

V O L V O

Freedom to move

*in a personal, sustainable
and safe way.*



VOLVO CAR GROUP

INTERIM REPORT SECOND QUARTER 2022

Volvo Cars' core operations delivered steady earnings in a turbulent world.

APRIL–JUNE 2022

- Customer demand for Volvo Cars products remained robust.
- Semiconductor constraints continued to gradually improve. However, production was down during the second quarter due to the specific shortage and the effects from the COVID-related lockdowns in China. June production marked a strong improvement with 60 thousand cars produced, an 8% increase year-over-year and the highest in 2022.
- Retail sales decreased by 27% to 143.0 (195.1) thousand cars, due to supply constraints and COVID-related lockdowns in China.
- Revenue decreased by 2% to SEK 71.3 (72.5) bn, less impacted than retail sales due to price increases and strong product mix.
- Operating income (EBIT) was SEK 10.8 (4.8) bn, including accounting effects from the listing of Polestar.
- EBIT margin was 15.1 (6.6)%, largely driven by the effects from the listing of Polestar.
- EBIT margin, excluding share of income in joint ventures and associated companies, was 6.5 (7.9)%.
- Basic earnings per share was SEK 3.00 (0.99).
- Operating and investing cash flow was SEK –5.6 (—) bn.
- Annual General Meeting was held on 11 May.
- Polestar, our strategic affiliate, was successfully listed on Nasdaq Stock Exchange in New York with first day of trading on 24 June.
- Volvo Cars adjusted its organisation; former CFO Björn Annwall, was appointed Chief Commercial Officer and deputy CEO while Johan Ekdahl, previously Head of Global Accounting and Group Reporting, was appointed acting CFO. Further Javier Varela was appointed Chief Operating Officer and deputy CEO.
- The COVID-related lockdowns in China caused a shortage of certain components primarily affecting the production of fully electric and plug-in hybrid cars which will negatively affect their share of retail deliveries in the third quarter.
- Volvo Cars expects its wholesale volumes for 2022 to be better than the 2021 levels. However due to the time lag between production and retail deliveries, we expect full year retail deliveries to be lower or on par with 2021.

SIGNIFICANT EVENTS AFTER THE PERIOD

- Volvo Cars will establish an electric car manufacturing plant in Slovakia to match its growth ambitions. Production is scheduled to start in 2026 for next-generation, pure electric cars.

VOLVO CAR GROUP

SEKbn unless otherwise stated	3 Months			6 Months			12 Months	
	Apr–Jun 2022	Apr–Jun 2021 ¹⁾	Δ%	Jan–Jun 2022	Jan–Jun 2021 ¹⁾	Δ%	LTM ¹⁾²⁾	Full year 2021 ¹⁾
Retail sales, k units ³⁾	143.0	195.1	–27	291.3	380.8	–23	609.2	698.7
Revenue	71.3	72.5	–2	145.6	141.1	3	286.5	282.0
Research and development expenses ⁴⁾	–2.9	–3.5	–17	–6.1	–6.9	–11	–11.9	–12.7
Operating income (EBIT) ⁵⁾	10.8	4.8	124	16.8	13.2	27	23.9	20.3
EBIT excl. share of income in JVs and associates ⁵⁾	4.6	5.7	–19	10.5	11.2	–7	20.5	21.2
Net income ³⁾	9.0	3.2	184	13.5	9.6	40	18.0	14.2
Basic earnings per share, SEK ⁴⁾	3.00	0.99	203	4.29	3.27	31	2.79	4.72
EBITDA ³⁾	14.8	8.4	77	24.8	20.9	19	39.2	35.3
Cash flow from operating activities ⁴⁾	7.4	6.5	13	3.1	2.3	34	30.4	29.9
Cash flow from investing activities ⁴⁾	–13.0	–6.5	99	–21.0	–9.2	128	–46.6	–34.7
Net cash ⁵⁾	28.8	24.1	20	28.8	24.1	20	28.8	44.8
Gross margin, % ⁵⁾	19.8	22.3	–11	20.5	21.5	–5	21.0	21.6
EBIT margin, % ⁵⁾	15.1	6.6	128	11.6	9.4	23	8.3	7.2
EBIT margin excl. share of income in JVs and associates, % ⁵⁾	6.5	7.9	–18	7.2	8.0	–10	7.1	7.5
EBITDA margin, % ⁵⁾	20.8	11.5	80	17.1	14.8	15	13.7	12.5
Return on invested capital, ROIC, % ⁵⁾	N/A	N/A	N/A	N/A	N/A	N/A	18.1	18.5

1) In 2022, there has been a change in the elimination of internal profit related to sale of digital services within the Group. This change has resulted in a decrease of cost of sales, research and development expenses and selling expenses against an increase of administrative expenses. The figures for 2021 have been adjusted accordingly. The reclassification has no impact on EBIT.

