

V O L V O

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



## **VOLVO CAR GROUP**

INTERIM REPORT FOURTH QUARTER AND FULL YEAR 2021

*2021 – A year to be proud of – All time high revenue, market share and profitability in spite of a challenging second half year with supply constraints impacting volumes.*

**OCTOBER–DECEMBER 2021****FULL YEAR 2021**

- Continued strong demand and order intake, including fully electric cars.
- Supply constraints continued and retail sales decreased by 20% to 168.0 (210.6) thousand cars.
- Revenue decreased by 6% to SEK 80.1 (85.3) bn, with positive mix effects and a strong price realisation mitigating the impact of lower volumes.
- Operating income (EBIT) was SEK 3.7 (4.9) bn, supported by positive mix effects and strong price realisation and negatively impacted by raw material cost, freight cost and share of income from joint ventures and associates.
- EBIT margin was 4.6 (5.8)%. EBIT margin, excluding share of income from joint ventures and associates, was 7.1 (5.8)%.
- Basic earnings per share was SEK 0.66 (1.92).
- Operating and investing cash flow was SEK 11.2 (15.8) bn, positively impacted by increases in payables as production volumes recovered, and reduced by the acquisition of the Taizhou plant.
- Volvo Cars and Northvolt announced that they will open a joint research and development centre as part of a SEK 30 bn investment in battery development and manufacturing.
- Retail sales increased by 6% to 698.7 (661.7) thousand cars.
- Revenue increased by 7% to all-time high SEK 282.0 (262.8) bn, despite supply constraints in the second half of the year.
- Operating income (EBIT) was SEK 20.3 (8.5) bn, supported by positive mix effects and strong price realisation for both new and used cars.
- EBIT margin was 7.2 (3.2)%. EBIT margin, excluding share of income from joint ventures and associates, was 7.5 (3.4)%.
- Basic earnings per share was SEK 4.72 (2.28).
- Operating and investing cash flow was SEK –4.9 (13.3) bn, mainly impacted by strong EBITDA offset by income tax, working capital and the acquisition of the Taizhou plant.
- Average lifecycle CO<sub>2</sub> emissions per vehicle were reduced by 9.5% compared with the 2018 level. This is in line with our ambition to reach 40% reduction by 2025.
- As communicated in the IPO prospectus, the Board of Directors proposes that no dividend be paid. Volvo Cars will focus its resources on delivering our fastest transformer and growth strategy.

**SIGNIFICANT EVENTS AFTER THE YEAR-END**

- The Board of Directors of Volvo Cars appointed Jim Rowan as Chief Executive and President. Jim Rowan will join Volvo Cars on 21 March 2022.
- Volvo Car Group finalised the separation of its ICE operations, and sold the 50% owned subsidiary Zhangjiakou Volvo Car Engine Manufacturing to its associate company Aurobay.
- Volvo Cars and Northvolt have selected Gothenburg, Sweden to establish a new battery manufacturing plant planned to commence operations in 2025.

# VOLVO CAR GROUP

SEKbn unless otherwise stated	3 Months			Full year		
	Oct-Dec 2021	Oct-Dec 2020	Δ%	2021	2020	Δ%
Retail sales, k units <sup>1)</sup>	168.0	210.6	-20	698.7	661.7	6
Revenue	80.1	85.3	-6	282.0	262.8	7
Research and development expenses <sup>2) 3)</sup>	-3.3	-2.1	58	-13.1	-11.4	16
Operating income (EBIT) <sup>4)</sup>	3.7	4.9	-25	20.3	8.5	138
EBIT excl. share of income from JV and associates <sup>4)</sup>	5.7	4.9	15	21.2	8.9	139
Net income <sup>2)</sup>	2.3	5.6	-60	14.2	7.8	82
Basic earnings per share, SEK <sup>2)</sup>	0.66	1.92	-66	4.72	2.28	107
EBITDA <sup>4)</sup>	7.4	7.9	-6	35.3	23.0	54
Cash flow from operating activities <sup>2)</sup>	29.4	21.9	34	29.9	34.3	-13
Cash flow from investing activities <sup>2)</sup>	-18.2	-6.0	201	-34.7	-21.0	65
Net cash <sup>4)</sup>	44.8	35.2	27	44.8	35.2	27
Gross margin, % <sup>4)</sup>	20.7	18.6	11	21.4	17.5	22
EBIT margin, % <sup>4)</sup>	4.6	5.8	-20	7.2	3.2	122
EBIT margin % excl share of income from JVs and associates <sup>4)</sup>	7.1	5.8	22	7.5	3.4	121
EBITDA margin, % <sup>4)</sup>	9.3	9.3	—	12.5	8.7	43
Return on invested capital, ROIC, % <sup>4)</sup>	N/A	N/A	N/A	18.5	8.4	126

1) Non-financial operating metric.

2) IFRS measure.

3) The amortisation expenses for Q4 2020 and full year 2020 are affected by adjustments of the useful life period to reflect updated assumptions and cycle plan.

4) Non-IFRS measure (alternative performance measure), see Alternative performance measures on page 32.

# A year to be proud of

2021 was a year to be proud of for Volvo Cars. The demand for our cars remained strong with growing unit sales, despite persistent component supply shortages in the auto industry. We increased market share globally and delivered all-time high revenue and profitability.

We took important steps towards delivering on our mid-decade ambitions, and we committed to full electrification by 2030. Sales of chargeable Volvo cars made up 27 per cent of the company's total sales volume during the year. In addition, we launched our second fully electric car, the C40 Recharge, and the share of fully electric cars continued growing, in line with our ramp-up plan, reaching 6 per cent of total sales in the fourth quarter. That share will continue to grow as we increase our annual production capacity for fully electric cars to 150,000 cars after summer and, for the full year 2022, we expect it to have more than doubled compared with the full year 2021.

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*"I want to thank all employees and business partners for a great effort and all we have achieved together."*

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To allow us to focus fully on the development of a new range of all-electric cars, Volvo Cars last year spun off parts of its combustion engine operations into Aurobay, an associated company co-owned with Geely Chantou. We also entered into a new partnership with Northvolt to accelerate the development and production of sustainable batteries.

I'm proud that Volvo Cars welcomed more than 200,000 new shareholders after a successful IPO on the Stockholm Nasdaq exchange in October, positioning us strongly as a global brand for the future and contributing to the funding of the transformation that lies ahead. On the same theme, our affiliated company Polestar also announced its intention to list as an independent company on Nasdaq New York during the first half of 2022. Another reason to be proud is that we can now offer all 40,000+ employees around the globe, in all plants and offices, 24 weeks of paid parental leave through our Family Bond policy.

Looking at the fourth quarter specifically, the imbalance between supply and demand remained, and the global passenger car market declined as an effect of low production volumes. We experienced a strong demand and order intake but were restrained by supply chain. The negative effect of volumes was offset by strong price realisation and a shift towards high margin models. On the other hand, the share of income in joint ventures and associates reduced operating income, primarily driven by strategic affiliates such as Polestar, where costs were incurred in their early development phase and a change in accounting treatment related to deferred tax assets.



2022 started as expected. Production continued to gradually improve, but retail deliveries are still lower than the previous year.

Looking ahead, uncertainty is still high. While component shortage has eased somewhat, we expect the supply chain to remain a restraining factor. At the same time, we continue to see strong customer demand, and we expect that electric cars will grow faster than the overall market. This should allow us to continue growing sales volume in 2022.

I am very pleased to welcome Jim Rowan into his new role as Volvo Cars CEO on March 21, leading the company on its continued journey. I would also like to take this opportunity to thank all employees and business partners for a great effort and for all we have achieved together. Through collaboration and determination, we have made tremendous progress over this last decade. We have placed Volvo Cars firmly on the map as a brand that is leading mobility into the future in a safe, sustainable and personal way, showing it is possible to be both profitable and more sustainable.

**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.

## MID-DECADE AMBITIONS

- Sales of 1.2 million cars a year
- EBIT margin of 8–10%
- 40% reduction of CO<sub>2</sub> full life-cycle footprint per car
- 50% of sales fully electric cars
- 50% in-house software
- 50% of sales online
- To be the employer of choice and preferred development partner

## FAST GROWING PREMIUM BRAND

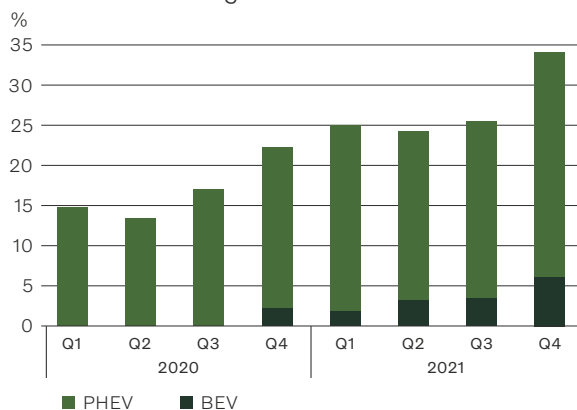
We aim to continue to be one of the fastest growing premium automotive brands. We focus our efforts on growing volume and profitability whilst reducing CO<sub>2</sub>.

### Market position

Our ambition is to sell only fully electric cars by 2030. Therefore, in 2021, the focus was to grow volumes of our Recharge cars. The strategy paid off, and their share of sales was 34% in the fourth quarter. Compared to the third quarter, Recharge sales increased by 49 %, and by 64% for the entire year. This was supported by very strong market demand and us prioritising production during supply restrains.

Going forward, we will mainly direct our development and marketing efforts to Recharge cars, and within Recharge, the main focus is on fully electric cars (BEV).

Volvo Cars Recharge sales as share of total sales



Volvo Cars' market share per propulsion type <sup>1)2)</sup>	Full year 2021	Full year 2020
BEV	0.57%	0.23%
PHEV	8.87%	11.30%
ICE (incl. mild hybrids)	0.82%	0.88%
Total	1.01%	1.01%

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 digitalisation the definition of premium is being redefined. To simplify and to avoid the risk of excluding important parts of the market, we will report our market share in relation to the total market.

2) Source IHS Market Insight New Car registrations (2022-02-01). Dec 2021 data missing for BG, JP, PT, PR. For US, Dec data is forecasted.

