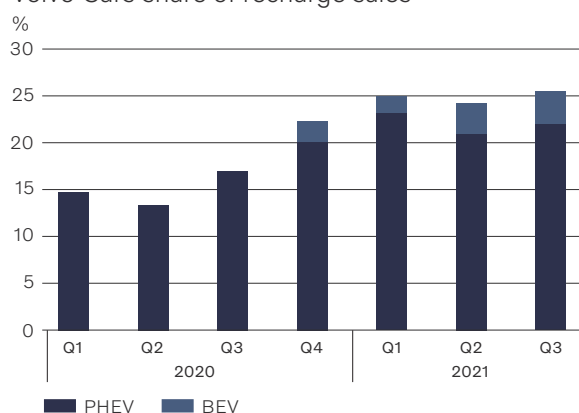
FAST GROWING PREMIUM BRAND

We aim to continue to be one of the fastest growing premium brands. We focus our efforts on growing volume and profitability whilst reducing CO₂.

Market positioning

Our ambition is to sell only fully electric cars, BEVs, in 2030. For 2021, the focus was to grow volumes of chargeable cars, being our PHEVs and BEVs. We managed to grow their share of sales quite substantially year-on-year supported by growing market demand and a prioritisation of the production of these cars in a situation with semiconductor shortages. Going forward, all our development and marketing efforts will be directed at driving sales of Recharge products. Within Recharge, the focus is to shift from PHEVs, having grown successfully in the last 3 years, towards BEVs, which will be the focus of our growth.

Volvo Cars share of recharge sales



Volvo Cars market share per propulsion type ¹⁾	Jan-Sep 2021	Jan-Sep 2020
BEV	0.55%	—
PHEV	9.01%	11.98%
ICE (incl. mild hybrids)	0.83%	0.88%
Total	1.02%	1.00%

1) Volvo Cars is and will continue to be positioned in the premium segment of the automotive market. As the market is transforming with electrification and digitisation the definition of premium is being redefined. To simplify follow up and avoid the risk of "defining away" important parts of our market, we will report our market share in relation to the total market until the premium segment can be more consistently defined.

Total industry volume share by propulsion type	Jan-Sep 2021	Growth YoY
BEV	5.4%	142%
PHEV	2.4%	126%
ICE including hybrids	92.2%	8%
Total	100%	13%

Future model portfolio

Making progress on developing the next generation cars is of utmost importance for electrifying our fleet as well as growing volume. During the third quarter, we have selected the design for the fully electric successor to our most sold car, the XC60. A car that will be launched mid-decade, and sold under a more personal name with future proof design of an electric SUV in the post SUV era, underpinned by our third generation of fully electric architecture.

Sustainability

One of the pillars of our sustainability strategy is to reduce our climate impact. Our mid-decade ambition is to reduce average CO₂ emissions per car by 40% compared with 2018. Activities include reductions in supply chain, increased share of electrification and introduction of interior materials made from bio-based and recycled sources.

CO ₂ reduction per car	Lifecycle CO ₂ emissions per car (tonnes)	Reduction (%)
2018	55.5 t	—
2021 Jan-Sep	51.0 t	-8.0
2025 ambition	33.3 t	-40
2040 ambition	0 t	-100

Volvo Cars proudly joined industry and government leaders to sign the Glasgow Declaration on Zero Emission Cars and Vans at the UN climate change conference COP26.

In Europe, we reached an average CO₂ fleet tailpipe emission of 113 g/km compared with our legal target of 133 g/km, by the end of the third quarter. A direct effect of our electrification focus.

FULL ELECTRIFICATION

We will be fully electric by 2030. Focusing on full electrification only, expanding portfolio, building competences in key areas such as batteries and E-propulsion through vertical integration are parts of our strategy to become successful.

Volvo Cars starts production of C40 Recharge

In October, Volvo Cars started production of the C40 Recharge in Ghent, an electric only crossover, and Volvo Cars second fully electric model.

Ramping up our capacity for electric vehicles

We are currently ramping up our capacity for fully electric vehicles, XC40 and C40, including supplier and assembly capacities for our plants in Ghent and Taizhou. The ramp-up will be executed in steps towards an annual capacity of at least 150,000 units after summer 2022.

Volvo Cars and Geely created Aurobay

Volvo Cars and Geely Holding completed the creation of Aurobay, a company where Volvo Cars has a minority ownership. The new company will be a global supplier of complete powertrain solutions including next generation combustion engines, transmissions, and hybrid solutions.

The creation of a separate company with Geely Holding as the majority owner, and an independent management, means that Volvo Cars can focus its resources including management, development, and operations on full electrification.

Launch of improved plug-in hybrid powertrain

PHEVs are the stepping stone towards full electrification, and longer range leads to more pure electric drive. Volvo Cars has introduced a new, improved Recharge plug-in hybrid powertrain on all cars except XC40, thus almost doubling real world electric driving range whilst lowering CO₂ emissions, increasing performance, and improving drivability. Volvo Cars' consumers are using the PHEVs as intended, with charged electricity for 40% of the energy consumption. We expect this to further increase with the extended range and improved drivability.

LEADER IN NEW TECHNOLOGY

We have the ambition to lead technology development in strategic areas such as Safety, Electrification, Connectivity and Central compute. We do this by building in-house competence and through smart partnerships.

Over-The-Air (OTA) updates

With OTA, we can deliver customer value remotely over the lifecycle of the car, and it will also be an enabler for future revenue streams. During the quarter, Volvo Cars continued its roll-out of enabling full OTA updates on our new cars. The fleet of cars where OTA is currently being conducted now includes XC40 Recharge, C40 Recharge and the XC60.

DIRECT CONSUMER RELATIONS

Through our online and direct to consumer efforts, we want to be present where the customers are and to build lasting customer relations, built on transparent pricing, less complex offerings, and digitalised and hassle-free sales and distribution.

Care by Volvo and subscriptions

Care by Volvo is our new way to address the market via subscription, bringing simplicity and transparency to consumers whilst lowering the threshold of driving electric. Care by Volvo subscriptions are offered through online sales in six markets; Germany, the Netherlands, Norway, Sweden, the UK and the US. The growth is strong.

Transformation of the retailer network

Driving direct sales involves transforming the retailer network into an agent-based model, and is currently being implemented in the five European markets listed above. This is a gradual process where we seek mutual understanding of the positive effects in competitiveness that come from working together with digitalisation. An important achievement this quarter was the announcement of Volvo Cars' principal agreement with Bilia, the largest retail group in Sweden, on renewed cooperation based on joint ambitions for the Volvo Cars brand. The agreement supports our transformation process towards delivering an omni-channel experience better supporting consumer expectations.

FASTEST TRANSFORMER WAY OF WORKING

We aim to transform faster than others in the industry by having a focused strategy, an empowered effective organisation with a culture of being open to change and partnerships within and beyond the Geely ecosystem.

Volvo Cars now listed on NASDAQ Stockholm

On 29 October, Volvo Cars welcomed over 200,000 new shareholders who subscribed to its Initial Public Offering. The IPO raised gross proceeds of SEK 20 bn, supporting Volvo Cars' fast transformation.

In certain countries, we were able to offer employees a guaranteed allocation of shares, whereas in many countries we were limited by legal restrictions. Approximately 8,000 employees, or 24% of those eligible signed up for an allocation, which is a sign of high engagement and support of our plans.

Volvo and Geely to invest in future car model

Sharing of technologies is key and allows us to be faster in launching new models. In July, we entered two agreements within Geely, for the development and manufacturing of our future electric small SUV based on the SEA architecture.

ECARX as a strategic partner for new technology

During the quarter, ECARX, a tech company within the Geely ecosystem, invested into Zenseact, a Volvo Cars subsidiary developing autonomous driving (AD) software. The companies plan to accelerate technology deployment in China across the Geely group of brands and beyond. In addition, Volvo Cars and ECARX established a new company called Holeytek with the aim to further develop and commercialise the infotainment system used in Volvo and Polestar cars.

Third quarter financial summary

SALES AND MARKET DEVELOPMENT

The passenger car market declined despite strong customer demand and increased interest in electrified cars. The decline was due to supply constraints from the ongoing global semiconductor shortage, which worsened in the third quarter due to a Covid-19 pandemic outbreak in Southeast Asia.

The imbalance between supply and demand made us prioritise production towards high margin models and recharge car lines. The shortage of cars led to stronger price realisation and improved profitability.

Retail sales decreased by 17% compared with a 23% decrease in wholesale and 31% in production. This indicates that some production volume loss was compensated for by inventory reductions.

Europe

The European market decreased by 23% in the third quarter. The traditional premium segment had even stronger headwinds and decreased by 24%. The decline in sales was largely caused by lack of vehicle supply.

Volvo Cars continued to meet strong customer demand and order intake. The average delivery time increased significantly, and retail sales declined by 31%. On a positive note, the recharge line-up cars reached 45 (32)% share of European retail sales and Care By Volvo showed steady growth.