2) Last twelve months.

3) Non-financial operating metric.

4) IFRS measure.

5) Non-IFRS measure (alternative performance measure), see Alternative performance measures on page 31.



Steady earnings in a turbulent world



The world around us continues to change: the ongoing tragic war in Ukraine, sporadic pandemic lockdowns in China and ongoing increased uncertainty regarding global trade. All of this is having a bruising effect on supply chains and raw material prices. We are all feeling the double effects of inflation on one side and increased interest rates on the other.

The automotive industry, as one of the leading industrial sectors in the world, is an intrinsic part of the global economy and sits at the centre of complex global supply chains. Naturally, it has been affected by the macroeconomic headwinds.

For us at Volvo Cars we are not immune from these effects. Despite that, the demand for our products remains robust and we remain focused and clear that the short-term business challenges will not weaken our resolve to meet our mid-to-long-term strategic ambitions. If anything, it will only speed-up our pace of change. We are on an exciting path to transformation, and we remain steadfast on our strategic direction. With our customers in focus, we will create value through technology and product development, digital connectivity and software capabilities.

Shifts in the competitor landscape is intensifying at a faster pace than before. And we firmly believe that we need to further leverage our strong brand and organisation to position ourselves even more strongly, to deliver on our objectives and purpose. That's why, in June, we adjusted our organization and governance focused on execution and speed. We believe these changes will put us in a position to deliver on our plans.

Earlier this month, we also announced the plan to establish our third European plant, which will produce electric vehicles and will be located in Slovakia. This will add more capacity, delivering on our growth agenda for our mid-decade objectives and beyond. The new manufacturing plant will be highly efficient and incorporate state-of-the-art technologies and automation, and will produce thousands of our next generation fully electric Volvo cars. It will also be climate neutral.

“We are confident and focused on our strategic ambitions and purpose.”

In June our affiliate Polestar was listed on the Nasdaq stock exchange in New York in line with our previous communication. This is an important proof point in the industry's shift to electrification and the objective to establish Polestar as a standalone brand. The listing also provides Polestar with approximately USD 890 million gross proceeds to invest and

deliver on its plans. As the largest shareholder of the company, we will benefit from Polestar's value creation and continued growth.

When looking back at Volvo Cars' performance during a very turbulent second quarter, we are satisfied that we have delivered steady earnings. Even though the macroeconomic factors will continue to put pressure on our performance in the coming months, the steadily improving supply situation, and recent trend of softening raw material prices, combined with our continued focus on cost consciousness, gives us confidence that we will progress towards achieving our mid-decade strategic ambitions.

Total sales during the second quarter reached 143 006 cars, down 27 per cent compared to the same period last year. Sales of fully electric cars grew 64 per cent in the period, compared to the second quarter of 2021, making up 7.3 per cent of total sales. The order book for the company's Recharge models remained robust during the quarter.

In the second quarter, we were hit both by the ongoing supply constraints being carried over from previous quarters and a particularly strong effect from the COVID-related lockdowns in China. The latter factor not only impacted our retail deliveries in China but also severely affected the production in China and Europe predominantly of our Recharge cars, which will continue to negatively affect their retail sales into the third quarter. For the full year 2022, the target remains of having a double-digit share of fully electric cars or more than double compared to 2021.

On the supply situation, we are now seeing a marked improvement with production making a strong comeback in June. Provided this normalisation continues, we expect production to progressively increase in the coming months.

As a result Volvo Cars expects its wholesale volumes for 2022 to be better than in 2021. However, due to the time lag between production and retail deliveries, those improvements are not expected to result into an increase in retail sales during the calendar year. So, for the full year 2022 we anticipate retail sales to be flat or slightly lower compared with volumes in 2021.

Lower volumes for the quarter affected our core EBIT performance, at SEK 4.6 billion or a margin of 6.5 percent. This was largely stable due to strong price realization and better product mix. Our EBIT margin including JVs and associates reached 15.1 per cent during the period. The operating margin was positively affected by the accounting effect of Volvo Cars' shareholding in Polestar following Polestar's listing on the Nasdaq Stock Exchange in New York last month.