Total industry volume share by propulsion type <sup>1)2)</sup>	Full year 2021	Growth YoY
BEV	6.5%	121%
PHEV	2.6%	86%
ICE (incl. mild hybrids)	90.9%	-1%
Total	100%	4%

### Future model portfolio

To reach our ambitions of electrifying our fleet and growing in volume, the success of the next generation of cars is crucial. Our current focus are our two new models based on our fully electric core compute architecture. The first car will be Polestar 3, and the second car will be our fully electric successor to XC90, our largest SUV, to be revealed, late 2022.

In the fourth quarter of 2021, the technological development of these cars continued as we completed our second series of verification prototypes.

### Sustainability

We are making good progress towards our ambition of reducing the average lifecycle CO<sub>2</sub> emissions per vehicle by 40% between 2018 and 2025. In 2021, we saw a further reduction of 3pp, in total 9.5% reduction since 2018.

CO <sub>2</sub> reduction per car	Lifecycle CO <sub>2</sub> emissions per car (tonnes)	Reduction (%)
2018	55.5 t	—
2021 full year	49.8 t	-9.5
2025 ambition	33.3 t	-40
2040 ambition	0 t	-100

At CES in Los Angeles, Volvo cars showcased the Concept Recharge, a new aerodynamic SUV with a lifecycle CO<sub>2</sub> footprint of less than 10 tonnes per car, if charged with 100% climate neutral energy. The car includes a significant degree of biobased and recycled materials.

In Europe 2021, we reached an average CO<sub>2</sub> fleet tailpipe emission of 109,5 g/km<sup>3)</sup>, compared with our legal target for the same period of 132.5 g/km.

3) Preliminary company calculation. The official number will be subject to final report and approval from EU commission.

### Taking action on climate change

In November, at the critical UN Climate Change Conference (COP26), Volvo Cars was one of only five OEMs to commit to working to phase out ICE vehicle sales by 2035 in leading markets, and by 2040 globally (Volvo Cars ambition to be fully electric by 2030 remains). We also called on governments and energy companies to ensure greater access to clean energy to realise the true climate potential of EVs.

In addition, Volvo Cars was awarded an A rating by Carbon Disclosure Project (CDP) for actions in cutting emissions, mitigating climate risks and aiming to become a climate neutral company by 2040. The company also secured Bronze status on S&P's Global Corporate Sustainability Assessment (CSA).

### FULL ELECTRIFICATION

We strive to 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 for success.

### Sustainable Batteries

Our battery cell partnership with Northvolt is key to our strategic ambitions in electrification. The two companies selected Gothenburg, Sweden for the new battery manufacturing plant. The plant will have a potential annual battery cell production capacity of up to 50 GWh, which would supply sustainable batteries for approximately half a million cars per year. The gigafactory is planned to commence its operations in 2025, create up to 3,000 jobs and complement the planned R&D joint venture as part of the announced SEK 30 billion investment.

### 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 production rate of at least 150 thousand cars after summer 2022.

### LEADER IN NEW TECHNOLOGY

We aspire to lead technology development in strategic areas such as safety, electrification, connectivity, and core compute. We do this by acquiring in-house competence and through partnerships.

### Over-The-Air (OTA) updates

With OTA, we will deliver customer value remotely over the car's lifecycle, and it is through OTA delivered software functionality, we will see future revenue streams. In quarter four, Volvo Cars expanded our full OTA capability to our new cars, including XC40 Recharge, C40 Recharge, the XC60, the S90 and the V90. The latest OTA update included 100 thousand cars in all main markets, globally.

### Leader in Safety

We announced the RIDE Pilot to be introduced to customers, starting in California. This unsupervised autonomous driving feature is planned to be available in cars built on our fully electric core compute architecture, with Lidar as standard and allowing for activation through OTA. Once verified to be safe and legally permissible, the RIDE Pilot will be offered through subscription.

### DIRECT CONSUMER RELATIONS

Through our direct to consumer efforts, we aspire to be present where customers are. We focus on transparent pricing and less complex offerings, and we digitalise the complete sales and distribution process.

The number of cars sold online increased and represent 9% sales of where launched in Q4. Growth was driven by increasing customer demand combined with additional markets.

### Online Business to Business (B2B)

In many markets, B2B sales constitute a majority of the total sales. In December, we launched our online sales platform for B2B, initially targeting small- and medium-sized businesses. Going forward, this will be rolled out starting with Sweden, followed by Germany, UK and the Netherlands.

### Care by Volvo and subscriptions

Care by Volvo subscription brings simplicity and transparency to consumers whilst lowering the threshold of driving electric. Care by Volvo is offered through online sales in six markets: Germany, the Netherlands, Norway, Sweden, the UK and the US. Growth is strong. By the end of 2021, we had 17 (6) thousand active subscriptions.

### FASTEST TRANSFORMER WAY OF WORKING

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

### Polestar's intention to be listed on Nasdaq New York

On 27 September 2021, Polestar announced its intention to be listed on Nasdaq New York, through the special purpose acquisition company (SPAC), Gores Guggenheim. The implied enterprise value is approximately USD 20 bn. The business combination is expected to be finalised during the first half of 2022. During 2021, Polestar met their global sales target of 29,000 cars.

### 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 20.0 bn, supporting Volvo Cars' fast transformation.

### Announcements at Consumer Electronics Show (CES)

Volvo Cars announced a partnership with Qualcomm and Google to develop an industry-leading infotainment system. The new Google Android automotive-based infotainment system will be used to take the upcoming fully electric cars under the Volvo and Polestar brands to the next level.

Volvo Cars also announced a continuation of the partnership with Google. The planned integrations will allow Volvo cars to be integrated into the Google ecosystem just as any home device. This provides opportunities for the development of an array of functions where the driver can control other Google connected devices through the car. Additionally, Volvo cars with Google built-in will offer in-car video streaming while the car is fully stationary, through YouTube. These new technology innovations may vary somewhat across markets.



# Fourth quarter financial summary

## SALES AND MARKET DEVELOPMENT

The global passenger car market declined due to a lack of vehicles caused by continued supply constraints. However, the strong demand had a positive effect on prices and the sale of more expensive cars. Customer interest in electrified cars continued to grow globally.

The imbalance between supply and demand meant that Volvo Cars continued to steer its production towards high margin models and the Recharge line-up.

Retail sales decreased by 20% compared with a 22% decrease in wholesale. The production volume decreased by 16%. The stock level remained low despite increased in-transit cars compared to the previous quarter. In January 2022, Volvo Cars reported retail sales of 47.6 thousands cars a decline of 20% yoy, while production continued to improve and was 58.8 thousands cars, a decline of 9% yoy.

### Europe

The European market decreased by 24% due to lack of vehicles, and the traditional premium segment decreased by 21%.

Volvo Cars had strong order intake, but retail sales decreased by 17%. In contrast, our Recharge line-up had very positive development, reaching 53 (40)% Recharge share of total European retail sales.

### China

The Chinese passenger car market was also impacted by global supply chain constraints. As a result, the total market dropped by 15%. However, the traditional premium segment had even stronger headwinds and dropped by 20%.

Volvo Cars retail sales decreased by 27% due to the supply constraints. Recharge share of total Chinese retail sales increased to 8 (3)%.

## US

The US car market decreased by 21%, and the traditional premium segment declined by 16%. With the continued imbalance between supply and demand for new cars, dealer incentive levels stayed low, similar to the previous quarter.

Volvo Cars' retail sales decreased by 27% due to the limited supply of cars to sell. On the other hand, Recharge share of total US retail sales increased to 25 (11)%, and Care by Volvo showed steady growth.

## Other

Retail sales in other markets decreased by 11%. The top three countries were Japan, Korea and Canada, which reported -1%, -5%, and -11%, respectively. Recharge share of total sales in other markets was 25 (16)%.

## Sales development per carline

In October, Volvo Cars started production of C40, the second fully electric model and a new carline. Over one thousand cars were delivered in the quarter. Production ramp-up for our fully electric cars will continue during the first half of 2022 reaching an annual capacity of 150 thousand cars after summer.

The share of sales per carline was stable. Apart from the new C40 taking 1 (-)% of total sales, SUVs held strong with retail sales share of 74 (74)%. On the other hand, the Sedan carlines (S60, S90) had a slight decline with a 14 (15)% share of retail sales.

The XC60 kept its best-selling position after surpassing the XC40 during the third quarter.

Retail sales (k units)	3 Months			Full year		
	Oct-Dec 2021	Oct-Dec 2020	Δ%	2021	2020	Δ%
Europe	73.1	87.9	-17	293.5	288.3	2
China	39.1	53.3	-27	171.7	166.6	3
US	26.8	36.5	-27	122.2	110.1	11
Other	29.1	32.8	-11	111.4	96.7	15
<b>Retail sales total</b>	<b>168.0</b>	<b>210.6</b>	<b>-20</b>	<b>698.7</b>	<b>661.7</b>	<b>6</b>
Recharge line-up vehicles	57.1	47.0	22	189.2	115.4	64
<i>whereof BEV vehicles</i>	10.3	4.7	121	25.7	4.7	452
Recharge line-up share of sales	34%	22%	—	27%	17%	—
<i>whereof BEV share of sales</i>	6%	2%	—	4%	1%	—
Wholesales	169.2	218.3	-22	654.4	662.6	-1
Production volume	174.8	207.2	-16	642.0	658.5	-3



Top 10 Retail sales by market (k units)	3 Months			Full year		
	Oct-Dec 2021	Oct-Dec 2020	Δ%	2021	2020	Δ%
China	39.1	53.3	-27	171.7	166.6	3
US	26.8	36.5	-27	122.2	110.1	11
Germany	12.4	14.7	-16	43.8	46.9	-7
UK	11.9	14.2	-17	48.3	46.5	4
Sweden	11.0	16.1	-32	47.8	53.7	-11
France	5.4	5.0	9	18.9	16.5	14
Japan	4.2	4.3	-1	16.6	15.5	7
Netherlands	4.2	5.8	-28	15.9	16.2	-1
Italy	4.0	5.6	-28	19.8	17.7	12
Korea	3.9	4.1	-5	15.1	12.9	17

Retail sales by model (k units)	3 Months			Full year		
	Oct-Dec 2021	Oct-Dec 2020	Δ%	2021	2020	Δ%
XC40 BEV	9.1	4.7	95	24.5	4.7	427
C40 BEV	1.2	—	—	1.2	—	—
XC60	53.0	60.6	-12	215.6	191.7	12
XC40 ICE/PHEV	35.0	58.8	-41	176.5	180.7	-2
XC90	27.8	31.1	-11	108.2	92.5	17
V60	13.6	16.8	-19	56.1	64.9	-14
S60	13.1	17.3	-24	49.3	52.3	-6
S90	10.3	14.5	-29	46.6	46.0	1
V90	4.9	6.3	-23	20.7	25.6	-19
V40	—	0.4	—	—	3.4	-99
<b>Total</b>	<b>168.0</b>	<b>210.6</b>	<b>-20</b>	<b>698.7</b>	<b>661.7</b>	<b>6</b>

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



## INCOME AND RESULT

The continued supply chain constraints and lost production volumes led to a decrease in revenue of –6% to SEK 80.1 (85.3) bn. Wholesale volumes decreased by –22% to 169.2 (218.3) thousand cars. The negative effect of the volume drop was partly offset by positive pricing and mix effects of SEK 7.3 bn. The exchange rate effect in revenue, including hedges, had a negative effect of SEK –0.3 bn.