China

The Chinese passenger car market was also impacted by global supply chain constraints, since the market is dependent on cars in stock for immediate sale and delivery. The total market dropped by 8% and the traditional premium car market by 14%.

Volvo Cars' retail sales in China decreased by 21%. Sales of Recharge line-up cars increased to 8 (3)% of total retail sales.

US

The US car market decreased by 12% in the third quarter, whereas the traditional premium part of import car brands declined by 6%. Due to the imbalance between supply and demand for new cars, dealer incentive levels fell to their lowest levels in a decade.

Volvo Cars' retail sales increased by 4%. Sales of Recharge line-up cars saw a three-fold increase to 19 (5)% of total retail sales and Care by Volvo showed steady growth.

Other

Retail sales in Volvo Cars' other markets increased by 5%. The top three countries in terms of sales were Japan, Korea and Canada, which reported growth of 4%, 52%, and 5% respectively.

Sales of the Recharge line-up cars in Volvo Cars' other markets increased to 20 (12)% of total retail sales.

Sales development per carline

Demand for the SUV carlines (the XC40, XC60 and XC90 models), as well as the recharge line up continued to be strong. Volvo Cars optimised its stock management to meet the demand and the production was focused on SUV carlines and the Recharge line-up.

The SUVs share of retail sales increased to 76 (71)% and the Recharge line up increased by 25% and corresponded to 26% of total retail volumes.

The XC60 reclaimed its position as the best-selling model and surpassed the XC40. Sales of the XC90 increased by 12%.

In October, we started production of the second fully electric model C40 Recharge. At the time of publication, there was a strong order intake for the car.

Retail sales (k units)	3 Months			9 Months			12 Months	
	Jul-Sep 2021	Jul-Sep 2020	Δ%	Jan-Sep 2021	Jan-Sep 2020	Δ%	LTM	FY2020
Europe	53.5	77.1	-31	220.4	200.3	10	308.3	288.3
China	37.4	47.5	-21	132.6	113.3	17	185.9	166.6
US	31.6	30.3	4	95.4	73.6	30	131.9	110.1
Other	27.4	26.2	5	82.4	63.9	29	115.1	96.7
Retail sales total	149.9	181.1	-17	530.6	451.1	18	741.2	661.7
Recharge line-up vehicles	38.3	30.7	25	132.1	68.4	93	179.1	115.4
Recharge line-up share of sales	26%	17%	—	25%	15%	—	24%	17%
Wholesales	128.3	166.3	-23	485.2	444.3	9	703.5	662.6
Production volume	111.0	160.7	-31	467.2	451.3	4	674.4	658.5



Top 10 Retail sales by market (k units)	3 Months			9 Months			12 Months	
	Jul-Sep 2021	Jul-Sep 2020	Δ%	Jan-Sep 2021	Jan-Sep 2020	Δ%	LTM	FY2020
China	37.4	47.5	-21	132.6	113.3	17	185.9	166.6
US	31.6	30.3	4	95.4	73.6	30	131.9	110.1
UK	9.3	14.5	-36	36.4	32.3	13	50.6	46.5
Germany	9.0	11.2	-20	31.4	32.2	-2	46.1	46.9
Sweden	6.7	13.2	-49	36.8	37.6	-2	52.9	53.7
Japan	4.0	3.8	4	12.4	11.3	10	16.7	15.5
Italy	3.6	5.6	-35	15.7	12.1	30	21.3	17.7
Korea	3.6	2.3	52	11.2	8.8	28	15.3	12.9
France	3.3	4.6	-29	13.5	11.5	17	18.5	16.5
Spain	3.3	4.4	-25	10.8	9.6	13	15.4	14.2

Retail sales by model (k units)	3 Months			9 Months			12 Months	
	Jul-Sep 2021	Jul-Sep 2020	Δ%	Jan-Sep 2021	Jan-Sep 2020	Δ%	LTM	FY2020
XC60	49.1	52.3	-6	162.6	131.1	24	223.2	191.7
XC40 ICE/PHEV	33.4	53.5	-38	141.5	121.9	16	200.3	180.0
XC40 BEV	5.4	—	100	16.4	—	100	20.1	4.7
XC90	26.2	23.4	12	80.4	61.3	31	111.5	92.5
V60	11.2	16.8	-33	42.4	48.1	-12	59.2	46.0
S90	10.6	13.1	-19	36.3	31.5	15	50.8	64.9
S60	9.8	14.4	-32	36.1	34.9	3	53.5	52.3
V90	4.2	6.9	-39	15.8	19.3	-18	22.2	25.6
V40	0.0	0.7	-100	0.0	3.0	-100	0.0	3.4
Total	149.9	181.1	-17	530.6	451.1	18	741.2	661.7

V60, S60, V90 and V40 include the cross-country versions.

INCOME AND RESULT

The supply chain constraints and lost production volumes led to a decrease in revenue of –7% to SEK 60.8 (65.8) bn. Wholesale volumes decreased by 23% to 128.3 (166.3) thousand cars. The negative effect of the volume drop was partly offset by positive mix effects of SEK 4.1 bn and increased other revenue of SEK 0.3 bn. The exchange rate effect including hedges had a negative effect of SEK –0.5 bn.

Gross income increased by 7% to SEK 13.7 (12.9) bn, resulting in a gross margin of 23 (20)%. The increase in gross margin was mainly supported by strong price realisation and positive mix effects, offset by increased raw material prices. Furthermore, the gross margin was positively affected by repayment of import duties in the US, through an offset against imported cars, as well as positive development of residual values and decreased warranty expenses. Foreign exchange rate effects including hedges in cost of sales were positive and amounted to SEK 0.7 bn. The net effect of foreign exchange rates including hedges in gross income was SEK 0.2 bn.

Research and development expenses decreased to SEK –2.7 (–3.3) bn, mainly due to time-phasing of projects which led to a higher degree of capitalisation. For details regarding research and development expenses, see the Research and Development table on page 11.

Administrative expenses increased to SEK –2.5 (–1.8) bn, reflecting higher personnel expenses and an increase in bought services, mainly related to digital tools.

Selling expenses increased to SEK –4.8 (–3.6) bn mainly due to that advertising and sales promotion expenses returned to normal after unusually low levels in 2020 as an effect of the Covid-19 situation.

Other operating income and expenses, net, increased to SEK 0.6 (—) bn, mainly due to a positive exchange rate effect of SEK 0.5 bn on operating assets and liabilities. Share of income in joint ventures and associates decreased to SEK –1.0 (0.4) bn, due to negative results from investments in companies in a development phase, such as Polestar.

Operating income (EBIT) decreased to SEK 3.3 (4.6) bn, resulting in an EBIT margin of 5.5 (6.9)%. Operating income was impacted by lower volumes, but also positively affected by higher profitability per car. The exchange rate effects including hedges had a positive effect of SEK 0.6 bn. See the table below.

Net financial items amounted to SEK –0.2 (–0.3) bn, mainly driven by market revaluation of the investment in Luminar of SEK –0.3 bn, offset by positive exchange rate effects of SEK 0.2 bn.

The effective tax rate increased to 26 (21)%, mainly due to negative results from shares in joint ventures.

Net income amounted to SEK 2.3 (3.3) bn. Net income in relation to revenue was 4 (5)%. Basic earnings per share amounted to SEK 43.10 (54.30).

Non-recurring items affecting Operating income, SEKbn	Jul–Sep 2021	Jul–Sep 2020
Share of income, Zenuity	—	0.7
Total	—	0.7

Changes to Revenue	Jul–Sep
Revenue in 2020	65.8
Volume	–8.9
Sales mix and pricing	4.1
Foreign exchange rates	–0.5
Other ¹⁾	0.3
Revenue 2021	60.8
Change %	–7

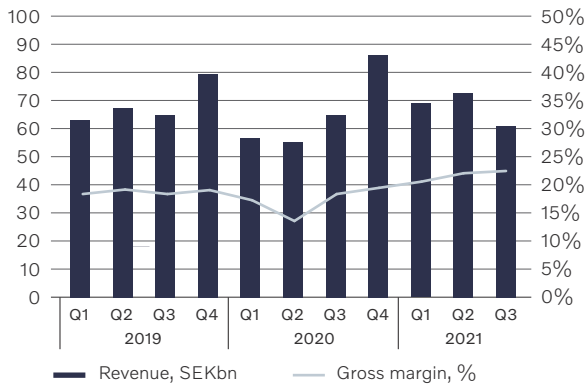
1) Including licenses, used cars, parts and accessories.

Changes to Operating income	Jul–Sep
EBIT in 2020	4.6
Volume	–2.2
Sales mix and pricing	2.6
Government grants	–0.3
Foreign exchange rates	0.6
Non-recurring items affecting Operating income	–0.7
Other ²⁾	–1.3
EBIT 2021	3.3
Change %	–27

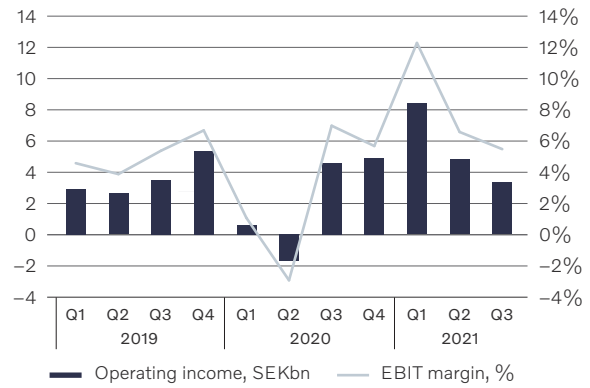
2) Including licenses, used cars, parts and accessories, raw material increases and cost efficiencies.