Our Recharge models remain popular among customers even though production was hampered by ongoing supply constraints caused by the lockdowns in China. In the second quarter, Recharge sales made up 31 per cent of total sales, an increase from 24 per cent compared to previous year, and this could have been higher without supply constraints.

The number of active subscriptions at the end of the second quarter increased by 122 per cent compared with the same period last year. This growth was driven by customer demand in combination with a broadened offer as online fleet sales for small and medium enterprises were introduced both in the UK and in Sweden. In the second quarter, online sales made up 9.5 per cent of total sales in established markets, compared to 4.6 per cent in the same period last year.

We also successfully placed our second green bond during this quarter to raise EUR 500 million. Despite the very challenging market sentiments, our bond was oversubscribed three-times underscoring strong trust that investors put not only in Volvo Cars, but also in the company's sustainability plans and electrification strategy.

And finally, our efforts to reduce the CO₂-footprint per car are progressing according to plan, despite a drop in Recharge production. In the first half period, CO₂-emissions were 10 per cent lower compared with our 2018 benchmark, supporting our 2025 ambition of 40 per cent CO₂-reduction per car.

To sum up: like many others, our short-term business challenges remain, however, we are confident and focused on delivering on our strategic ambitions and purpose.

Jim Rowan
President and CEO

Fastest transformer strategy progress

Our industry is changing, and we strive to lead that change. Our fastest transformer strategy outlines how we plan to deliver 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 CO₂-life-cycle footprint per car
- 50% of sales fully electric cars
- 50% in-house software
- 50% of sales online
- Employer of choice and preferred development partner

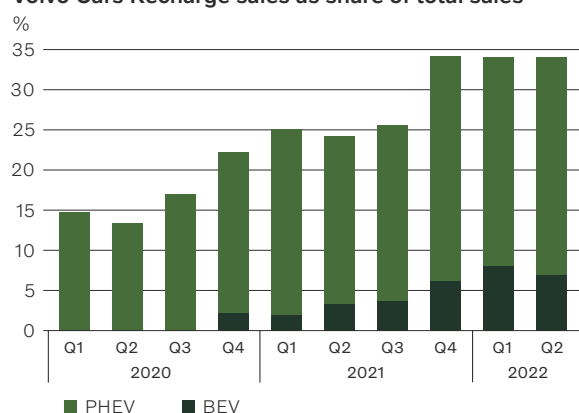
FAST GROWING PREMIUM BRAND

Market position

Recharge sales decreased to 31% total share from 34% in the first quarter and the fully electric share was 7%. Demand continues to be robust and we continue to prioritise fully electric vehicles during the ongoing supply restraints, but due to COVID-related lockdowns in China we have not been able to meet demand.

During the quarter, we experienced an increased number of stop days impacting e.g. our production of both hybrids and fully electric cars due to shortage of components which will affect the share of Recharge sales in the third quarter.

Volvo Cars Recharge sales as share of total sales



Volvo Cars' market share per propulsion type ^{1) 2)}	Jan–May 2022	Jan–May 2021
BEV	0.84%	0.54%
PHEV	7.33%	10.54%
ICE (incl. mild hybrids)	0.75%	0.84%
Total	0.99%	1.05%

Total industry volume share by propulsion type ^{1) 2)}	Jan–May 2022	Growth YoY
BEV	9%	76%
PHEV	3%	26%
ICE (incl. mild hybrids)	87%	–23%
Total	100%	–17%

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: Includes content supplied by IHS Markit Automotive; Copyright® MarketInsight, July 2022. All rights reserved. May data with JP and US missing.

Volvo Cars is further anchoring its ambition of only raising green and sustainable debt

In May, we successfully issued our second green bond to raise EUR 500m from a diverse set of global investors. The bond was oversubscribed three-times, despite challenging global market conditions. All proceeds are earmarked for funding and accelerating our transformation towards becoming a fully electric carmaker by 2030 and becoming climate neutral and circular by 2040.

Moreover, we entered into our first bilateral loan under the Green Financing Framework, a new SEK 1 bn green loan facility, partly refinanced our matured SEK 4 bn loan facility with Svensk Exportkredit.

Sustainability

We are making good progress towards our ambition of reducing the average lifecycle CO₂-emissions per vehicle by 40% between 2018 and 2025. In the first half year, we saw a 10.0% reduction since 2018.