Gross income increased by 4% to SEK 16.6 (15.9) bn, resulting in a gross margin of 20.7 (18.6)%. The increase in gross margin was mainly supported by strong price realisation and positive mix effects as well as lower warranty costs, offset by increased raw material prices and higher freight costs. Foreign exchange rate effects including hedges in cost of sales were positive and amounted to SEK 0.4 bn. The net effect of foreign exchange rates including hedges in gross income was almost flat and amounted to SEK 0.1 bn.

Research and development expenses increased to SEK –3.3 (–2.1) bn. The increase reflects Volvo Cars' increased investments in new technology, such as electrification, connectivity, and new car models. Further, the comparative figure for 2020 was affected by the adjustment of useful life to reflect updated assumptions and cycle plan changes. For details regarding research and development expenses, see the Research and Development table on page 10.

Administrative expenses amounted to SEK –2.4 (–2.5) bn. Selling expenses increased to SEK –5.4 (–5.1) bn, mainly due to the fact that selling expenses including marketing returned to normal levels after unusually low levels in 2020, as an effect of the Covid-19 situation.

Other operating income and expenses, net, increased to SEK 0.2 (–1.3) bn, mainly due to a positive exchange rate effect of SEK 1.1 bn on operating assets and liabilities. Share of income in joint ventures and associates decreased to SEK –2.0 (—) bn, due to negative results from strategic affiliates, such as Polestar, driven by costs incurred in their early development phase. In addition to the operational result, the share of income from Polestar was also negatively affected by a change in Polestar's accounting treatment of their deferred tax assets.

Operating income (EBIT) decreased to SEK 3.7 (4.9) bn, resulting in an EBIT margin of 4.6 (5.8)%. Volvo Cars operations continued to be strong despite supply chain and production constraints on the back of strong price realisation and continued strong demand. Excluding share of income in joint ventures and associates, EBIT amounted to SEK 5.7 (4.9) bn, corresponding to a margin of 7.1 (5.8)%. The exchange rate effects including hedges had a positive effect in EBIT of SEK 1.1 bn. See the table below.

Net financial items decreased to SEK — (1.7) bn, mainly driven by market revaluation of the investment in Luminar of SEK 0.1 (2.0) bn.

The effective tax rate increased to 38.8 (15.1)%, mainly due to negative results from shares in joint ventures that are non-taxable. Net income amounted to SEK 2.3 (5.6) bn. Net income in relation to revenue was 2.8 (6.6)%. Basic earnings per share amounted to SEK 0.66 (1.92).

Items affecting comparability, SEKbn	Oct–Dec 2021	Oct–Dec 2020
Governmental support related to Covid-19	—	–0.1
<b>Total</b>	<b>—</b>	<b>–0.1</b>

Changes to Revenue, SEKbn	Oct–Dec
<b>Revenue Q4 2020</b>	<b>85.3</b>
Volume	–14.8
Sales mix and pricing	7.3
Sale of licenses	–0.2
Foreign exchange rates	–0.3
Other <sup>1)</sup>	2.8
<b>Revenue Q4 2021</b>	<b>80.1</b>
Change %	–6

1) Including used cars, parts and accessories, and contract manufacturing.

Changes to Operating income, SEKbn	Oct–Dec
<b>EBIT Q4 2020</b>	<b>4.9</b>
Volume	–2.9
Sales mix and pricing	3.2
Government grants	–0.1
Sale of licenses	–0.2
Foreign exchange rates	1.1
Share of income in JVs and associates	–2.0
Items affecting comparability - Volvo Cars operations	0.1
Other <sup>2)</sup>	–0.4
<b>EBIT Q4 2021</b>	<b>3.7</b>
Change %	–25

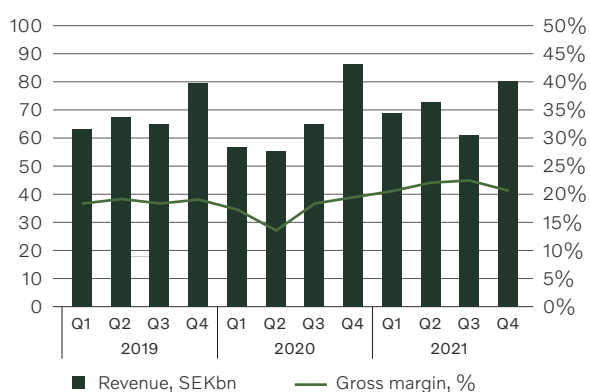
2) Mainly including used cars, parts and accessories, raw material increases and cost efficiencies.

## VOLVO CAR GROUP

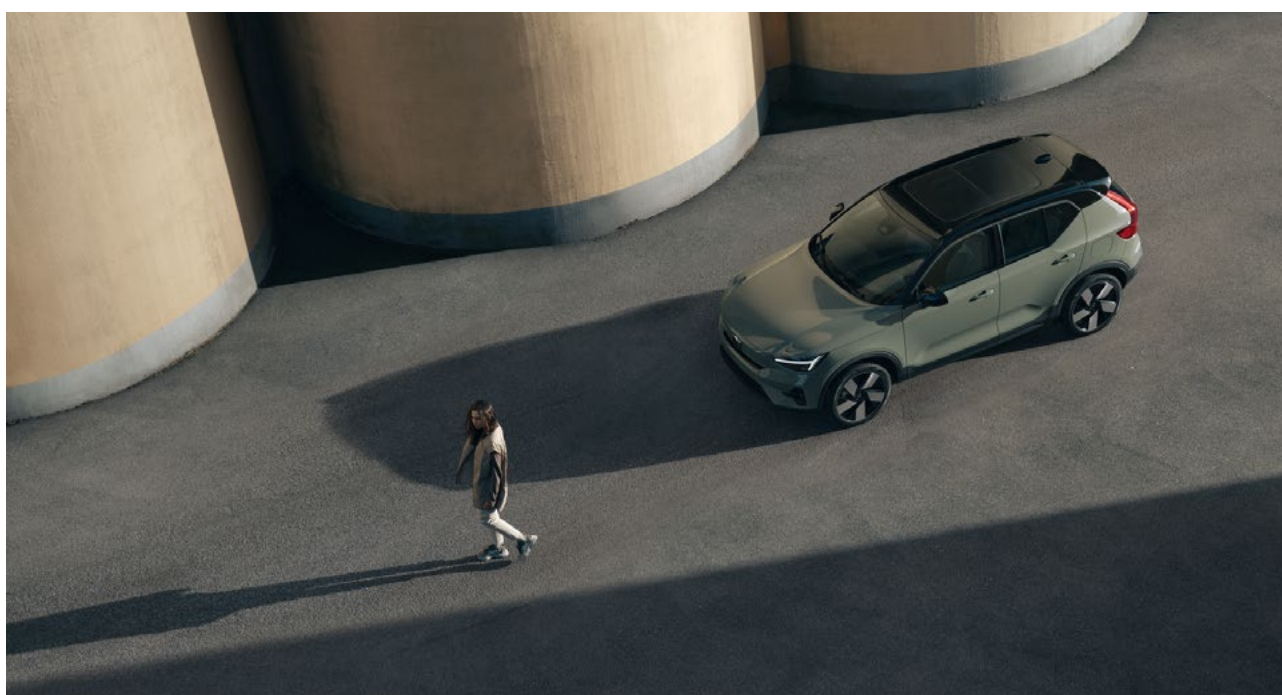
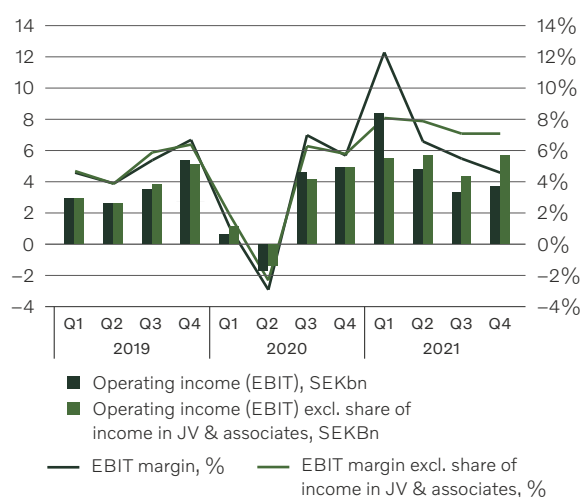
Research and development, SEKbn	3 Months			Full year		
	Oct–Dec 2021	Oct–Dec 2020	Δ%	2021	2020	Δ%
Research and development spending	–5.7	–3.9	50	–19.4	–14.8	31
Capitalised development costs	3.5	2.3	58	10.9	7.5	45
Amortisation of research and development	–1.1	–0.5 <sup>1)</sup>	121	–4.6	–4.1 <sup>1)</sup>	14
<b>Research and development expenses</b>	<b>–3.3</b>	<b>–2.1</b>	<b>58</b>	<b>–13.1</b>	<b>–11.4</b>	<b>16</b>

1) The amortisation expenses for Q4 2020 and full year 2020 are affected by adjustments of the useful life period to reflect updated assumptions and cycle plan.