VOLVO CAR GROUP

Revenue & Gross Margin



Operating Income & EBIT Margin



CASH FLOW

Total cash and cash equivalents, including marketable securities, decreased to SEK 41.4 (69.7) bn. Net cash decreased to SEK 12.1 (35.2) bn. Liquidity amounted to SEK 54.6 (94.4) bn, including undrawn credit facilities of SEK 13.2 (24.7) bn.

Cash flow from operating activities

The supply strains and production halts led to a negative cash flow from operating activities of SEK –2.6 (15.6) bn. The disturbances in production generated a negative cash flow from accounts payable of SEK –10.4 (6.4) bn and other working capital assets/liabilities of SEK –3.7 (0.5) bn. Further, provisions were negatively affected by SEK –1.3 (0.3) bn and contract liabilities were negatively affected by SEK –0.5 (0.7) bn. The negative effects were partly offset by the strong demand, as the lower inventory generated a positive cash flow of SEK 4.8 (0.2) bn. Cash flow from accounts receivable was positive with SEK 2.6 (0.6) bn.

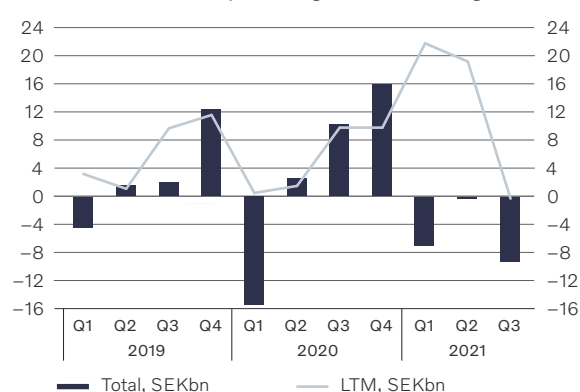
Cash flow from investing activities

We continued to invest in the transformation into a fully electric car company. Cash flow from investing activities amounted to SEK –6.6 (–5.3) bn. Investments in property, plant and equipment amounted to SEK –2.2 (–1.9) bn and were mainly driven by investments in facilities and tooling for increased capacity of Recharge cars. Investments in intangible assets amounted to SEK –2.9 (–2.2) bn driven by continuous investments in new and upcoming car models and technology related to electrification and autonomous driving. Investments in shares and participations amounted to SEK –2.3 (0.1) bn, related to the additional investment in Polestar.

Cash flow from financing activities

Cash flow from financing activities amounted to –3.6 (–0.2) bn, mainly due to paid dividend of SEK –5.1 (—) bn, partly offset by ECARX investments of SEK 0.9 (—) bn in Zenseact and SEK 0.4 (—) bn in HayleyTek.

Cash flow from Operating and investing activities



Research and development, SEKbn	3 Months			9 Months		
	Jul-Sep 2021	Jul-Sep 2020	Δ%	Jan-Sep 2021	Jan-Sep 2020	Δ%
Research and development spending	-4.4	-3.7	19	-13.7	-11.0	25
Capitalised development costs	2.6	1.4	86	7.4	5.3	40
Amortisation of research and development	-0.9	-1.0	-10	-3.5	-3.6	-3
Research and development expenses	-2.7	-3.3	-18	-9.8	-9.3	5

Cash flow statement, SEKbn	3 Months		9 Months	
	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020
Cash flow from operating activities	-2.6	15.6	-1.5	12.1
Cash flow from investing activities	-6.6	-5.3	-14.6	-14.6
Cash flow from operating and investing activities	-9.2	10.2	-16.1	-2.6
Cash flow from financing activities	-3.6	-0.2	-11.1	3.9
Cash flow for the period	-12.8	10.0	-27.2	1.4

First Nine Months 2021

INCOME AND RESULT

Volvo Cars' revenue increased by 14% to SEK 202.0 (177.5) bn. Wholesale volumes increased by 9% to 485.2 (444.3) thousand cars.

All major regions reported volume growth and revenue was further supported by mix effects, with a continuously increasing share of XC-models and Recharge line cars.

Gross income increased by 46% to SEK 43.8 (30.1) bn, resulting in a gross margin of 22 (17)%. The increase in gross margin was mainly supported by positive carline mix effects.

Operating Income (EBIT) increased to SEK 16.6 (3.6) bn, resulting in an EBIT margin of 8.2 (2.0)%. The increased EBIT was mainly a result of the significant growth in sales volumes and the favourable mix, together with repayment of import duties, as well as the positive effects from the dividend from Zenuity and the private placement in Polestar. Positive effects were partly offset by the net effect of foreign exchange rates including hedges of SEK -0.7 bn. For a summary of items affecting comparability, see the table below.

Net financial items decreased to SEK -1.5 (-0.7) bn, mainly driven by the market revaluation of the investment in Luminar of SEK -1.0 (—) bn. The effective tax rate decreased to 21 (26)%, mainly due to increased share of income in joint ventures, from Polestar and Zenuity, that are non-taxable.

Net income was SEK 11.9 (2.1) bn. Net income in relation to revenue was 6 (1)%. Basic earnings per share amounted to SEK 206.74 (18.29).

Non-recurring items affecting operating income SEKbn	Jan-Sep 2021	Jan-Sep 2020
Share of income, Zenuity	1.2	0.7
Valuation effect in connection with the private placement in Polestar Automotive Holding Ltd	2.0	—
Governmental support related to Covid-19	0.1	1.1
Recall and restructuring cost	—	-1.7
Total	3.3	0.1

Changes to Revenue (SEKbn)	Jan-Sep
Revenue in 2020	177.5
Volume	17.5
Sales mix and pricing	13.1
Foreign exchange rates	-9.5
Other ¹⁾	3.4
Revenue 2021	202.0
Change %	14%

1) Including used cars, parts and accessories, and licenses.

CASH FLOW

Total cash and cash equivalents, including marketable securities, decreased to SEK 41.4 (69.7) bn. Net cash decreased to SEK 12.1 (35.2) bn. Liquidity amounted to SEK 54.6 (94.4) bn, including undrawn credit facilities of SEK 13.2 (24.7) bn.

Cash flow from operating activities was negative and amounted to SEK -1.5 (12.1) bn, mainly due to the negative development in working capital of SEK -24.4 (-2.5) bn.

Volvo Cars continued to invest in the transformation into a fully electric car company and cash flow from investing activities amounted to SEK -14.6 (-14.6) bn.

Cash flow from financing activities was negative and amounted to SEK -11.0 (4.0) bn, mainly related to paid dividend of SEK -10.0 (—) bn to the owner and a scheduled repayment of the bond of SEK -5.1 (—) bn issued in 2016.

EQUITY

Total equity increased to SEK 71.9 (70.4) bn, resulting in an equity ratio of 30 (27)%. The change is attributable to the positive net income of SEK 11.9 bn and a positive effect in other comprehensive income of SEK 3.7 bn as well as capital contribution of SEK 1.3 bn from non-controlling interests, offset by dividends of SEK -15.4 bn to shareholders.

EMPLOYEES

During the first nine months, Volvo Car Group employed 40.4 (37.2) thousand full-time employees (FTEs) and 3.7 (3.3) thousand agency personnel. The lower FTEs number in 2020 reflects temporary layoffs during the second quarter of 2020.

Adjusting for the layoff effect, Volvo Cars had 41.6 thousand full-time employees in 2020. The actual FTEs reduction in 2021 was attributable to the competence shift and structural cost reduction.

Changes to Operating income (SEKbn)	Jan-Sep
EBIT in 2020	3.6
Volume	3.7
Sales mix and pricing	6.3
Government grants	-0.4
Foreign exchange rates	-0.7
Non-recurring items affecting Operating income	3.2
Other ²⁾	0.9
EBIT 2021	16.6
Change %	363%

2) Including used cars, licenses, parts and accessories, raw material increases and cost efficiencies.

Other Information

OUTLOOK FOR THE FULL YEAR 2021

We anticipate continued growth in sales volume and revenue, as we benefit from a strong product offering and further increases in online sales. Assuming market conditions continue to normalise, this growth, as well as continued cost management, are anticipated to improve profitability to pre-pandemic levels.

FORWARD LOOKING STATEMENTS

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.

PARENT COMPANY

The parent company does not conduct any operations and has no employees. The income statements and balance sheets for the parent company are presented on Page 20.

RISKS AND UNCERTAINTY FACTORS

Risks are part of all daily business activities as is risk mitigation. To ensure that Volvo Cars is able to achieve short- and long-term objectives, enterprise risk management is part of daily activities at Volvo Cars. For a more in-depth description of risks related to Volvo Cars, see the Volvo Car Group Annual Report 2020 page 52.