CO ₂ -reduction per car	Lifecycle CO ₂ -emissions per car (tonnes)	Reduction
2018	55.1 t	—
2022 Jan–Jun	49.6 t	–10.0%
2025 ambition	33.3 t	–40%
2040 ambition	0 t	–100%

We underlined our commitment to address the most carbon-intensive areas of our value chain by becoming the first automotive manufacturer to join SteelZero. This cross-sector initiative aims to increase demand for fossil-free steel and accelerate a transition to carbon neutrality in the global steel industry. By signing up to SteelZero, we commit to stringent CO₂-based steel sourcing requirements by 2030, which is in line with our ambition to be climate neutral by 2040. We also joined ResponsibleSteel, a steel industry-wide standard and certification body, to strengthen our supplies are responsibly sourced.

Finally, Volvo Cars' CEO, Jim Rowan, welcomed the European Parliament's landmark decision to end the sale of internal combustion engine vehicles within the EU by 2035 – a science-based deadline to ensure our industry supports the goals of the Paris Agreement. He expressed his hope that European members states will now also give their support. Ahead of the vote, Volvo Cars was one of only two Automotive manufacturers to publicly call on the Parliament to back the 2035 end date.

FULL ELECTRIFICATION

Third European manufacturing plant

Volvo Cars announced that we will establish a third manufacturing plant in Europe, positioning the company well to meet the continued demand from our customers for electric cars and capture future growth potential.

The new state-of-the-art plant will be climate neutral and build only electric cars, underpinning our ambition to become fully electric by 2030 and climate neutral by 2040, and to continue expanding its global production capacity to match our growth ambitions.

Increased BEV capacity

Volvo Cars has increased its fully electric production capacity in the existing plants to an annual capacity of 155 thousand cars to meet surging consumer demand. Going forward this increased capacity will increase further on a yearly basis.

Volvo Cars establish electric vehicle charging network at U.S. Starbucks stores

Volvo Car USA and Starbucks are collaborating to establish the first public electric-vehicle charging network at the coffee company's U.S. stores, powered by ChargePoint. Our objective is to simplify the usage of an electric Volvo car, and remove one of the major barriers for customers to switch to an electric car. Volvo Car USA will install as many as 60 Volvo-branded, ChargePoint DC fast chargers at up to 15 Starbucks locations along a 1,350-mile route from the Denver area to Seattle.

BEV/Non-BEV profitability and share of investments

Our fully electric new car gross income per unit continues to be healthy and higher than the comparable XC40 Non-BEV. 2022 increases in raw material costs have started to impact earnings during the second quarter.

	Apr–Jun 2022		Full year 2021	
	BEV	Non-BEV	BEV	Non-BEV
Retail sales (k units)	10	133	26	673
Revenue per Car (SEKk/unit) ¹⁾	467	418	431	357
Gross Income per Car (SEKk/unit) ¹⁾	71	93	57	69
Gross Margin (%)	15	22	13	19

	BEV	Non-BEV	Common	BEV	Non-BEV	Common
	BEV	Non-BEV	Common	BEV	Non-BEV	Common
Share of Investing Cash Flow (%) ²⁾	70	9	21	54	13	33

1) Revenue and gross income refer to new cars, excluding after sales and subscription. Labour and overhead are set to standard cost and fixed manufacturing costs are distributed by volume.

2) Investments refer to plant, property, equipment and capitalised product development only. Common investments are not defined as either BEV or non-BEV investments and consist of manufacturing efficiency, replacements & maintenance and infotainment development.

A LEADER IN NEW TECHNOLOGY

Collaboration with Epic Games

Volvo Cars is bringing photorealistic visualisation technology into our next generation of electric cars through a new collaboration with Epic Games. We are teaming up to bring Epic's Unreal Engine game engine into upcoming Volvo cars, providing unparalleled high-quality graphics inside the cabin.

DIRECT CONSUMER RELATIONS

The number of cars sold online amounted to 9.5% of sales in the markets where it is launched. Demand remains robust. The lower share of online sales was a consequence of low inventory that does not support the business model. Also other sales channels with immediate revenue recognition were prioritised.

FASTEST TRANSFORMER WAY OF WORKING

Polestar listed on Nasdaq Stock Exchange in New York

Polestar had its first trading day on Nasdaq Stock Exchange in New York under the ticker PSNY on 24 June. It is an important milestone for the strategic collaboration between both Polestar and Volvo Cars that includes driving deep industrial synergies and sharing technologies. This is an important proof point of our electrification strategy and the objective to establish Polestar as a standalone brand contributing to the electric transformation of the automotive industry. See page 13 for more information.