### Revenue & Gross Margin



### Operating Income & EBIT Margin



## CASH FLOW

Total cash and cash equivalents, including marketable securities, increased to SEK 70.3 (69.7) bn. Net cash increased to SEK 44.8 (35.2) bn. Liquidity amounted to SEK 83.6 (94.4) bn, including undrawn credit facilities of SEK 13.4 (24.7) bn.

### Cash flow from operating activities

Increased production volume, in combination with a positive EBITDA of SEK 7.4 (7.9) bn, led to a positive cash flow from operating activities of SEK 29.4 (21.9) bn. Working capital contributed SEK 22.8 (13.5) bn, whereof cash flow from accounts payable had a positive effect of SEK 14.7 (4.8) bn, mainly due to restart of production. Further, cash flow from contract liabilities and other working capital assets/liabilities was positive with SEK 4.9 (5.4) bn and cash flow from inventory and accounts receivable was positive with SEK 3.2 (1.9) bn.

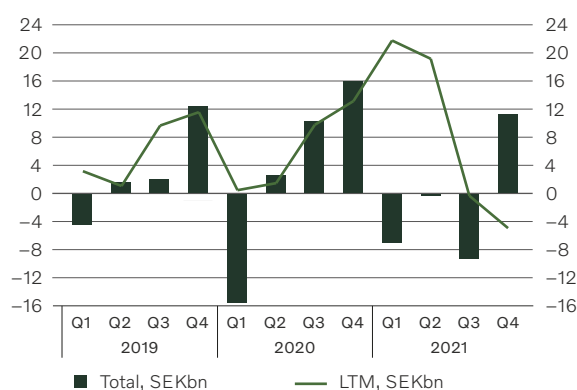
### Cash flow from investing activities

We continued to invest in production capacity and in the transformation into a fully electric car company. Cash flow from investing activities amounted to SEK –18.2 (–6.0) bn. The acquisition of the Taizhou plant amounted to SEK –10.6 bn, whereof SEK –9.5 bn was related to repayment of loans. Investments in tangible assets amounted to SEK –3.7 (–3.0) bn, mainly driven by investments in facilities and tooling to increase capacity of Recharge cars. Investments in intangible assets amounted to SEK –3.8 (–2.2) bn, driven by investments in new and upcoming car models and technology related to electrification and autonomous driving.

### Cash flow from financing activities

Cash flow from financing activities amounted to 12.2 (–4.8) bn, driven by proceeds from the IPO of SEK 19.9 bn. The strong liquidity enabled investments in marketable securities, net, of SEK –2.9 (–8.3) bn and repayment of a bond of SEK –3.0 (–) bn.

Cash flow from Operating and investing activities



Cash flow statement, SEKbn	3 Months		Full year	
	Oct–Dec 2021	Oct–Dec 2020	2021	2020
Cash flow from operating activities	29.4	21.8	29.9	34.3
Cash flow from investing activities	–18.2	–6.0	–34.7	–21.0
<b>Cash flow from operating and investing activities</b>	<b>11.2</b>	<b>15.8</b>	<b>–4.9</b>	<b>13.3</b>
Cash flow from financing activities	12.2	–4.8	1.2	–0.8
<b>Cash flow for the period</b>	<b>23.5</b>	<b>11.0</b>	<b>–3.7</b>	<b>12.4</b>

# Full year 2021

## SALES AND MARKET DEVELOPMENT 2021

In 2021, the passenger car market grew by 6% and 3%, respectively, in China and the US, whereas Europe declined by 2%. As 2020 was weak due to Covid-19, the market expected the pent-up demand to drive sales growth in 2021. However, the production was hampered as the global semi-conductor shortages worsened, especially in the second half of 2021. The result was a year of two halves. During the first half, the market was up by double digits but abruptly stalled in the second half due to covid-related shutdowns in South East Asia and other semiconductor-related production disturbances. However, the imbalance between supply and demand positively affected prices and mix effects.

2021 was also the year of electrified cars. Despite the supply constraints, electrified cars showed record growth. The development followed shifting customer interest fueled by the production prioritisation from automakers.

Volvo Cars focused on retail deliveries, and retail sales increased by 6%. On the other hand, wholesales decreased by 1%, and production volumes decreased by 3%. The lower production was partly compensated by inventory reduction and a more efficient supply chain.

Volvo Cars also strongly advanced the sales of electrified cars, PHEV and BEV, which grew 64% for the full year, and reached 27 % as a share of total sales.

## INCOME AND RESULT

Volvo Cars operations continued to have strong demand despite supply chain and production constraints. All regions reported volume growth in retail sales. Wholesale volumes remained in line with the previous year and amounted to 654.4 (662.6) thousand cars, while revenue increased by 7% to SEK 282.0 (262.8) bn, supported by mix effects, with a continuously increasing share of XC-models.

Gross income increased by 31% to SEK 60.4 (46.0) bn, resulting in a gross margin of 21.4 (17.5)%. The increase in gross margin was mainly supported by positive carline mix effects and strong price realisation.

Operating Income (EBIT) increased to SEK 20.3 (8.5) bn, resulting in an EBIT margin of 7.2 (3.2)%. The increase in EBIT was mainly a result of the positive mix effect, strong price realisation, increased volumes and repayment of import duties. Further, the year-over-year increase is also affected by larger costs related to recalls and restructuring costs in prior year. The net effect of foreign exchange rates including hedges was positive and amounted to SEK 0.4 bn. EBIT excluding share of income in joint ventures and associates amounted to SEK 21.2 (8.9) bn, corresponding to a margin of 7.5 (3.4)%. The negative result from share of income in JV and associates was mainly driven by Polestar, due to costs incurred in their early development phase, as well as their change in accounting treatment related to deferred tax assets. The negative effects were partly

offset by valuation effects of the private placement in Polestar as well as the dividend from Zenuity.

Net financial items decreased to SEK -1.5 (1.0) bn, mainly driven by the market revaluation of the investment in Luminar of SEK -0.9 (2.0) bn. The effective tax rate increased to 24.4 (18.4)%, mainly due to higher taxable income.

Net income was SEK 14.2 (7.8) bn. Net income in relation to revenue was 5.0 (3.0)%. Basic earnings per share amounted to SEK 4.72 (2.28).

Changes to Revenue, SEKbn	Full year
<b>Revenue 2020</b>	<b>262.8</b>
Volume	2.7
Sales mix and pricing	20.4
Sale of licenses	-0.5
Foreign exchange rates	-9.7
Other <sup>1)</sup>	6.3
<b>Revenue 2021</b>	<b>282.0</b>
Change %	7

1) Including used cars, parts and accessories, and contract manufacturing.

Changes to Operating income, SEKbn	Full year
<b>EBIT 2020</b>	<b>8.5</b>
Volume	0.6
Sales mix and pricing	9.5
Government grants	-0.5
Sale of licenses	-0.2
Foreign exchange rates	0.4
Share of income in JVs and associates <sup>2)</sup>	-3.1
Items affecting comparability -Volvo Cars operations	-0.9
Items affecting comparability JVs and associates	2.5
Other <sup>3)</sup>	3.5
<b>EBIT 2021</b>	<b>20.3</b>
Change %	138

2) Excluding items affecting comparability.

3) Mainly including used cars, parts and accessories, raw material increases and cost efficiencies.

Items affecting comparability, SEKbn	Full year 2021	Full year 2020
<b>Whereof affecting JVs &amp; associates</b>		
Share of income, Zenuity	1.2	0.7
Valuation effect from the private placement in Polestar Automotive Holding Ltd	2.0	—
<b>Subtotal</b>	<b>3.2</b>	<b>0.7</b>
<b>Whereof affecting Volvo Cars operations</b>		
Governmental support related to Covid-19	0.1	1.0
<b>Subtotal</b>	<b>0.1</b>	<b>1.0</b>
<b>Total</b>	<b>3.3</b>	<b>1.7</b>

## CASH FLOW

Total cash and cash equivalents, including marketable securities, increased to SEK 70.3 (69.7) bn. Net cash increased to SEK 44.8 (35.2) bn. Liquidity amounted to SEK 83.6 (94.4) bn, including undrawn credit facilities of SEK 13.4 (24.7) bn.

Cash flow from operating activities was positive and amounted to SEK 29.9 (34.3) bn, mainly due to a positive EBITDA of 35.3 (23.0) bn, offset by paid income tax of SEK –3.7 (–2.9) bn and a negative development in working capital of SEK –1.6 (11.0) bn. Volvo Cars continued to invest in the transformation into a fully electric car company and cash flow from investing activities amounted to SEK –34.7 (–21.0) bn.

Cash flow from financing activities amounted to SEK 1.2 (–0.8) bn. Proceeds from new share issue contributed SEK 20.8 (—) bn, offset by repayments of loans amounting to SEK –3.0 (–4.6) and repayment of bonds of SEK –8.1 (—) bn, and paid dividend to shareholders of SEK –10.5 (—) bn.

## EQUITY

Total equity increased to SEK 95.0 (70.4) bn, resulting in an equity ratio of 33.5 (26.8)%. The change is mainly attributable to the issue of new shares of SEK 19.7 bn, positive net income of SEK 14.2 bn, positive effect in other comprehensive income of SEK 4.8 bn and capital contribution from non-controlling interests of SEK 1.3 bn offset by dividends to shareholders of SEK –15.4 bn, including SEK 0.2 bn to preference shareholders and SEK 9.7 bn to non-controlling interest. The acquisition of Asia Euro Automobile Manufacturing (Taizhou) Co., Ltd had a positive effect of SEK 0.1 bn.

The change in other comprehensive income is related to a positive foreign exchange translation effect, including hedges of net investments in foreign operations of SEK 4.2 bn (net of tax) and remeasurements of provisions for post-employment benefits of SEK 2.5 bn (net of tax), mainly due to higher interest rates. This was partly offset by a negative change in cash flow hedge reserve from unrealised hedge contracts of SEK –1.8 bn (net of tax), whereof hedge contracts recycled to the income statement amounted to SEK 0.3 bn. The change in value of cash flow hedges is mainly due to a weakened SEK against most major currencies.