Global shortage of semi-conductors

The global shortage of semiconductors during the first nine months led to temporary production halts in all manufacturing plants in China, the United States, Belgium, Sweden and Malaysia, all differing in duration and extent. The production halts resulted in loss of production volumes. However, high demand, global shortage with extremely low inventory levels and our ability to adjust production plans had positive effects on our revenue and profitability. This is because we were able to steer production to more expensive SUV carlines and Recharge line-up. The global shortage is expected to continue for the rest of 2021, and also in 2022. This increases uncertainty and the risk of further disturbances in production. Volvo Cars will continue to follow developments closely and take actions accordingly. To what extent Volvo Cars' sales, revenue and profitability will be affected in coming periods remains uncertain.

Covid-19

The Covid-19 pandemic continued to have an impact on people's lives in the third quarter. Restrictions are, however, easing in societies where vaccination programmes have been rolled out. This said, there are still challenges in regions with low vaccination levels and there are risks of more outbreaks as new strains keep developing.

Volvo Cars has seen supply chain constraints due to Covid-19 outbreaks in Southeast Asia. Production was affected as a chain reaction. Volvo Cars remain cautious of potential new outbreaks.



Consolidated Income Statements

SEKm	Note	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full Year 2020
Revenue	2	60,838	65,763	201,969	177,522	262,833
Cost of sales		-47,101	-52,913	-158,121	-147,393	-216,813
Gross income		13,737	12,850	43,848	30,129	46,020
Research and development expenses		-2,689	-3,299	-9,837	-9,277	-11,362
Selling expenses		-4,802	-3,572	-13,772	-10,629	-15,710
Administrative expenses		-2,516	-1,840	-6,128	-6,071	-8,539
Other operating income		1,019	728	2,894	1,981	2,362
Other operating expenses		-433	-721	-1,447	-2,188	-3,903
Share of income in joint ventures and associates		-987	422	1,009	-366	-352
Operating income/(loss)		3,329	4,568	16,567	3,579	8,516
Financial income	3	429	71	814	458	2,618
Financial expenses		-666	-420	-2,312	-1,135	-1,588
Income/(loss) before tax		3,092	4,219	15,069	2,902	9,546
Income tax		-800	-899	-3,150	-753	-1,758
Net income/(loss)		2,292	3,320	11,919	2,149	7,788
Net income/(loss) attributable to						
Owners of the parent company		2,187	2,746	10,431	1,009	5,834
Non-controlling interests		105	574	1,488	1,140	1,954
Basic earnings per share (SEK)	7	43.10	54.30	206.74	18.29	114.15
Diluted earnings per share (SEK)	7	42.77	53.70	203.97	18.29	114.08

Consolidated Comprehensive Income

SEKm	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full Year 2020
Net income/(loss) for the period	2,292	3,320	11,919	2,149	7,788
Other comprehensive income					
<i>Items that will not be reclassified subsequently to income statement:</i>					
Remeasurements of provisions for post-employment benefits ¹⁾	-137	-573	2,561	-1,421	-992
Tax on items that will not be reclassified to income statement	21	123	-536	306	212
<i>Items that may be reclassified subsequently to income statement:</i>					
Translation difference on foreign operations	908	-30	2,846	-700	-3,401
Translation difference of hedge instruments of net investments in foreign operations	-64	42	-162	32	368
Change in fair value of cash flow hedge related to currency and commodity price risks	-19	1,153	-1,572	1,631	2,862
Currency and commodity risk hedge contracts recycled to income statement	45	772	323	2,491	3,156
Tax on items that may be reclassified to income statement	7	-405	289	-855	-1,318
Other comprehensive income, net of income tax	761	1,082	3,749	1,484	887
Total comprehensive income/(loss) for the period	3,053	4,402	15,668	3,633	8,675
Total comprehensive income/(loss) attributable to					
Owners of the parent company	2,790	3,777	13,356	2,576	7,430
Non-controlling interests	263	625	2,312	1,057	1,245
	3,053	4,402	15,668	3,633	8,675

1) Included in the change of provisions for post-employment benefits full year 2020 is an adjustment due to changes in actuarial calculation method related to the Swedish ITP2 plan amounting to SEK -473 m.

Consolidated Balance Sheets

SEKm	Note	30 Sep 2021	31 Dec 2020
ASSETS			
Non-current assets			
Intangible assets		41,381	37,168
Property, plant and equipment		57,808	57,453
Assets held under operating leases		7,085	4,490
Investments in joint ventures and associates		8,906	9,997
Other long-term securities holdings	3	1,479	2,449
Deferred tax assets		6,952	7,164
Other non-current assets	3	6,095	4,758
Total non-current assets		129,706	123,479
Current assets			
Inventories		36,105	35,513
Accounts receivable	4	15,118	14,776
Current tax assets		1,496	886
Other current assets	3	11,592	10,130
Marketable securities	3	5,003	8,087
Cash and cash equivalents	3	36,403	61,592
Assets held for sale	6	3,567	7,849
Total current assets		109,284	138,833
TOTAL ASSETS		238,990	262,312
EQUITY & LIABILITIES			
Equity			
Equity attributable to owners of the parent company		67,632	59,412
Non-controlling interests		4,239	11,006
Total equity		71,871	70,418
Non-current liabilities			
Provisions for post-employment benefits		12,232	14,187
Deferred tax liabilities		2,387	1,044
Other non-current provisions		8,617	8,155
Liabilities to credit institutions		2,698	5,882
Bonds, non-current		18,182	20,950
Non-current contract liabilities to customers		5,689	5,630
Other non-current interest-bearing liabilities		5,065	4,815
Other non-current liabilities		6,586	4,877
Total non-current liabilities		61,456	65,540
Current liabilities			
Current provisions		8,111	8,530
Liabilities to credit institutions		5,452	2,512
Bonds, current		2,998	5,017
Current contract liabilities to customers		19,384	21,842
Accounts payable	4	31,572	46,635
Current tax liabilities		627	1,486
Other current interest-bearing liabilities		1,318	1,160
Other current liabilities	3, 4	35,026	37,423
Liabilities held for sale	6	1,175	1,749
Total current liabilities		105,663	126,354
TOTAL EQUITY & LIABILITIES		238,990	262,312

Consolidated Statement of Changes in Equity

SEKm	30 Sep 2021	31 Dec 2020
Opening balance	70,418	63,648
Net income for the period	11,919	7,788
Other comprehensive income, net of income tax	3,749	887
Total comprehensive income	15,668	8,675
Transactions with owners		
Shareholder transaction in joint venture under common control ¹⁾	—	-1,901
Capital contribution from non-controlling interests ²⁾	1,267	—
Divestment of non-controlling interests	-65	—
Dividend to shareholders ³⁾	-15,417	-4
Transactions with owners	-14,215	-1,905
Closing balance	71,871	70,418
Attributable to		
Owners of the parent company	67,632	59,412
Non-controlling interests	4,239	11,006
Closing balance	71,871	70,418

1) Refers to the effect of Geely Holding's divestment in Polestar Automotive (Shanghai) Co., Ltd., see Note 4 – Related party transactions.

2) Refers to the capital contribution from ECARX Technology Limited to Zenseact AB and HaleyTek AB, see Note 4 – Related party transactions.

3) Dividends to shareholders include dividends to the main shareholder of SEK -5,530 (—) m, non-controlling interest of SEK -9,708 (-4) m and preference shareholders of SEK -179 (—) m. For more information, see Note 4 – Related party transactions.