Volvo Cars implements a new organisation

To achieve our ambitions and fulfil our purpose the company has now fine-tuned leadership responsibilities within Volvo Cars. Our strategic direction is clear. With the customer in focus, we will create value through technology and product development, digital and software capabilities. The new organisation will consist of a smaller Executive Management Team and a broader Group Management Team, simplifying the structure with clear responsibilities focusing on increased execution speed.

Second quarter financial summary

SALES AND MARKET DEVELOPMENT

The global passenger car market continued to decline due to the supply constraints of new vehicles. The market was impacted by the COVID-19 lockdowns in eastern China, on top of the continued supply chain disruptions, and the war in Ukraine.

Volvo Cars retail sales decreased by 27%, while BEV increased by 64%. Wholesales decreased by 24% and the production volumes decreased by 22%.

Since the end of March, COVID-19 lockdowns in eastern China impacted retail deliveries in China and added more challenges to already weakened global supply chains, resulting in additional loss of production. With the easing of restrictions, the production increased progressively.

Demand of electrified cars continued to grow globally. However, the lockdowns have impacted the production of fully electric cars and plug-in hybrid cars in the second quarter, which will negatively affect the retail share of Recharge cars in the third quarter.

Europe

The total European market decreased by 17%, while the traditional premium segment decreased by 19%. The pent-up demand remained robust in the region.

Volvo Cars retail sales decreased by 31%, but overall order book remained robust. Recharge sales contributed to close to half of the cars sold in Q2, at 45 (41)%, whereof BEV sales contributed to 10 (5)% of retail sales.

China

The total Chinese passenger car market decreased by 15%, while the traditional premium segment decreased by 23%. This was due to the COVID-19 lockdowns in eastern China.

Sales bounced back in June due to the lift of lockdowns and the introduction purchase tax reduction for all cars from the central government.

Volvo Cars retail sales decreased by 31%. Recharge share of total Chinese retail sales increased to 5 (4)%, whereof BEV sales contributed to 1.3 (0.2)% of retail sales.

US

The total US car market decreased by 20%, while the traditional premium segment declined by 10%. Despite inflation, the continued imbalance between supply and demand for new cars led to higher prices and lower discounts.

Volvo Cars' retail sales decreased by 24%. Recharge share increased to over one-third of the cars sold in Q2, at 36 (19)%. BEV share of sales increased to 8 (5)% of retail sales.

Other

Retail sales in other markets decreased by 11%. The top markets were Japan, Korea and Australia, which reported 7%, -8% and 12% respectively. Recharge share of total sales in other markets was 31 (20)%, whereof BEV sales contributed to 9 (1)%.

Sales development per carline

Volvo Cars continued to steer its production towards high-margin models. The share of sales per carline was relatively stable. The SUVs held strong and increased their share to 81 (78)% of total sales. The Sedan and Wagons' share of total sales declined to 11 (13)% at 8 (9)% respectively. The XC60 remained the best-selling model.

Retail sales (k units)	3 Months			6 Months			12 Months	
	Apr–Jun 2022	Apr–Jun 2021	Δ%	Jan–Jun 2022	Jan–Jun 2021	Δ%	LTM	2021
Europe	54.6	79.3	-31	119.8	166.8	-28	246.4	293.5
China	34.5	50.0	-31	70.2	95.3	-26	146.7	171.7
US	27.8	36.5	-24	50.6	63.8	-21	109.0	122.2
Other	26.0	29.3	-11	50.7	54.9	-8	107.2	111.4
Retail sales total	143.0	195.1	-27	291.3	380.8	-23	609.2	698.7
Recharge line-up vehicles	44.2	47.2	-6	94.0	93.8	0.2	189.4	189.2
<i>whereof BEV vehicles</i>	10.5	6.4	64	22.2	10.0	122	37.9	25.7
Recharge line-up share of sales	31%	24%	—	32%	25%	—	31%	27%
<i>whereof BEV share of sales</i>	7%	3%	—	8%	3%	—	6%	4%
Wholesales	135.5	178.9	-24	292.2	356.9	-18	589.7	654.4
Production volume	132.1	170.4	-22	301.2	356.1	-15	587.0	642.0