## EMPLOYEES

In 2021, Volvo Car Group employed 40.9 (38.3) thousand full-time employees (FTEs) and 3.8 (3.4) thousand agency personnel. The FTEs number in 2020 and 2021 reflects temporary layoffs. Adjusting for the layoff effect, Volvo Cars had 41.4 (41.3) thousand full-time employees.

# Other Information

## 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 21.

## 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. We consider the risk and uncertainty factors to remain the same as described in the annual report except for the following updates:

### Global shortage of semi-conductors

The global shortage of semiconductors 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. An effect from us being able to steer production to the more expensive SUVs and Recharge cars. The global shortage is expected to continue throughout 2022. Volvo Cars saw some improvement during the fourth quarter but visibility is low and the risk of further disturbances in production remains.

Volvo Cars will continue to follow development 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. Restrictions were tightened again around the world due to the spread of Omicron, a new Covid variant. The quick spread of this new variant have led to high infection rates in Europe and therefore an increasing absentee at work. Despite this situation, Volvo Cars' factories have remained operational. However, the risk of this new variant impacting supply chain and production remains.

Given the uncertain development of the pandemic, Volvo Cars remain cautious.

### Cyber security breaches

With increased amount of data stored online, the company is exposed to risks in connection with the use of information technology. In addition, cyber-crime may lead to business interruption, and in general, the increased remote way of working due to Covid-19 restrictions increases the risk of cyber security incidents. Cybersecurity breaches could cause severe disruption of the business including but not limited to operational disturbances, affecting the company as well as its customers, loss of intellectual property and data leakage, which may lead to high cost and heavy fines due to breaches in data protection obligations.

Volvo Cars became aware of a cyber security breach and data theft by a third party in the fourth quarter. Volvo Cars took immediate security measures and investigated the incident together with third party specialists.





# Consolidated Income Statements

SEKm	Note	Oct-Dec 2021	Oct-Dec 2020	Full year 2021	Full year 2020
Revenue	2	80,076	85,311	282,045	262,833
Cost of sales		-63,511	-69,420	-221,632	-216,813
<b>Gross income</b>		<b>16,565</b>	<b>15,891</b>	<b>60,413</b>	<b>46,020</b>
Research and development expenses		-3,289	-2,085	-13,126	-11,362
Selling expenses		-5,439	-5,081	-19,211	-15,710
Administrative expenses		-2,365	-2,468	-8,493	-8,539
Other operating income		1,250	381	4,144	2,362
Other operating expenses		-1,054	-1,715	-2,501	-3,903
Share of income in joint ventures and associates		-1,960	14	-951	-352
<b>Operating income</b>		<b>3,708</b>	<b>4,937</b>	<b>20,275</b>	<b>8,516</b>
Financial income	3	442	2,160	1,003	2,618
Financial expenses	3	-459	-453	-2,518	-1,588
<b>Income before tax</b>		<b>3,691</b>	<b>6,644</b>	<b>18,760</b>	<b>9,546</b>
Income tax		-1,433	-1,005	-4,583	-1,758
<b>Net income</b>		<b>2,258</b>	<b>5,639</b>	<b>14,177</b>	<b>7,788</b>
<b>Net income attributable to</b>					
Owners of the parent company		2,115	4,825	12,546	5,834
Non-controlling interests		143	814	1,631	1,954
Basic earnings per share (SEK)	7	0.66	1.92	4.72	2.28
Diluted earnings per share (SEK)	7	0.66	1.89	4.72	2.28

# Consolidated Comprehensive Income

SEKm	Oct-Dec 2021	Oct-Dec 2020	Full year 2021	Full year 2020
<b>Net income for the period</b>	<b>2,258</b>	<b>5,639</b>	<b>14,177</b>	<b>7,788</b>
<b>Other comprehensive income</b>				
<i>Items that will not be reclassified subsequently to income statement:</i>				
Remeasurements of provisions for post-employment benefits <sup>1)</sup>	562	429	3,123	-992
Tax on items that will not be reclassified to income statement	-133	-94	-669	212
<i>Items that may be reclassified subsequently to income statement:</i>				
Translation difference on foreign operations	1,529	-2,701	4,375	-3,401
Translation difference of hedge instruments of net investments in foreign operations	-103	336	-265	368
Change in fair value of cash flow hedge related to currency and commodity price risks	-1,069	1,231	-2,641	2,862
Currency and commodity risk hedge contracts recycled to income statement	3	665	326	3,156
Tax on items that may be reclassified to income statement	237	-463	526	-1,318
<b>Other comprehensive income, net of income tax</b>	<b>1,026</b>	<b>-597</b>	<b>4,775</b>	<b>887</b>
<b>Total comprehensive income for the period</b>	<b>3,284</b>	<b>5,042</b>	<b>18,952</b>	<b>8,675</b>
<b>Total comprehensive income attributable to</b>				
Owners of the parent company	2,964	4,854	16,320	7,430
Non-controlling interests	320	188	2,632	1,245
	<b>3,284</b>	<b>5,042</b>	<b>18,952</b>	<b>8,675</b>

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	31 Dec 2021	31 Dec 2020
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		43,840	37,168
Tangible assets <sup>1)</sup>		70,903	61,943
Investments in joint ventures and associates		6,931	9,997
Other long-term securities holdings	3	1,765	2,449
Deferred tax assets		7,367	7,164
Other non-current interest-bearing receivables		5,046	—
Derivative assets, non-current <sup>2)</sup>	3	169	1,277
Other non-current assets		4,863	3,481
<b>Total non-current assets</b>		<b>140,884</b>	<b>123,479</b>
<b>Current assets</b>			
Inventories		36,603	35,513
Accounts receivable	4	18,553	14,776
Current tax assets		951	886
Derivative assets, current <sup>2)</sup>	3	824	718
Other current assets		11,838	9,412
Marketable securities	3	7,996	8,087
Cash and cash equivalents	3	62,265	61,592
Assets held for sale	6	3,910	7,849
<b>Total current assets</b>		<b>142,940</b>	<b>138,833</b>
<b>TOTAL ASSETS</b>		<b>283,824</b>	<b>262,312</b>
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity</b>			
Equity attributable to owners of the parent company		90,418	59,412
Non-controlling interests		4,560	11,006
<b>Total equity</b>		<b>94,978</b>	<b>70,418</b>
<b>Non-current liabilities</b>			
Provisions for post-employment benefits		11,961	14,187
Deferred tax liabilities		2,340	1,044
Other non-current provisions		8,623	8,155
Liabilities to credit institutions		2,543	5,882
Bonds, non-current		18,401	20,950
Non-current contract liabilities to customers		6,967	5,630
Other non-current interest-bearing liabilities		5,509	4,815
Derivative liabilities, non-current <sup>2)</sup>		348	300
Other non-current liabilities		6,039	4,577
<b>Total non-current liabilities</b>		<b>62,731</b>	<b>65,540</b>
<b>Current liabilities</b>			
Current provisions		8,607	8,530
Liabilities to credit institutions		4,471	2,512
Bonds, current		—	5,017
Current contract liabilities to customers		22,929	21,842
Accounts payable	4	48,283	46,635
Current tax liabilities		1,402	1,486
Other current interest-bearing liabilities		1,462	1,160
Derivative liabilities, current <sup>2)</sup>	3	2,312	1,705
Other current liabilities	4	34,524	35,718
Liabilities held for sale	6	2,125	1,749
<b>Total current liabilities</b>		<b>126,115</b>	<b>126,354</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>283,824</b>	<b>262,312</b>

1) Assets held under operating leases are now reported as a part of Tangible assets. Comparative figures have been adjusted accordingly.

2) Derivative assets and liabilities were previously reported as a part of Other assets/liabilities. Comparative figures have been adjusted accordingly.

# Consolidated Statement of Changes in Equity

SEKm	31 Dec 2021	31 Dec 2020
<b>Opening balance</b>	<b>70,418</b>	<b>63,648</b>
Net income for the period	14,177	7,788
Other comprehensive income, net of income tax	4,775	887
<b>Total comprehensive income</b>	<b>18,952</b>	<b>8,675</b>
<b>Transactions with owners</b>		
Shareholder transaction in joint venture under common control <sup>1)</sup>	—	–1,901
Capital contribution from non-controlling interests <sup>2)</sup>	1,267	—
Divestment of non-controlling interests	–65	—
Business combination under common control <sup>3)</sup>	82	—
Redemption of preference shares	–5,324	—
New issue	19,741	—
Directed new issue to preference shareholders	5,324	—
Dividend to shareholders <sup>4)</sup>	–15,417	–4
<b>Transactions with owners</b>	<b>5,608</b>	<b>–1,905</b>
<b>Closing balance</b>	<b>94,978</b>	<b>70,418</b>
<b>Attributable to</b>		
Owners of the parent company	90,418	59,412
Non-controlling interests	4,560	11,006
<b>Closing balance</b>	<b>94,978</b>	<b>70,418</b>

1) Refers to the effect of Geely Holding's divestment in Polestar Automotive (Shanghai) Co., Ltd.

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

3) Refers to the acquisition of Asia Euro Automobile Manufacturing (Taizhou) Co., Ltd from Geely Auto Group Co., Ltd, see Note 4 – Related party transactions.

4) 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, see Note 4 – Related party transactions.