Consolidated Statement of Cash Flows

SEKm	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full Year 2020
OPERATING ACTIVITIES					
Operating income/(loss)	3,329	4,568	16,567	3,579	8,516
Depreciation and amortisation of non-current assets	3,608	3,649	11,288	11,457	14,449
Interest and similar items received	98	111	439	360	550
Interest and similar items paid	-134	-133	-842	-790	-1,268
Other financial items	-7	-44	-674	-345	-437
Income tax paid	-978	-770	-3,391	-2,481	-2,856
Adjustments for other non-cash items	-31	-481	-501	2,762	3,989
	5,885	6,900	22,886	14,542	22,943
Movements in working capital					
Change in inventories	4,779	179	1,754	-3,843	-454
Change in accounts receivable	2,636	588	1,516	-619	-2,137
Change in accounts payable	-10,442	6,385	-18,012	362	5,183
Change in provisions	-1,268	318	-1,141	-1,634	-303
Change in contract liabilities to customers	-501	677	-1,188	1,615	3,872
Change in other working capital assets/liabilities	-3,679	509	-7,359	1,660	4,848
Cash flow from movements in working capital	-8,475	8,656	-24,430	-2,459	11,009
Cash flow from operating activities	-2,590	15,556	-1,544	12,083	33,952
INVESTING ACTIVITIES					
Investments in shares and participations, net ¹⁾	-2,348	71	-821	-97	-4,125
Loans to affiliated companies	—	-1,803	—	-1,803	—
Repayment of loans from affiliated companies	—	—	—	—	1,251
Dividend received from joint ventures and associates	704	326	1,991	333	333
Investments in intangible assets	-2,826	-2,139	-8,174	-6,357	-8,574
Investments in tangible assets	-2,178	-1,861	-7,651	-6,969	-9,986
Disposal of tangible assets	11	91	73	248	431
Cash flow from investing activities	-6,637	-5,315	-14,582	-14,645	-20,670
Cash flow from operating and investing activities	-9,227	10,241	-16,126	-2,562	13,282
FINANCING ACTIVITIES					
Proceeds from credit institutions	125	194	1,577	4,897	5,011
Proceeds from bond issuance	—	—	—	—	5,209
New share issue	907	—	907	—	—
Received shareholders contribution	360	—	360	—	—
Repayment of bond	—	—	-5,065	—	—
Repayment of liabilities to credit institutions	-369	-448	-1,727	-3,500	-4,612
Repayment of interest bearing liabilities	-388	-322	-1,065	-1,002	-1,350
Dividend paid to shareholders and/or minority owners ²⁾	-5,102	-4	-9,969	-4	-4
Investments in marketable securities, net ³⁾	200	524	3,331	3,589	-4,692
Other ⁴⁾	658	-185	585	-34	-396
Cash flow from financing activities	-3,609	-241	-11,066	3,946	-834
Cash flow for the period	-12,836	10,000	-27,192	1,384	12,448
Cash and cash equivalents at beginning of period	48,450	43,288	61,592	51,997	51,997
Exchange difference on cash and cash equivalents	789	-216	2,003	-309	-2,853
Cash and cash equivalents at end of period	36,403	53,072	36,403	53,072	61,592

1) For Jul-Sep investments amounted to SEK -2,348 (-34) m and capital repayments from Joint ventures amounted to SEK — (105) m. For Jan-Sep investments amounted to SEK -953 (-446) m and capital repayments from Joint ventures amounted to SEK 132 (349) m.

2) For further information, see Consolidated statement of Changes in Equity on page 18.

3) For Jul-Sep new investments amounted to SEK -1,653 (—) m and matured investments amounted to SEK 1,853 (524) m. For Jan-Sep new investments amounted to SEK -8,080 (-524) m and matured investments amounted to SEK 11,411 (4,113) m.

4) For Jul-Sep Other is attributable to realised result from financial instruments of SEK 662 (-189) m and change in Other non-current liabilities of SEK -5 (4) m. For Jan-Sep Other is attributable to realised result from financial instruments of SEK 624 (-29) m and change in Other non-current liabilities of SEK -39 (-5) m.

Condensed Parent Company Income Statements

SEKm	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full Year 2020
Administrative expenses	-4	-4	-12	-13	-17
Operating income	-4	-4	-12	-13	-17
Financial income	309	197	718	520	730
Financial expenses	-157	-171	-612	-475	-707
Income before tax	148	22	94	32	6
Income tax	3	-4	5	-8	-11
Net income	151	18	99	24	-5

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

Condensed Parent Company Balance Sheets

SEKm	30 Sep 2021	31 Dec 2020
ASSETS		
Non-current assets	33,548	40,314
Current assets	2,726	5,956
TOTAL ASSETS	36,274	46,270
EQUITY & LIABILITIES		
Equity		
Restricted equity	51	51
Non-restricted equity	10,717	15,822
Total equity	10,768	15,873
Non-current liabilities	18,182	24,950
Current liabilities	7,324	5,447
Total liabilities	25,506	30,397
TOTAL EQUITY & LIABILITIES	36,274	46,270

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 Financial 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 in this report are, in all material aspects, consistent with those described in Volvo Car Group's Annual Report 2020 (available at www.volvocars.com).

The IASB has published amendments to standards effective on or after 1 January 2021. These additions have not had any significant impact on the financial statements.

Earnings per share

Basic earnings per share is calculated as net income attributable to owners of the parent company divided by the weighted average number of ordinary shares outstanding during the period, where net income is reduced by preference dividends for preference shares, which are cumulative, and required for the period whether or not the dividends have been declared. Diluted earnings per share is calculated on an "if-converted" basis in respect of the preference shares, which are convertible into ordinary shares. The preference dividends deducted in basic earnings per share are added back and the number of ordinary shares that would be attributable to the preference shares on conversion are added into the denominator. However, such adjustment is made only when it would decrease earnings per share. If it would increase earnings per share, the preference shares are considered anti-dilutive and are not included in diluted earnings per share.

All outstanding share-related incentive programmes are cash-settled, with no option or substantive option to settle in equity instruments, meaning that they do not contain any dilutive features.

NOTE 2 – Revenue

Revenue allocated to geographical regions:

SEKm	Jul–Sep 2021	Jul–Sep 2020	Jan–Sep 2021	Jan–Sep 2020	Full year 2020
China	12,638	17,294	46,973	41,576	61,236
US	13,404	9,909	37,175	26,402	40,581
Europe ¹⁾	24,086	28,454	84,886	83,240	121,904
of which Sweden	5,185	5,905	19,075	18,171	25,546
of which Germany	4,019	3,822	11,491	12,773	18,319
of which United Kingdom	3,772	4,145	11,006	11,092	15,866
Other markets	10,710	10,106	32,935	26,304	39,112
of which Japan	1,630	1,801	5,363	5,556	7,345
of which South Korea	1,264	683	4,351	3,279	5,059
Total	60,838	65,763	201,969	177,522	262,833

Revenue allocated to category:

SEKm	Jul–Sep 2021	Jul–Sep 2020	Jan–Sep 2021	Jan–Sep 2020	Full year 2020
Sales of products and related goods and services	53,615	59,768	182,944	161,714	239,563
Sales of used cars	5,437	4,587	14,045	11,372	16,288
Revenue from subscription, leasing and rental business	1,065	562	2,583	1,988	2,706
Sales of licences and royalties	412	481	1,168	1,481	2,068
Other revenue	309	365	1,229	967	2,208 ²⁾
Total	60,838	65,763	201,969	177,522	262,833

1) Europe is defined as EU28+EFTA.

2) Including effects of CO₂ credits.

NOTE 3 – Fair value of financial instruments

Valuation principles for financial instruments, as described in the Volvo Car Group Annual Report 2020, Note 20 – Financial risks and financial instruments, have been applied consistently throughout the reporting period. The comparative figures in this note refer to 31 December 2020.

In Volvo Car Group's balance sheet, financial instruments are recognised at fair value through profit or loss:

- Derivatives (including warrants),
 - Holdings of equity investments (including earn-out share rights) and
 - Commercial papers.
- (see table 'Financial instruments recorded at fair value through the income statement' in this note.)

The fair value of financial instruments is established according to three levels, depending on market information available and included in the valuation.

- Level 1: Instruments are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Instruments are valued based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Instruments are valued based on unobservable inputs for the asset or liability.

Financial instruments recorded at fair value through the income statement

30 Sep 2021 (SEKm)	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows		904		904
Derivative instruments for hedging of currency risk related to financial assets and liabilities		265		265
Derivative instruments for hedging of interest rate risk	—	10	—	10
Commodity derivatives	—	90	—	90
Commercial papers ¹⁾	—	206	—	206
Other long-term securities holdings	669	—	810	1,479
Total assets	669	1,475	810	2,954
Derivative instruments for hedging of currency risk in future commercial cash flows	—	1,647	—	1,647
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	66	—	66
Derivative instruments for hedging of interest rate risk	—	22	—	22
Total liabilities	—	1,735	—	1,735
31 Dec 2020 (SEKm)	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows	—	1,907	—	1,907
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	4	—	4
Derivative instruments for hedging of interest rate risk	—	42	—	42
Commodity derivatives	—	42	—	42
Commercial papers ¹⁾	—	1,526	—	1,526
Other long-term securities holdings	1,208	—	1,241	2,449
Total assets	1,208	3,521	1,241	5,970
Derivative instruments for hedging of currency risk in future commercial cash flows	—	1,341	—	1,341
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	634	—	634
Commodity derivatives	—	30	—	30
Total liabilities	—	2,005	—	2,005

1) Includes SEK — (750) m reported as marketable securities and SEK 206 (776) m reported as cash and cash equivalents.

NOTE 3 – Fair value of financial instruments – continued

Most derivative financial instruments and commercial papers that Volvo Car Group holds as of 30 September 2021 belong to level 2. Fair value measurement of financial instruments belonging to level 2 is based on prevailing observable market data and on a discounting of estimated cash flows using the deposit/swap curve of the cash flow currency and includes risk assumptions. For currency option instruments, the valuation is based on the 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 level 2 financial derivative portfolio as of 30 September 2021 amounted to SEK –466 (–10) m. The majority is related to cash flow hedging of currency risk. The table below shows the percentage of the forecast 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, FX rates, market volatility and correlations.