Top 10 Retail sales by market (k units)	3 Months			6 Months			12 Months	
	Apr–Jun 2022	Apr–Jun 2021	Δ%	Jan–Jun 2022	Jan–Jun 2021	Δ%	LTM	2021
China	34.5	50.0	–31	70.2	95.3	–26	146.7	171.7
US	27.8	36.5	–24	50.6	63.8	–21	109.0	122.2
Sweden	9.6	10.7	–10	22.0	30.1	–27	39.7	47.8
UK	8.0	13.2	–39	19.2	27.1	–29	40.3	48.3
Germany	7.7	10.6	–27	16.6	22.4	–26	38.0	43.8
Japan	4.3	4.0	7	8.0	8.4	–5	16.2	16.6
Italy	3.9	6.9	–44	7.4	12.1	–39	15.0	19.8
Korea	3.7	4.0	–8	7.0	7.6	–8	14.5	15.1
Belgium	3.4	5.3	–36	7.7	11.0	–30	14.4	17.7
Australia	3.1	2.8	12	5.8	5.4	6	9.4	9.0

Retail sales by model (k units)	3 Months			6 Months			12 Months	
	Apr–Jun 2022	Apr–Jun 2021	Δ%	Jan–Jun 2022	Jan–Jun 2021	Δ%	LTM	2021
XC40 BEV	6.6	6.4	3	14.6	10.0	46	29.2	24.5
C40 BEV	3.9	0	—	7.6	0	—	8.8	1.2
XC60	48.3	60.8	–20	93.2	113.5	–18	195.4	215.6
XC40 ICE/PHEV	29.6	54.2	–45	64.0	108.1	–41	132.4	176.5
XC90	26.9	29.9	–10	48.9	54.2	–10	103.0	108.2
S90	8.3	13.6	–39	17.8	25.7	–31	38.7	46.6
V60	7.5	13.1	–43	16.7	31.2	–47	41.5	56.1
S60	8.2	12.3	–34	20.3	26.4	–23	43.2	49.3
V90	3.6	4.8	–25	8.1	11.7	–31	17.1	20.7
Total	143.0	195.1	–27	291.3	380.8	–23	609.2	698.7

V60 and V90 include the cross-country versions.

INCOME AND RESULT

The comparative figures refer to the consolidated income statement of the second quarter 2021 if not otherwise stated.

Volvo Cars' revenue amounted to SEK 71.3 (72.5) bn. Wholesale volumes decreased by 24% to 135.5 (178.9) thousand cars mainly as an effect of supply chain constraints, to a large extent due to COVID-19 related lockdowns in China, and related lost production volumes. However, despite the decrease in volumes, revenue only decreased by 2%. The negative volume effect was somewhat offset by the positive mix and price development effects amounting to SEK 5.5 bn. Further, revenue from contract manufacturing amounted to SEK 2.1 bn. The foreign exchange rate effect, including hedges, had a positive effect on revenue of SEK 4.0 bn.

Gross income decreased by 13% to SEK 14.1 (16.2) bn, resulting in a gross margin of 19.8 (22.3)%. The decrease in gross margin was mainly due to lower revenue, higher costs for raw materials and third party contract manufacturing. Also higher fully electric cars mix was a contributing factor, but this was fully offset by pricing and other carline mix. Foreign exchange rate effects, including hedges, in cost of sales were negative amounting to SEK –2.7 bn. The net effect of foreign exchange rates including hedges in gross income was positive and amounted to SEK 1.3 bn.

Research and development expenses decreased to SEK –2.9 (–3.5) bn. The decrease is due to increased capitalisation as more projects have reached the capitalisation phase. For details regarding research and development expenses, see the Research and development table on page 11.

Administrative expenses increased to SEK –2.9 (–2.1) bn, mainly due to an increase in expenses related to digital development. Selling expenses decreased to SEK –4.6 (–4.8) bn, mainly as an effect of decreased spending related to marketing.

Other operating income and expenses, net, increased to SEK 0.9 (—) bn, mainly due to positive exchange rate effects from valuation of operating assets and liabilities.

Share of income in joint ventures and associates increased to SEK 6.2 (–0.9) bn. The main effect is related to the successful de-SPAC listing of Polestar. For details regarding the transaction and related effects, see page 13.

Operating income (EBIT) increased to SEK 10.8 (4.8) bn, resulting in an EBIT margin of 15.1 (6.6)%. Excluding share of income in joint ventures and associates, EBIT decreased to SEK 4.6 (5.7) bn, corresponding to a margin of 6.5 (7.9)%. The exchange rate effects including hedges had a positive effect on EBIT of SEK 1.8 bn. See the table below.