# Consolidated Statement of Cash Flows

SEKm	Oct–Dec 2021	Oct–Dec 2020	Full year 2021	Full year 2020
<b>OPERATING ACTIVITIES</b>				
Operating income	3,708	4,937	20,275	8,516
Depreciation and amortisation of non-current assets	3,717	2,992	15,005	14,449
Dividends received from joint ventures and associates <sup>1)</sup>	—	—	1,991	333
Interest and similar items received	163	190	602	550
Interest and similar items paid	–297	–478	–1,139	–1,268
Other financial items	–141	–92	–815	–437
Income tax paid	–282	–375	–3,673	–2,856
Adjustments for other non-cash items	–249	1,227	–750	3,989
	<b>6,619</b>	<b>8,401</b>	<b>31,496</b>	<b>23,276</b>
<b>Movements in working capital</b>				
Change in inventories	1,889	3,389	3,643	–454
Change in accounts receivable	1,329	–1,518	2,845	–2,137
Change in accounts payable	14,684	4,821	–3,328	5,183
Change in provisions	15	1,331	–1,126	–303
Change in contract liabilities to customers	3,427	2,257	2,239	3,872
Change in other working capital assets/liabilities	1,442	3,188	–5,917	4,848
<b>Cash flow from movements in working capital</b>	<b>22,786</b>	<b>13,468</b>	<b>–1,644</b>	<b>11,009</b>
<b>Cash flow from operating activities</b>	<b>29,405</b>	<b>21,869</b>	<b>29,852</b>	<b>34,285</b>
<b>INVESTING ACTIVITIES</b>				
Investments in shares and participations	–10,565	–4,143	–11,518	–4,589
Capital repayments from shares and participations	—	115	132	464
Repayment of loans from affiliated companies	—	3,054	—	1,251
Investments in intangible assets	–3,798	–2,217	–11,972	–8,574
Investments in tangible assets	–3,701	–3,017	–11,352	–9,986
Disposal of tangible assets	50	183	123	431
Other	–150	—	–150	—
<b>Cash flow from investing activities</b>	<b>–18,164</b>	<b>–6,025</b>	<b>–34,737</b>	<b>–21,003</b>
<b>Cash flow from operating and investing activities</b>	<b>11,241</b>	<b>15,844</b>	<b>–4,885</b>	<b>13,282</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from credit institutions	2	114	1,579	5,011
Proceeds from bond issuance	—	5,209	—	5,209
New share issue	19,900	—	20,807	—
Capital contribution from Non-controlling interest	—	—	360	—
Repayment of bond	–2,999	—	–8,064	—
Repayment of liabilities to credit institutions	–1,230	–1,112	–2,957	–4,612
Repayment of interest bearing liabilities	–385	–348	–1,450	–1,350
Dividends paid to shareholders and/or Non-controlling interest <sup>2)</sup>	–493	—	–10,462	–4
Investments in marketable securities	–6,935	–8,282	–15,015	–8,806
Matured marketable securities	4,064	1	15,475	4,114
Other <sup>3)</sup>	320	–362	905	–396
<b>Cash flow from financing activities</b>	<b>12,244</b>	<b>–4,780</b>	<b>1,178</b>	<b>–834</b>
<b>Cash flow for the period</b>	<b>23,485</b>	<b>11,064</b>	<b>–3,707</b>	<b>12,448</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>36,403</b>	<b>53,072</b>	<b>61,592</b>	<b>51,997</b>
Exchange difference on cash and cash equivalents	2,377	–2,544	4,380	–2,853
<b>Cash and cash equivalents at end of period</b>	<b>62,265</b>	<b>61,592</b>	<b>62,265</b>	<b>61,592</b>

1) During the fourth quarter 2021, Dividends received from joint ventures and associates was reclassified from Investing to Operating activities and the comparative figures have been adjusted accordingly.

2) For further information, see Consolidated statement of Changes in Equity on page 19.

3) For Oct–Dec, Other is attributable to realised result from financial instruments of SEK 323 (–395) m and change in Other non-current liabilities of SEK –3 (33) m. For full year, Other is attributable to realised result from financial instruments of SEK 947 (–424) m and change in Other non-current liabilities of SEK –42 (28) m.



## Condensed Parent Company Income Statements

SEKm	Oct-Dec 2021	Oct-Dec 2020	Full year 2021	Full year 2020
Administrative expenses	-14	-4	-26	-17
<b>Operating income/loss</b>	<b>-14</b>	<b>-4</b>	<b>-26</b>	<b>-17</b>
Financial income <sup>1)</sup>	3,168	210	3,886	730
Financial expenses	-151	-232	-763	-707
<b>Income before tax</b>	<b>3,003</b>	<b>-26</b>	<b>3,097</b>	<b>6</b>
Income tax	53	-3	58	-11
<b>Net income</b>	<b>3,056</b>	<b>-29</b>	<b>3,155</b>	<b>-5</b>

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

1) Dividend of SEK 3,000 m received in December 2021.

## Condensed Parent Company Balance Sheets

SEKm	31 Dec 2021	31 Dec 2020
<b>ASSETS</b>		
Non-current assets	33,909	40,314
Current assets	22,488	5,956
<b>TOTAL ASSETS</b>	<b>56,397</b>	<b>46,270</b>
<b>EQUITY &amp; LIABILITIES</b>		
<b>Equity</b>		
Restricted equity	61	51
Non-restricted equity	33,595	15,822
<b>Total equity</b>	<b>33,656</b>	<b>15,873</b>
Non-current liabilities	18,401	24,950
Current liabilities	4,340	5,447
<b>Total liabilities</b>	<b>22,741</b>	<b>30,397</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>56,397</b>	<b>46,270</b>

## 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](http://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	Oct–Dec 2021	Oct–Dec 2020	Full year 2021	Full year 2020
China	16,553	19,660	63,526	61,236
US	14,840	14,179	52,015	40,581
Europe <sup>1)</sup>	36,141	38,664	121,027	121,904
of which Sweden	9,170	7,375	28,245	25,546
of which Germany	5,332	5,546	16,823	18,319
of which United Kingdom	4,604	4,774	15,610	15,866
Other markets	12,542	12,808	45,477	39,112
of which Japan	2,114	1,789	7,477	7,345
of which South Korea	1,542	1,780	5,893	5,059
<b>Total</b>	<b>80,076</b>	<b>85,311</b>	<b>282,045</b>	<b>262,833</b>

### Revenue allocated to category:

SEKm	Oct–Dec 2021	Oct–Dec 2020	Full year 2021	Full year 2020
Sales of products and related goods and services	69,371	77,849	251,422	239,563
Sales of used cars	6,113	4,916	21,051	16,288
JV contract manufacturing	1,622	—	1,622	—
Revenue from subscription, leasing and rental business	914	718	3,497	2,706
Sales of licences and royalties	1,502	587	2,670	2,068
Other revenue <sup>2)</sup>	554	1,241	1,783	2,208
<b>Total</b>	<b>80,076</b>	<b>85,311</b>	<b>282,045</b>	<b>262,833</b>

1) Europe is defined as EU27+ EFTA+ UK.

2) Includes effects of CO<sub>2</sub> 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

31 Dec 2021 (SEKm)	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows	—	773	—	773
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	63	—	63
Derivative instruments for hedging of interest rate risk	—	6	—	6
Commodity derivatives	—	151	—	151
Commercial papers <sup>1)</sup>	—	2,692	—	2,692
Other long-term securities holdings	750	—	1,015	1,765
<b>Total assets</b>	<b>750</b>	<b>3,685</b>	<b>1,015</b>	<b>5,450</b>
Derivative instruments for hedging of currency risk in future commercial cash flows	—	2,628	—	2,628
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	12	—	12
Derivative instruments for hedging of interest rate risk	—	19	—	19
Commodity derivatives	—	1	—	1
<b>Total liabilities</b>	<b>—</b>	<b>2,660</b>	<b>—</b>	<b>2,660</b>
<b>31 Dec 2020 (SEKm)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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 <sup>1)</sup>	—	1,526	—	1,526
Other long-term securities holdings	1,208	—	1,241	2,449
<b>Total assets</b>	<b>1,208</b>	<b>3,521</b>	<b>1,241</b>	<b>5,970</b>
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
<b>Total liabilities</b>	<b>—</b>	<b>2,005</b>	<b>—</b>	<b>2,005</b>

1) Includes SEK 1,860 (750) m reported as marketable securities and SEK 832 (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 31 December 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 31 December 2021 amounted to SEK –1,667 (–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% 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	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Nominal hedge %	56	50	20	19	—	1
CFaR incl. hedges %	46	41	16	13	—	1

Amounts invested in other long-term securities holdings totalled SEK 1,765 (2,449) m, with SEK 750 (1,208) m of the holdings categorised as level 1 financial instruments and SEK 1,015 (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 0.4% and 1.2%. Volatility of the underlying share price has been determined at 94%.

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 31 December 2021, amounted to SEK 431 (874) m and the financial impact of the same instruments recognised in the income statement is SEK –369 (874) m. The share warrants are, as of 31 December 2021, deep in the money with a strike price well under the current list price. The total fair value change amounted to SEK –901 (2,082) 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 94% and a start value of SEK 430 m.

### Sensitivity analysis for warrants (SEKm)

Volatility	Likelihood of triggering event				
	–10%	–5%	0%	5%	10%
–10%	367	394	420	446	473
–5%	371	398	425	452	478
94%	376	403	430	456	483
5%	381	408	435	463	490
10%	385	413	441	468	496

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

SEKm	31 Dec 2021		31 Dec 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds and liabilities to credit institutions	25,415	26,362	34,361	35,252
<b>Total</b>	<b>25,415</b>	<b>26,362</b>	<b>34,361</b>	<b>35,252</b>

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 relates 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 year

- 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 a dividend to its shareholders of which Volvo Cars received SEK 1,175 (326)m. 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 dividends 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 on 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 the fair value of the shares being higher than their carrying amount. Furthermore, a dividend of SEK 9,691 (—) m was distributed to the shareholder Zhejiang Geely Holding Group Co., Ltd, whereof SEK 9,199 m from the 50% owned Chinese subsidiary Daqing Volvo Car Manufacturing Co., Ltd. and SEK 492 m from the 50% owned Chinese subsidiary Zhangjiakou Volvo Car Engine 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% of its shares to Volvo Cars, which increased Volvo Cars share in Polestar from 46.1% to 49.5%. 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% 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 Ltd, 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% ownership HaleyTek is a consolidated subsidiary in the Group and ECARX Technology Ltd has a non-controlling interest of 40% in the company. The capital contribution from ECARX Technology Ltd to HaleyTek AB amounted to SEK 360 m.
- On 27 September 2021, Polestar announced its intentions to get listed on Nasdaq New York, through the special purpose acquisition company (SPAC), Gores Guggenheim. Polestar's implied enterprise value is approximately USD 20 bn. The business combination is expected to be finalised during the first half of 2022. In connection with, and subject to, completion of the de-SPAC, Polestar has entered into subscription agreements for a share issue, raising gross proceeds of approximately USD 250 m, whereof Volvo Car Group has intended to subscribe for up to USD 100 m worth of shares, with a current executed subscription agreement for a value of USD 27 m. In addition, immediately prior to completion of the de-SPAC, Volvo Car Group intends to subscribe for convertible preference shares in Polestar up to a value of USD 600 m, with a current executed subscription agreement for a value of USD 498 m. The proceeds received by Polestar for the convertible preference shares shall be used to repay accounts payable to Volvo Car Group. The final amounts to be invested in the share issue and in convertible preference shares may change, but Volvo Car Group's total additional investment in Polestar shall not exceed USD 600 m. Upon completion of the de-SPAC, it is anticipated that the convertible preference shares will be converted into common shares of class A in Polestar, at a conversion price of USD 10 per share, subject to customary recalculation provisions, and provided, among other things, that Volvo Car Group directly or indirectly holds less than 50% of voting power in



## NOTE 4 – Related party transactions – continued

Polestar following the conversion. Following completion of the business combination and the listing on Nasdaq New York, Volvo Car Group expects to indirectly hold 47.8% of the shares and 49.4% of the votes in Polestar, provided that no existing shareholders in Gores Guggenheim exercise their redemption rights.