	0–12 months		13–24 months		25–48 months	
	30 Sep 2021	31 Dec 2020	30 Sep 2021	31 Dec 2020	30 Sep 2021	31 Dec 2020
Nominal hedge %	50	50	16	19	—	1
CFaR incl. hedges %	47	41	16	13	—	1

Amounts invested in other long-term securities holdings totalled SEK 1,479 (2,449) m, with SEK 669 (1,208) m of the holdings categorised as level 1 financial instruments and SEK 810 (1,241) m as level 3. The most substantial level 3 investment is that of share warrants in the listed company Luminar. The valuation of these instruments is based on whether and when Volvo Car Group will fulfil the contractual terms. The assessed risk-free interest rates have been determined at 0.1 per cent and 0.8 per cent. Volatility of the underlying share price has been determined at 101 per cent.

There are also traditional holdings of equity instruments in Luminar. The Luminar shares were listed in December 2020. Before the listing, the equity holdings in Luminar were categorised as a level 3 instrument but are now level 1. Transfers between the levels of the fair value hierarchy have occurred during the period for received earn-outs shares of a total amount of SEK 74 m. The fair value of share warrants and earn-out share rights in the level 3 categorised financial instruments as of 30 September, 2021 amounted to SEK 375 (874) m and the financial impact of the same instruments recognised in the income statement is SEK –425 (—) m. The share warrants are, as of 30 September, 2021 deep in the money with a strike price well under the current list price. The total fair value change amounted to SEK –1,039 (—) m.

There are also other holdings of non-listed equity instruments that are categorised as level 3 and they are valued at fair value when there is information available indicating that the value has changed, for example if there has been a transaction in the instrument during the period.

A sensitivity analysis of level 3 share warrants is presented in the table below. The base valuation is based on an assumed volatility of 101 per cent and a start value of SEK 373 m.

Sensitivity analysis for warrants (SEKm)

Volatility	Likelihood of triggering event				
	–10%	–5%	0%	5%	10%
80%	313	337	360	384	407
90%	319	343	367	390	414
101%	325	349	373	398	422
110%	329	354	379	404	428
120%	334	359	384	409	434

NOTE 3 – Fair value of financial instruments – continued**Financial liabilities valued at amortised cost**

SEKm	30 Sep 2021		31 Dec 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds and liabilities to credit institutions	29,330	30,398	34,361	35,252
Total	29,330	30,398	34,361	35,252

The carrying amount of financial liabilities, reported as current and non-current liabilities to credit institutions and as bonds, recognised at amortised cost, is stated in the table above. These financial liabilities include, on 31 December 2020, the EUR 500 m fixed interest rate bond issued in May 2016. The bond matured on 18 May 2021. The carrying amount of the bond on 31 December 2020 was SEK 5,017 m. Volvo Car Group had hedged the fixed interest rate bond into a variable interest bond, hence a part of the bond was adjusted for value changes in the hedged risk amounting to SEK 7 m on 31 December 2020 and the remaining part was valued at amortised cost. Interest rate swaps were used as hedge instruments and the fair value of these instruments was recognised in the income statement, neutralising the effect of the fair value adjustment on the bond. The fair value of part of the bond was calculated applying a level 2 method, which is discounting the future interest coupon payments and the face value of the bond, using the deposit/swap curve of the cash flow, without considering the credit risk as the hedged risk was interest.

NOTE 4 – Related party transactions

Volvo Car Group has a close collaboration with its related parties. The main part of the transactions relate to sales of components, licenses and technology, and purchase of cars. Related parties include companies outside the Volvo Car Group, but within the Geely sphere of companies as well as other companies, such as associates and joint ventures. All transactions with related parties are performed on commercial terms.

Significant transactions and agreements with Related parties during the first nine months

- In January, Geely Holding divested in Polestar Automotive (Shanghai) Co., Ltd. following an agreement signed in December 2020. The company was consequently converted into a wholly-owned subsidiary of Volvo Cars (China) Investment Co., Ltd. The transaction had no impact on the Group balance sheet, other than a reclassification of shares in joint ventures of SEK 1,882 m to Cash.
- Zenuity AB, the joint venture between Volvo Car Group and Veoneer Sweden AB, distributed dividend of SEK 1,175 (326)m to its shareholders. Since the investment value of Zenuity AB was zero, the dividend was recognised as share of income in Volvo Car Group.
- In March, Polestar Automotive Holding Ltd Group raised USD 550 m in external capital from long-term financial investors. The private placement was conducted through newly issued shares and diluted Volvo Cars ownership in Polestar. The valuation effects in connection with the transaction amounted to SEK 2,039 m and were recognised as income from shares in joint ventures and associates.
- Lynk & Co Investment Co., Ltd, the joint venture between Volvo Car Group, Zhejiang Jirun Automobile Co., Ltd and Zhejiang Haoqing Automobile Manufacturing Co., Ltd, paid dividend to its shareholders, including SEK 703 (—) m to Volvo Car Group. Furthermore, the joint venture Volvofinans Bank AB paid a dividend of SEK 107 (—) m to its shareholders Volvo Car Group and AB Volverkinvest.
- Volvo Car AB (publ.) distributed dividend of SEK 179 (—) m to the preference shareholders and SEK 5,979 m to the shareholder Geely Sweden Holdings AB. The dividend to Geely Sweden Holdings AB was settled 30 June, through distribution of the entire shareholding in Powertrain Engineering Sweden AB and Powertrain Engineering Sweden Real Estate AB, with a net effect in Equity of SEK 5,530 m, due to that the fair value of the shares was higher than their carrying amount. Furthermore, a dividend of SEK 4,130 (—) m was distributed to the shareholder Zhejiang Geely Holding Group Co., Ltd. by the 50 per cent owned Chinese subsidiary Daqing Volvo Car Manufacturing Co., Ltd.
- In July, Volvo Cars signed an agreement with PSD Investment Ltd to acquire a smaller part of their shares in Polestar Automotive Holding Ltd. Following the agreement, PSD Investment Ltd sold 7.3 per cent of its shares to Volvo Cars, which increased Volvo Cars share in Polestar from 46.1 per cent to 49.5 per cent. The transaction did not have any effect on Volvo Cars' share of voting power in Polestar Automotive Holding Ltd.
- In July, ECARX Technology Limited, a related company with the same ultimate shareholder as Volvo Cars, but outside the Geely sphere of companies, acquired 15 per cent of the shareholding in Zenseact AB through a directed share issue. The consideration amounted to SEK 907 m.
- In July, Volvo Cars and Geely Holding entered into an agreement with the intention for Volvo Cars to acquire the remaining shareholding of the already fully consolidated "Chinese Operations," i.e. the non-controlling interest in the manufacturing plants in Daqing and Chengdu, as well as the R&D centre in Shanghai. The completion of these transactions is subject to regulatory approvals in China, and closing is expected during 2022–2023.
- In September, Volvo Cars and ECARX Technology Limited, jointly established the company HaleyTek AB, with the aim to further develop and commercialise the infotainment system used in Volvo and Polestar cars. Based on Volvo Cars' 60 per cent ownership Haleytek is a consolidated subsidiary in the Group and ECARX Technology Limited has a non-controlling interest of 40 per cent of the company. The capital contribution from ECARX Technology Limited to HaleyTek AB amounted to SEK 360 m.
- During the third quarter, dividends of SEK 5,560 (—) m were distributed to the shareholder Zhejiang Geely Holding Group Co., Ltd, whereof SEK 5,068 m from the 50 per cent owned Chinese subsidiary Daqing Volvo Car Manufacturing Co., Ltd. and SEK 492 m from the 50 per cent owned Chinese subsidiary Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd.

NOTE 4 – Related party transactions – continued

Tables of transactions with Related Parties

The information presented below includes all assets and liabilities regarding related parties. All assets and liabilities are current except non-current assets of SEK 1,196 (694) m. For further details refer to section *Specification of transactions with Related Parties*.

Sales of goods, services and other

SEKm	Jul–Sep 2021	Jul–Sep 2020	Jan–Sep 2021	Jan–Sep 2020	Full year 2020
Related companies ^{1) 2) 3) 4)}	1,397	1,491	4,072	3,558	5,131
Associated companies and joint ventures	377	319	1,084	970	1,303

Purchases of goods, services and other

SEKm	Jul–Sep 2021	Jul–Sep 2020	Jan–Sep 2021	Jan–Sep 2020	Full year 2020
Related companies ^{1) 2) 3) 4)}	–3,807	–2,011	–7,637	–3,965	–7,085
Associated companies and joint ventures	–442	–576	–1,296	–1,814	–2,363

SEKm	Receivables		Payables	
	30 Sep 2021	31 Dec 2020	30 Sep 2021	31 Dec 2020
Related companies ^{1) 2) 3) 4)}	10,623	9,248	4,286	5,486
Associated companies and joint ventures	1,113	518	356	1,202

- 1) Related companies are companies within the Geely sphere of companies. Joint ventures within the Geely sphere are presented as Related companies.
- 2) Revenue from sale of licenses and technology in the third quarter amounted to SEK 406 (332) m and SEK 1,128 (1,231) m during the first nine months.
- 3) The increase in receivables is primarily related to Polestar and the increase in purchases is primarily related to Powertrain Engineering Sweden AB.
- 4) The comparative number related to transactions with Polestar up until mid-September 2020 refers to the Polestar Shanghai Group and transactions thereafter refer to the Polestar Automotive Holding Ltd Group.