Net financial items decreased to SEK –0.8 (–0.4) bn, mainly driven by the market revaluation of the investment in Luminar based on the current share price.

The effective tax rate decreased to 10.2 (27.6)%, mainly due to higher results from shares in joint ventures and associates that are non-taxable. Net income in relation to revenue was 12.6 (4.4)%. Basic earnings per share amounted to SEK 3.00 (0.99).

Items affecting comparability, SEKbn	Apr–Jun 2022	Apr–Jun 2021
de-SPAC listing of Polestar, net effect	5.9	—
Total	5.9	—

Changes to Revenue, SEKbn	Apr–Jun
Revenue Q2 2021	72.5
Volume	–12.2
Sales mix and pricing	5.5
Sale of licences	–0.2
Foreign exchange rates	4.0
Contract manufacturing	2.1
Other ¹⁾	–0.4
Revenue Q2 2022	71.3
Change %	–2

1) Including used cars, parts and accessories.

Changes to Operating income, SEKbn	Apr–Jun
EBIT Q2 2021	4.8
Volume	–2.9
Sales mix and pricing	3.5
Government grants	–0.1
Sale of licences	–0.1
Foreign exchange rates	1.8
Share of income in JVs and associates ²⁾	7.1
Items affecting comparability - Volvo Cars operations	—
Other ³⁾	–3.3
EBIT Q2 2022	10.8
Change %	124

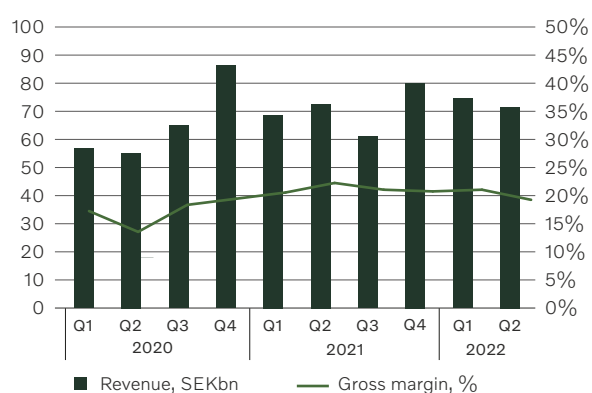
2) For items affecting comparability – JVs and associates, see the table above.

3) Mainly including used cars, parts and accessories, contract manufacturing, raw material increase and cost efficiencies.

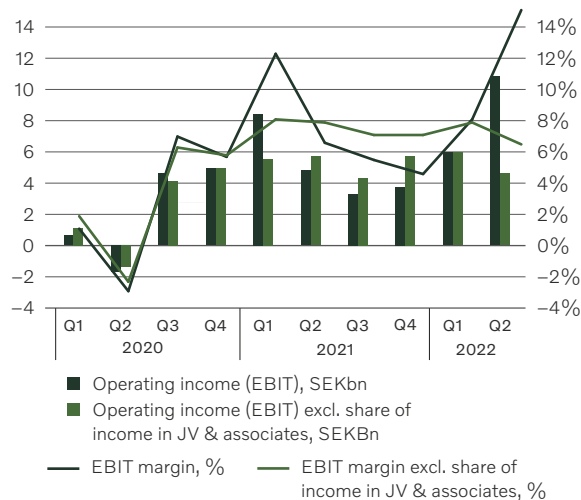
VOLVO CAR GROUP

Research and development, SEKbn	3 Months			6 Months			2021
	Apr–Jun 2022	Apr–Jun 2021	Δ%	Jan–Jun 2022	Jan–Jun 2021	Δ%	
Research and development spending	–5.9	–4.6	29	–10.6	–9.1	16	–19.0
Capitalised development costs	4.1	2.3	81	6.8	4.8	42	10.9
Amortisation of research and development	–1.1	–1.2	–8	–2.3	–2.6	–10	–4.6
Research and development expenses	–2.9	–3.5	–17	–6.1	–6.9	–11	–12.7

Revenue & Gross Margin



Operating Income & EBIT Margin



CASH FLOW

The comparative figures for the cash flow items refer to the consolidated cash flow statement for the second quarter 2021 unless otherwise stated. The comparative figures for the balance sheet items refer to the consolidated balance sheets of 31 December 2021 unless otherwise stated.