- In December, Volvo Cars acquired 100% of the shares in Asia Euro Automobile Manufacturing (Taizhou) Co., Ltd. (previously called Luqiao) from Geely Auto Group Co., Ltd. The investment in shares amounted to SEK –10,551 m, including repayment of loans. The framework 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 the smaller 40-series CMA-based car, the XC40 for Volvo Cars and the Polestar 2 model for Polestar.

### 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 5,196 (694)<sup>3)</sup> m. For further details refer to section *Specification of transactions with Related Parties*.

#### Sales of goods, services and other

SEKm	Oct–Dec 2021	Oct–Dec 2020	Full year 2021	Full year 2020
Related companies <sup>1) 2) 4)</sup>	3,056	1,574	7,128	5,131
Associated companies and joint ventures	364	319	1,448	1,303

#### Purchases of goods, services and other

SEKm	Oct–Dec 2021	Oct–Dec 2020	Full year 2021	Full year 2020
Related companies <sup>1) 2) 3) 4)</sup>	–5,028	–3,120	–12,665	–7,085
Associated companies and joint ventures	–518	–549	–1,815	–2,363

SEKm	Receivables		Payables	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Related companies <sup>1) 2) 3) 4)</sup>	18,626	9,248	4,758	5,486
Associated companies and joint ventures	991	518	499	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 fourth quarter amounted to SEK 343 (542) m and SEK 1,471 (1,774) m during the full year.
- 3) The increase in receivables is primarily due to Polestar receivables which formed part of the Volvo Cars acquisition of the Taizhou plant from Geely. 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.

## NOTE 4 – Related party transactions – continued

### Specification of transactions with Related Parties

#### The Polestar Group

Volvo Car Group recognised revenue related to the sale of technology licenses and development of technology of SEK 325 (355) m in the fourth quarter and SEK 1,281 (1,541) m for the full year. Further, following the acquisition of Taizhou on 1 December 2021, revenue of SEK 1,641 m was recognised related to sale of Polestar cars. The sale of other services, recognised as other income, amounted to SEK 175 (44) m in the fourth quarter and SEK 529 (432) m for the full year. Volvo Car Group sold patents for SEK — (—) m in the fourth quarter and SEK 153 (—) m in the full year, which has been recognised as other income. Volvo Car Group's purchases of Polestar cars from Polestar amounted to SEK –184 (–193) m in the fourth quarter and SEK –377 (–302) m in the full year. Volvo Car Group's purchases related to a performance enhancement product provided to the end customers amounted to SEK –51 (–67) m in the fourth quarter and SEK –227 (–307) m in the full year. The purchases have been recognised as cost of sales.

#### Taizhou (previously called Luqiao)

With effect from 1 December 2021, Taizhou plant is a subsidiary within Volvo Car Group. The transactions below cover the period up until the transaction date. The support service for operating the plant has resulted in other income of SEK 26 (151) m in the fourth quarter and SEK 253 (424) m for the full year. 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 197 (325) m during the fourth quarter and SEK 845 (922) m for the full year. Volvo Car Group's purchases from Taizhou amounted to SEK –665 (–1,847) m during the fourth quarter and SEK –3,434 (–4,426) m for the full year 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 — (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 the purchase of gearboxes for PHEV XC40 plug-in hybrid cars as well as an agreement related to the sale of fleet cars to Ningbo Fuhong Auto Sales Co Ltd. The purchase of research and development services from Ningbo amounted to SEK –375 (—) m in the fourth quarter and SEK –938 (—) m for the full year, whereof SEK –320 (—) m in the fourth quarter and SEK –641 (—) m in the full year has been capitalised as intangible assets. The purchase of gearboxes amounted to SEK –284 (–264) m in the fourth quarter and SEK –898 (–716) m in the full year and has been recognised as cost of sales. The sale of fleet cars amounted to SEK 89 (378) m in the fourth quarter and SEK 791 (747) m in the full year and has been recognised as revenue.

#### 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 of research and development services from CEVT amounted to SEK –17 (–14) m in the fourth quarter and SEK –356 (–52) m in the full year whereof SEK — (–1) m in the fourth quarter and SEK –315 (–36) m in the full year has been capitalised as intangible assets.

#### Powertrain Engineering Sweden AB (PES)

Powertrain Engineering Sweden AB (PES) is, with effect from 30 June 2021, a related company to Volvo Cars, 100% owned by Geely Sweden Holdings AB. The intention is that PES shall be owned by the newly established company Zhejiang Aurobay Powertrain Co., Ltd, in which Volvo Cars has a shareholding of 33%, and hence PES will remain a related company. Volvo Cars has several agreements with PES relating to purchases for research and development services of combustion engines. Purchases from Powertrain Engineering Sweden AB amounted to SEK –2,870 (—) m during the fourth quarter and SEK –5,039 (—) m in the full year, and were mainly related to combustion engines and product development. The purchase of combustion engines amounted to SEK –2,526 (—) m during the fourth quarter and SEK –4,354 (—) m in the full year, and has mainly been recognised as cost of sales. The purchase of development amounted to SEK –352 (—) m during the fourth quarter and SEK (–695) (—) m in the full year, whereof SEK –196 (—) m during the fourth quarter and SEK –385 (—) m during the full year has been capitalised as product development.

#### Zhejiang Forever New Energy

Volvo Car Group has an agreement with Zhejiang Forever New Energy Co., Ltd, for purchases of batteries. The purchases amounted to SEK –304 (–107) m during the fourth quarter and SEK –461 (–207) m in the full year and have been recognised as cost of sales.

#### Zeekr Automobile

Since September 2021, Volvo Car Group has an agreement with Zeekr Automobile (Ningbo Hangzhou Bay New Zone) Co., Ltd, for research and development of technology of future cars. Total purchases of research and development services from Zeekr amounted to SEK –39 (—) m in the fourth quarter and SEK –110 (—) m in the full year.

## NOTE 5 – Business combination under common control

### Acquisition of Asia Euro Automobile Manufacturing (Taizhou) Co., Ltd

On 1 December 2021, Volvo Car Group, through one of its wholly owned subsidiaries, Volvo Cars (China) Investment Co., Ltd, acquired by way of appropriation 100% of the shares in Asia Euro Automobile Manufacturing (Taizhou) Co., Ltd (AELQ) from Geely Auto Group Co., Ltd. The acquired company consists of the operating company of the manufacturing plant in Luqiao, Taizhou, China. In Taizhou the new range of the smaller 40-series CMA-based car, the XC40 for Volvo Cars and the Polestar 2 model for Polestar, are produced. The acquisition is part of Volvo Car Group's long-term strategic decision to own its manufacturing production plants.

The acquisition is between parties under common control and Volvo Car Group has applied predecessor accounting, meaning that the acquirer consolidates the predecessor's respective carrying values for assets and liabilities. Any difference between the cost of the combination (i.e. the fair value of the consideration paid) and the carrying values for assets and liabilities are recognised directly in equity within retained earnings. Volvo Car Group has consolidated the company from the transaction date, 1 December 2021.

SEKm	2021
<b>Purchase price</b>	
Purchase consideration	1,112
<b>Total cost of the acquisition</b>	<b>1,112</b>
<b>Acquired assets and liabilities at carrying value</b>	
Intangible assets	9
Tangible assets	3,672
Inventories	1,626
Accounts receivable	9,431
Other current assets	252
Cash and cash equivalents	94
Other non-current interest bearing liabilities	-386
Other non-current liabilities	-1,141
Accounts payable	-2,167
Other current interest bearing liabilities	-84
Other current liabilities	-10,112
<b>Total carrying value of net assets acquired</b>	<b>1,194</b>
<b>Deficit of consideration paid recognised in Equity</b>	<b>-82</b>
<b>Cash effect of business combination</b>	
Purchase consideration <sup>1)</sup>	-1,110
Repayment of debts	-9,535
Acquired cash and cash equivalents	94
<b>Change in cash and cash equivalents due to acquisition</b>	<b>-10,551</b>

1) Exchange rate difference between acquisition date and payment date of the Purchase price payment.

Acquisition-related costs for 2021 amounted to SEK 4 m and have been reported as administration expenses in the income statement. There were no contingent liabilities assumed or collateral pledged arising from the acquisition.

For Chinese companies there are some restrictions on the Volvo Car Group's ability to access cash outside China. The carrying value of the acquired accounts receivable corresponds to the gross contractual value and amounts to SEK 9,431 m. All receivables are expected to be collectible.

The real estate (i.e. land and building) related to Taizhou plant is currently owned by Zhejiang Jingang Automobile Co., Ltd and leased by AELQ. In the framework agreement Zhejiang Jingang Automobile Co., Ltd has granted AELQ an option to acquire the land and building within one year at a predetermined purchase price.

The acquired business contributed revenues of SEK 1,431 m and net profit of SEK 262 m to the Group for the period from 1 December to 31 December 2021.

If the acquisition had occurred on 1 January 2021, the acquired business would have contributed revenues of SEK 8,899 m and Net profit of SEK 881 m to the Group. The total cost of combination and carrying values have been determined provisionally, thus, the acquisition analyses may be subject to adjustment during a twelve-month period.

## NOTE 6 – Assets and liabilities held for sale

Assets and liabilities held for sale, net, amounted to SEK 1,785 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 31 December 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 was completed on 31 January 2022 and the buyer was the newly created company Zhejiang Aurobay Powertrain Co., Ltd, in which Volvo Cars own 33%.