Specification of transactions with Related Parties

The Polestar Group

Volvo Car Group recognised revenue of SEK 263 (328) m in the third quarter and SEK 956 (1,186) m for the first nine months related to the sale of technology licenses and development of technology to the Polestar Automotive Holding Ltd Group. The sale of other services, recognised as other income, amounted to SEK 146 (112) m in the third quarter and SEK 354 (388) m for the first nine months. Volvo Car Group sold patents for SEK — (—) m in the third quarter and SEK 153 (—) m in the first nine months, which has been recognised as other income. Volvo Car Group's purchases amounted to SEK –44 (–96) m in the third quarter and SEK –176 (–239) m in the first nine months and are related to a performance enhancement product provided to the end customers. The purchases have been recognised as cost of sales.

Taizhou (previously called Luqiao)

Volvo Car Group has an agreement with Asia-Europe Automobile Manufacturing (Taizhou) Co., Ltd, "the Luqiao plant", related to the production of the new range of smaller 40-series CMA-based cars, like the XC40. Taizhou (previously called Luqiao) is owned by Zhejiang Geely Holding Group Co., Ltd, but is operated by Volvo Car Group. The support service for operating Taizhou has resulted in other income of SEK 70 (113) m in the third quarter and SEK 226 (274) m for the first nine months. Volvo Car Group has also sold engines to the plant for its production of CMA-based vehicles. The sales have been recognised as revenue of SEK 285 (334) m in the third quarter and SEK 648 (597) m for the first nine months. Volvo Car Group's purchases of cars from Taizhou amounted to SEK –751 (–1,277) m in the third quarter and SEK –2,769 (–2,579) m for the first nine months and have been recognised as cost of sales. Furthermore, Volvo Car Group provided machinery to the plant through a leasing agreement, which resulted in a non-current asset of SEK 1,121 (694) m.

Ningbo

Volvo Car Group has several agreements with Ningbo Geely Automobile Research & Development Co., Ltd for research and development of technology of future cars. Volvo Car Group also has an agreement with Ningbo UMD Automobile Transmission Co., Ltd. related to purchase of gearboxes for PHEV XC40 plug-in hybrid cars as well as an agreement related to sale of fleet cars to Ningbo Fuhong Auto Sales Co Ltd. The purchase of research and development services from Ningbo amounted to SEK –220 (—) m in the third quarter and SEK –612 (—) m for the first nine months, whereof SEK — (—) m in the third quarter and SEK –290 (—) m for the first nine months has been expensed as research and development costs and SEK –220 (—) m in the third quarter and SEK –322 (—) m in the first nine months has been capitalised as intangible assets. The purchase of gearboxes amounted to SEK –135 (–209) m in the third quarter and SEK –614 (–452) m in the first nine months and has been recognised as cost of sales. The sale of fleet cars amounted to SEK 114 (282) m in the third quarter and SEK 702 (369) m in the first nine months and has been recognised as revenue.

NOTE 4 – Related party transactions – continued

China-Euro Vehicle Technology AB (CEVT)

Volvo Car Group holds a cost sharing agreement with China-Euro Vehicle Technology AB and Ningbo Geely Automobile Research & Development Co., Ltd regarding development of technology for the CMA platform, where CEVT is the administrator in the cost sharing project. During 2021 the agreement was amended to include technology updates of the CMA platform to be able to use it for future cars. Total purchases from CEVT amounted to SEK — (–1) m in the third quarter and SEK –339 (–37) m in the first nine months whereof SEK — (–1) m in the third quarter and SEK –315 (–36) m in the first nine months has been capitalised as intangible assets.

Powertrain Engineering Sweden AB (PES)

As full ownership was transferred to Geely Sweden Holdings AB, Powertrain Engineering Sweden AB is since 30 June, 2021 a related company to Volvo Cars. The intention is that PES will be owned by the newly established company Zhejiang Aurobay Intelligent Technology Co., Ltd and hence remain a related company. Volvo Cars has several agreements with PES relating to purchases and development of combustion engines. Due to the change in ownership in June 2021, the transactions below cover both the third quarter isolated and the first nine months since PES was a subsidiary within Volvo Car Group up until 30 June 2021. Purchases from Powertrain Engineering Sweden AB amounted to SEK –2,171 (—) m and were related to combustion engines and product development. The purchase of combustion engines amounted to SEK –1,828 (—) m and has mainly been recognised as cost of sales. The purchase of development amounted to SEK –343 (—) m, whereof SEK –189 (—) m has been capitalised as product development and SEK –154 (—) m has been recognised as research and development expenses.

NOTE 5 – Business combinations

Acquisition of Real estate companies Sörred

On 1 September 2021, Volvo Car Group, through one of its wholly owned subsidiaries, Volvo Car Corporation, acquired by way of appropriation 100 per cent of the shares in Fastighetsbolag Sörred 7:24 AB¹⁾ and Fastighetsbolag Sörred 8:11 AB. The acquired real estate companies own land and office buildings. The acquisition is part of Volvo Car Group's long-term strategic decision to own its strategic facilities.

SEKm	2021
Purchase price	
Purchase consideration	202
Total cost of the acquisition	202
Acquired assets and liabilities at fair value	
Tangible assets	294
Current tax assets	1
Other current assets	1
Deferred tax liabilities	-2
Current liabilities	-92
Total fair value of net assets	202
Goodwill	—
Cash effect of business combination	
Purchase consideration	-202
Repayment of debt	-90
Acquired cash and cash equivalents	—
Change in cash and cash equivalents due to acquisitions	-292

1) Name changed to Volvo Car Real Estate and Assets 7:24 AB

Acquisition-related costs for 2021 amounted to SEK 2 m and have been reported as administrative expenses in the income statement. There were no contingent liabilities or collateral pledges arising from the acquisition. The acquisition is conditional on Volvo Car Corporation signing a 10-year lease agreement with the seller to lease another property within the area.

The acquired business contributed revenue of SEK 0 m and a net profit of SEK 4 m for the period from 1 September to 30 September 2021.

The total cost of combination and fair values has been determined provisionally and the acquisition analyses may be subject to adjustment during a twelve-month period.

Adoption of preliminary acquisition analysis

An acquisition analysis is preliminary until adopted which must take place within 12 months from the acquisition. The preliminary acquisition analysis recognised for Zenuity AB and Zenuity Software Technology (Shanghai) Co., Ltd were adopted in 2021.

Information regarding acquisitions in the first six months 2021 are available in Volvo Cars' Interim report first six months 2021.

NOTE 6 – Assets and liabilities held for sale

Assets and liabilities held for sale, net, amounted to SEK 2,392 m and are related to the remaining part of the combustion engine operations, carried out in Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. As of 30 September 2021, there are no indications of impairment. No translation differences have been recognised in other comprehensive income related to the reclassified assets and liabilities held for sale. The sale is expected to be completed within coming months and the buyer is the newly created company Zhejiang Aurobay Intelligent Technology Co., Ltd, in which Volvo Cars has a minority ownership. For more information, see the section *Full Electrification* on page 6.

NOTE 7 – Earnings per share

Basic earnings per share (SEKm)	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full year 2020
Net income attributable to owners of the parent company	2,187	2,746	10,431	1,009	5,834
Preference share returns relating to the period	-32	-31	-94	-94	-126
Net income attributable to owners of ordinary shares in the parent company	2,155	2,715	10,337	915	5,708
Weighted average number of ordinary shares outstanding, undiluted	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Basic earnings per share (SEK)	43.10	54.30	206.74	18.29	114.15

Diluted earnings per share ¹⁾ (SEKm)	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full Year 2020
Net income in basic earnings per share	2,155	2,715	10,337	915	5,708
If preference shares had been converted, no preference yield had accrued	32	31	94	94	126
Net income in diluted earnings per share	2,187	2,746	10,431	1,009	5,834
Weighted average number of ordinary shares outstanding, diluted	51,138,794	51,138,794	51,138,794	51,138,794	51,138,794
Diluted earnings per share (SEK)	42.77	53.70	203.97	18.29	114.08

1) Calculation of diluted earnings per share is made for the period/periods for which the preference share not are considered anti-dilutive. If considered, anti-dilutive the diluted earnings per shares equals basic earnings per share. For the first nine months 2020 preference share are considered anti-dilutive hence diluted earnings per share equals basic earnings per share.

NOTE 8 – Significant events after the period

IPO

On 18 October 2021, Volvo Cars' prospectus for its initial public offering on Nasdaq Stockholm was published with an offering of B shares traded under the ticker VOLCAR B. On 29 October 2021, Volvo Cars' B shares were listed on Nasdaq Stockholm with a price per share set at SEK 53. The new issue of 377,358,490 common shares of class B raised gross proceeds of SEK 20 bn as funding to Volvo Cars' fastest transformer strategy and delivery of the company's mid-decade ambitions.

Moody's changes outlook to positive and affirms Ba1 rating

In November after the IPO and the yearly review, Moody's Investors Service published a changed outlook on the ratings of Volvo Cars to positive from stable. Concurrently, Moody's has affirmed Volvo Cars' Ba1 corporate family rating (CFR), its Ba1-PD probability of default rating and its Ba1 senior unsecured instrument ratings.

Volvo Cars to acquire Taizhou (previously called Luqiao)

On 12 October 2021, Volvo Cars and Geely Holding entered into a framework agreement for Volvo Cars to acquire 100% of the shares in Asia-euro Automobile Manufacture (Taizhou) Co., Ltd. (previously called Luqiao). Closing of the transaction is expected during the fourth quarter of 2021. The agreement also includes an option for Volvo Cars to acquire the leased land and building from Zhejiang Jingang Automobile Co., Ltd. The plant produces the new range of smaller 40-series CMA-based cars.

GENERAL DEFINITIONS

Volvo Car Group and Volvo Cars

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

Volvo Car AB (publ.), with its registered office in Gothenburg, was, 30 September 2021, to the majority owned (97.8 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".

Associated companies

Associated companies 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 venture companies

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

Retail sales

Retail sales refer 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 refer to new car sales to dealers and other customers including rentals.

Europe

Europe is defined as EU+EFTA+UK.

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.

Rechargeable 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.

Alternative performance measures presented by Volvo Car Group

The alternative performance measures presented and disclosed in this interim report are used internally by management in conjunction with IFRS measures to measure performance and make decisions regarding the future direction of the business. The Group believes that these alternative performance measures, when provided in combination with reported IFRS measures, provide helpful supplementary information for investors. These alternative performance measures are not a substitute for or superior to IFRS measures and should be used in conjunction with reported IFRS measures. Further, these alternative performance measures, as defined by the Group, may not be comparable to other similarly titled measures used by other groups.

Gross margin

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

EBIT

EBIT is defined as Net income excluding financial income, financial expenses and Income taxes, that is operating income presented in the income statement. EBIT presents the operating income of Volvo Car Group.

EBIT margin

EBIT margin is defined as EBIT as a percentage of revenue. The EBIT margin presents the profitability of the operation in relation to the recognised revenue earned by Volvo Car Group during the accounting period.

EBITDA

EBITDA is defined as EBIT excluding depreciation and amortisation of non-current assets. EBITDA presents an overview of the profitability of Volvo Car Group operations.

EBITDA margin

EBITDA margin is EBITDA as a percentage of revenue. The EBITDA margin presents the profitability of the operation in relation to the recognised revenue earned by the Group during the accounting period.

Return on invested capital, ROIC

ROIC is defined as EBIT divided by invested capital. Return on invested capital ratio gives an overview of how efficient Volvo Car Group is at allocating capital to profitable investments. Invested capital is the amount of net assets needed in day to day operations (total assets less receivables on parent company less other long-term securities holding less cash and cash equivalents less marketable securities plus operating cash (average two-year revenue*10 per cent) less total current liabilities less current liabilities to parent company plus total current interest-bearing liabilities (including liabilities to credit institutions, bonds current, other current interest bearing liabilities) calculated on two-year average figures.

Equity ratio

The equity ratio is defined as total equity divided by total assets in the balance sheet. This measures the Volvo Car Group's long-term solvency and financial leverage level.

Net cash

Net cash is defined as cash, cash equivalents and marketable securities less liabilities to credit institutions, bonds and other interest-bearing non-current liabilities (excluding non-current lease liabilities). Net cash represents Volvo Car Group's ability to meet its financial obligations.

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES

	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full year 2020
Revenue	60,838	65,763	201,969	177,522	262,833
Cost of Sales	-47,101	-52,913	-158,121	-147,393	-216,813
Research and development expenses	-2,689	-3,299	-9,837	-9,277	-11,362
Operating income, EBIT	3,329	4,568	16,567	3,579	8,516
Net income	2,292	3,320	11,919	2,149	7,788
EBITDA	6,937	8,217	27,855	15,036	22,965
EBIT margin %	5.5	6.9	8.2	2.0	3.2
EBITDA margin %	11.4	12.5	13.8	8.5	8.7
Gross margin %	22.6	19.5	21.7	17.0	17.5
Equity ratio %	30.1	27.1	30.1	27.1	26.8
Net cash	12,076	21,357	12,076	21,357	35,241
Return on invested capital, ROIC %	N/A	N/A	N/A	N/A	8.4

VOLVO CAR GROUP

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES, CONTINUED

Operating income, EBIT/EBIT margin, %	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full year 2020
Operating income, EBIT	3,329	4,568	16,567	3,579	8,516
Revenue	60,838	65,763	201,969	177,522	262,833
EBIT margin %	5.5	6.9	8.2	2.0	3.2
EBITDA/EBITDA margin, %	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full year 2020
Operating income, EBIT	3,329	4,568	16,567	3,579	8,516
Depreciation and amortisation of non-current assets	3,608	3,649	11,288	11,457	14,449
EBITDA	6,937	8,217	27,855	15,036	22,965
Revenue	60,838	65,763	201,969	177,522	262,833
EBITDA margin %	11.4	12.5	13.8	8.5	8.7
Gross margin, %	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Full year 2020
Gross income	13,737	12,850	43,848	30,129	46,020
Revenue	60,838	65,763	201,969	177,522	262,833
Gross margin %	22.6	19.5	21.7	17.0	17.5
Operating cash, SEKm					Full year 2020
Average two-year revenue* 10%					26,848
Operating cash					26,848
Invested capital ¹⁾					Full year 2020
Total assets					252,840
Receivables from parent company					-27
Other long-term securities holdings					-1,373
Cash and cash equivalents					-56,795
Marketable securities					-5,803
Operating cash					26,848
Total current liabilities					-121,168
Current liabilities to parent company					—
Total current interest-bearing liabilities					6,934
Total invested capital					101,457
1) Calculated on two-year average figures.					
Return on invested capital, ROIC, %					Full year 2020
EBIT (last twelve months)					8,516
Invested capital					101,457
Return on invested capital, ROIC, %					8.4
Equity ratio				30 Sep 2021	31 Dec 2020
Total equity				71,871	70,418
Total assets				238,990	262,312
Equity ratio, %				30.1	26.8

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES, CONTINUED

	30 Sep 2021	31 Dec 2020
Net cash		
Cash and cash equivalents	36,403	61,592
Marketable securities	5,003	8,087
Liabilities to credit institutions (non-current)	-2,698	-5,882
Bonds (non-current)	-18,182	-20,950
Other interest-bearing non-current liabilities ²⁾	—	-84
Liabilities to credit institutions (current)	-5,452	-2,512
Bonds (current) ¹⁾	-2,998	-5,010
Net cash²⁾	12,076	35,241

1) The bonds are presented above at amortised cost. The EUR 500 m fixed interest rate bond issued in May 2016 (matured in May 2021), was hedged into a variable interest rate bond, hence a part of the bond was valued at fair value through the income statement and the remaining part was valued at amortised cost. On 31 December 2020 the fair value component amounted to SEK 7 m.

2) The net cash calculation excludes current SEK -1,318 (-1,160) m and non-current SEK -5,065 (-4,731) m financial liabilities related to IFRS 16.

Other measures presented by Volvo Car Group

Other measures presented and disclosed in this interim report are used internally by management. The Group believes that these measures provide helpful supplementary information for investors. The measures are not a substitute for or superior to the Alternative performance measures or IFRS measures and should be used in conjunction with reported Alternative performance measures and IFRS measures. Further, the measures, as defined by the Group, may not be comparable to other similarly titled measures used by other groups.

Liquidity

Liquidity is defined as cash, cash equivalents, undrawn credit facilities and marketable securities.

	30 Sep 2021	31 Dec 2020
Liquidity		
Cash and cash equivalents	36,403	61,592
Undrawn credit facilities	13,204	24,700
Marketable securities	5,003	8,087
Liquidity	54,610	94,379

VOLVO CAR GROUP

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, 30 November 2021

Håkan Samuelsson
Chief Executive

This report has not been subject to review by Volvo Car AB's auditors.

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FINANCIAL CALENDAR & CONFERENCE CALL

Webcast and conference call

At 11:30 CET on 30 November, Volvo Cars will host a webcast for investors, analysts and financial media. The report will be presented by CEO Håkan Samuelsson and CFO Björn Annwall.

Link: live.volvocars.com

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Upcoming investor Events

11 February, 2022: Q4 2021 report
28 April, 2022: Q1 2022 report
11 May, 2022: AGM Gothenburg, Sweden
20 July, 2022: Q2 2022 report
27 October, 2022: Q3 2022 report

ABOUT THIS REPORT

Language

In the event of inconsistency or discrepancy between the English and the Swedish version of this publication, the Swedish version shall prevail.

Totals and roundings

Totals quoted in tables and statements may not always be the exact sum of the individual items because of rounding differences. The aim is that each line item should correspond to its source, and rounding differences may therefore arise.

V O L V O