## NOTE 7 – Earnings per share

Basic earnings per share (SEKm)	Oct–Dec 2021	Oct–Dec 2020	Full year 2021	Full year 2020
Net income attributable to owners of the parent company	2,115	4,825	12,546	5,834
Preference share returns relating to the period	–266	–32	–360	–126
<b>Net income attributable to owners of ordinary shares in the parent company</b>	<b>1,849</b>	<b>4,793</b>	<b>12,186</b>	<b>5,708</b>
Weighted average number of ordinary shares outstanding, undiluted	2,819,682,786	2,500,000,000	2,579,920,697	2,500,000,000
<b>Basic earnings per share (SEK)</b>	<b>0.66</b>	<b>1.92</b>	<b>4.72</b>	<b>2.28</b>

Diluted earnings per share <sup>1)</sup> (SEKm)	Oct–Dec 2021	Oct–Dec 2020	Full year 2021	Full year 2020
Net income in basic earnings per share	1,849	4,793	12,186	5,708
If preference shares had been converted, no preference yield had accrued	266	32	360	126
<b>Net income in diluted earnings per share</b>	<b>2,115</b>	<b>4,825</b>	<b>12,546</b>	<b>5,834</b>
Weighted average number of ordinary shares outstanding, diluted	2,838,662,686	2,556,939,700	2,627,370,447	2,556,939,700
<b>Diluted earnings per share (SEK)</b>	<b>0.66</b>	<b>1.89</b>	<b>4.72</b>	<b>2.28</b>

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 Q4 2021 and Full year 2021, the preference shares are considered anti-dilutive hence diluted earnings per share equals basic earnings per share.

## NOTE 8 – Significant events after the period

### Sale of the Chinese ICE operations

On 31 January 2022, Volvo Car Group finalised the separation of its ICE operations and sold the 50% owned subsidiary Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. to its associate company Zhejiang Aurobay Powertrain Co., Ltd (Aurobay). Aurobay will be a global supplier of complete powertrain solutions, including next generation combustion engines, transmissions and hybrid solutions.

### Volvo Cars and Northvolt to build a battery plant in Gothenburg, Sweden

On 4 February 2022, Volvo Cars and Northvolt announced the decision to build a battery manufacturing plant in Gothenburg, Sweden. The production is estimated to commence its operations in 2025, creating up to 3,000 jobs.

### New Chief Executive and President appointed

The Board of Directors of Volvo Cars has appointed Jim Rowan as Chief Executive and President. He will join Volvo Cars on March 21 2022, succeeding Håkan Samuelsson.

## 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, is a publicly listed company on the Nasdaq Stockholm Stock Exchange. The largest owner, holding 82% of shares and capital, is 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. The remaining 18% of the shares are held by Nordic and international institutions as well as approximately 190.000 retail investors.

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% of the shares.

### Joint venture companies (JVs)

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.

### Traditional premium segment

Traditional premium segment is the premium market brands such as Volvo, Audi, BMW, Lexus, Mercedes, Tesla and so on.

### Electrified cars

Electrified cars including 100% fully electric cars, the same as the Battery Electric Vehicles (BEV), and Plug-in hybrids (PHEV), in both petrol and diesel with chargeable cord.

### Recharge cars / Recharge line-up

"Recharge" is the overarching name for all Volvo chargeable car models including plug-in hybrids (PHEV) and fully electric vehicles (BEV).

### ICE

Internal combustion engine, including all powertrain types except plug-in hybrids (PHEV) and fully electric vehicles (BEV).

### 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.

## EBIT margin excl. share of income from JVs & associates

EBIT margin excl. share of income from JVs & associates is defined as EBIT less the result from share of income from JVs & associates as a percentage of revenue. The margin presents the profitability of the operation excluding share of income from JVs & associates 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%) 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.

## Items affecting comparability

Transactions that are not related to recurring business operations and where the probability of reoccurrence over the coming years is limited.



# VOLVO CAR GROUP

## RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES

SEKm	Oct-Dec 2021	Oct-Dec 2020	Full year 2021	Full year 2020
Revenue	80,076	85,311	282,045	262,833
Cost of sales	-63,511	-69,420	-221,632	-216,813
Research and development expenses	-3,289	-2,085	-13,126	-11,362
Operating income, EBIT	3,708	4,937	20,275	8,516
EBIT margin, excl. share of income from JVs & associates	5,668	4,923	21,226	8,868
Net income	2,258	5,639	14,177	7,788
EBITDA	7,425	7,929	35,280	22,965
Gross margin %	20.7	18.6	21.4	17.5
EBIT margin %	4.6	5.8	7.2	3.2
EBIT margin, excl. share of income from JVs & associates %	7.1	5.8	7.5	3.4
EBITDA margin %	9.3	9.3	12.5	8.7
Equity ratio %	33.5	27.1	33.5	26.8
Net cash	44,846	35,241	44,846	35,241
Return on invested capital, ROIC %	N/A	N/A	18.5	8.4

Operating income, EBIT/EBIT margin, %	Oct-Dec 2021	Oct-Dec 2020	Full year 2021	Full year 2020
Operating income, EBIT	3,708	4,937	20,275	8,516
Revenue	80,076	85,311	282,045	262,833
<b>EBIT margin %</b>	<b>4.6</b>	<b>5.8</b>	<b>7.2</b>	<b>3.2</b>

EBIT and EBIT margin, excl. share of income from JVs & associates, %	Oct-Dec 2021	Oct-Dec 2020	Full year 2021	Full year 2020
EBIT	3,708	4,937	20,275	8,516
Share of income from JVs & associates	-1,960	14	-951	-352
<b>EBIT excl. share of income from JVs &amp; associates</b>	<b>5,668</b>	<b>4,923</b>	<b>21,226</b>	<b>8,868</b>
Revenue	80,076	85,311	282,045	262,833
<b>EBIT margin, excl. share of income from JVs &amp; associates %</b>	<b>7.1</b>	<b>5.8</b>	<b>7.5</b>	<b>3.4</b>

EBITDA/EBITDA margin, %	Oct-Dec 2021	Oct-Dec 2020	Full year 2021	Full year 2020
Operating income, EBIT	3,708	4,937	20,275	8,516
Depreciation and amortisation of non-current assets	3,717	2,992	15,005	14,449
EBITDA	7,425	7,929	35,280	22,965
Revenue	80,076	85,311	282,045	262,833
<b>EBITDA margin %</b>	<b>9.3</b>	<b>9.3</b>	<b>12.5</b>	<b>8.7</b>

Gross margin, %	Oct-Dec 2021	Oct-Dec 2020	Full year 2021	Full year 2020
Gross income	16,565	15,891	60,413	46,020
Revenue	80,076	85,311	282,045	262,833
<b>Gross margin %</b>	<b>20.7</b>	<b>18.6</b>	<b>21.4</b>	<b>17.5</b>

Operating cash, SEKm	Full year 2021	Full year 2020
Average two-year revenue* 10%	27,244	26,848
<b>Operating cash</b>	<b>27,244</b>	<b>26,848</b>

## RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES, CONTINUED

Invested capital <sup>1)</sup> , SEKm	Full year 2021	Full year 2020
Total assets	273,068	252,840
Receivables from parent company	—	–27
Other long-term securities holdings	–2,107	–1,373
Cash and cash equivalents	–61,929	–56,795
Marketable securities	–8,042	–5,803
Operating cash	27,244	26,848
Total current liabilities	–126,234	–121,168
Current liabilities to parent company	—	—
Total current interest-bearing liabilities	7,311	6,934
<b>Total invested capital</b>	<b>109,311</b>	<b>101,457</b>

1) Calculated on two-year average figures.

Return on invested capital, ROIC, %	Full year 2021	Full year 2020
EBIT (last twelve months)	20,275	8,516
Invested capital	109,311	101,457
<b>Return on invested capital, ROIC, %</b>	<b>18.5</b>	<b>8.4</b>

Equity ratio, SEKm	31 Dec 2021	31 Dec 2020
Total equity	94,978	70,418
Total assets	283,824	262,312
<b>Equity ratio, %</b>	<b>33.5</b>	<b>26.8</b>

Net cash, SEKm	31 Dec 2021	31 Dec 2020
Cash and cash equivalents	62,265	61,592
Marketable securities	7,996	8,087
Liabilities to credit institutions (non-current)	–2,543	–5,882
Bonds (non-current)	–18,401	–20,950
Other interest-bearing liabilities <sup>2)</sup>	—	–84
Liabilities to credit institutions (current)	–4,471	–2,512
Bonds (current) <sup>1)</sup>	—	–5,010
<b>Net cash<sup>2)</sup></b>	<b>44,846</b>	<b>35,241</b>

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 –1,462 (–1,160) m and non-current SEK –5,509 (–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.

Liquidity, SEKm	31 Dec 2021	31 Dec 2020
Cash and cash equivalents	62,265	61,592
Undrawn credit facilities	13,377	24,700
Marketable securities	7,996	8,087
<b>Liquidity</b>	<b>83,638</b>	<b>94,379</b>

## 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, 11 February 2022

**Håkan Samuelsson**  
Chief Executive

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

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### CONTACT

#### Analysts and investors

Anna Oxenstierna  
Head of Investor Relations  
+46 31-793 9400  
investors@volvocars.com

#### Journalists and media

Volvo Cars Media Relations  
+46 31-596525  
media@volvocars.com

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### FINANCIAL CALENDAR & CONFERENCE CALL

#### Webcast and conference call

At 10:30 CET on 11 February, 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](https://live.volvocars.com)

Dial in details:

UK/International	+44 (0) 2071 928000
Sweden	+46 8 506 921 80
USA	+1 631 510 7495
Germany	+49 30 2215 318 02
France	+33 1 7670 0794
China	+86 40 0611 8339

Confirmation ID: 2288402

#### Upcoming investor Events

Week 14: Annual and Sustainability report 2021  
28 April 2022: Q1 2022 report  
11 May 2022: AGM Gothenburg, Sweden  
20 July 2022: Q2 2022 report  
27 October 2022: Q3 2022 report  
9 February 2023: Q4 2022 report

### ABOUT THIS REPORT

#### 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.

#### 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.