Total cash and cash equivalents, including marketable securities, decreased to SEK 57.2 (70.3) bn. Net cash decreased to SEK 28.8 (44.8) bn. Liquidity amounted to SEK 71.2 (83.6) bn, including undrawn credit facilities of SEK 13.9 (13.4) bn.

Cash flow from operating activities

Cash flow from operating activities increased compared to the second quarter 2021 and amounted to SEK 7.4 (6.5) bn. This amount consists of operating income of SEK 10.8 (4.8) bn, adjusted for depreciation and amortisation of SEK 4.0 (3.5) bn and paid income tax of SEK -0.7 (-1.5) bn. The operating cash flow was adjusted for items not affecting cash flow, mainly related with Polestar listing process, but also financial items and realised exchange effects on financial assets and liabilities, with an amount of SEK -6.0 (2.5) bn. The change in working capital amounted to SEK -0.8 (-2.9) bn. The negative cash flow from working capital was mainly related to normal seasonality, but also impacted by the semiconductor shortage and the affected production. Change in inventory affected by SEK -0.6 (1.7) bn due to increased material supply and accounts payable decreased by SEK -1.3 (-4.7) bn due to the shortage of components having a negative effect on production during the full period. Cash flow from accounts receivable amounted to SEK 5.1 (0.2) bn, mainly due to payments from Polestar in connection to the listing process, see page 13. Change in contract liabilities amounted to SEK 0.8 (-0.6) bn explained by increased sales related provisions, such as discounts and dealer incentives. Change in provisions contributed with SEK -2.8 (—) bn mainly due to bonus payments. Further, cashflow effect in other working capital assets/liabilities amounted to SEK -2.0 (0.5) bn impacted by prepaid expenses and decrease of sales related liabilities.

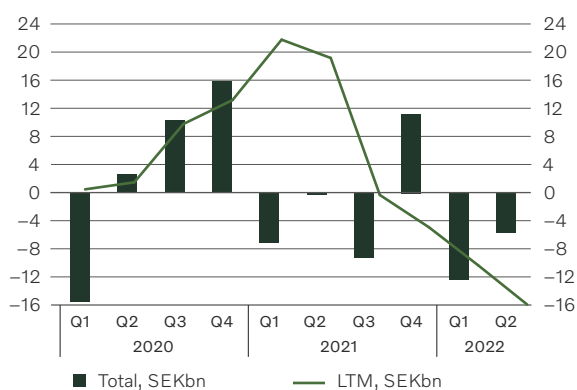
Cash flow from investing activities

Cash flow from investing activities amounted to SEK -13.0 (-6.5) bn. Investments in tangible assets amounted to SEK -2.2 (-3.8) bn, mainly consisting of investments in new products, plant, and capacity. Investments in intangible assets amounted to SEK -4.2 (-2.9) bn as a result of continuous investments in new and upcoming car models and new technology, such as electrification technology and autonomous driving. Investments in shares and participations amounted to SEK -6.5 (—) bn and were primarily related to the investment in convertible preference shares in connection with the Polestar listing, see page 13.

Cash flow from financing activities

Cash flow from financing activities amounted to SEK 2.3 (-6.8) bn and was related to the issue of a new green bond of SEK 5.3 (—) bn that was partly offset by the net result of repayments to and proceeds from credit institutions amounting to SEK -3.3 (0.2) bn, reflecting scheduled repayments and new borrowings. Change in marketable securities amounted to SEK 0.3 (2.9) bn and repayments of interest bearing liabilities amounted to SEK -0.4 (-0.3) bn.

Cash flow from Operating and investing activities



Cash flow statement, SEKbn	3 Months		6 Months		2021
	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	
Cash flow from operating activities	7.4	6.5	3.1	2.3	29.9
Cash flow from investing activities	-13.0	-6.5	-21.0	-9.2	-34.7
Cash flow from operating and investing activities	-5.6	—	-17.9	-6.9	-4.9
Cash flow from financing activities	2.3	-6.8	2.8	-7.5	1.2
Cash flow for the period	-3.3	-6.8	-15.0	-14.4	-3.7

POLESTAR LISTING

As of 24 June, the Polestar Group was listed on the Nasdaq Stock Exchange in New York (ticker symbol: PSNY) in a de-SPAC process through a merger with the SPAC company Gores Guggenheim. This transaction has broadened Polestar's ownership base and in total raised approximately USD 890 m in external capital, of which Volvo Cars invested USD 11 m.

Polestar has been considered as a JV and accounted for in accordance with the equity method. According to the equity method, profit or losses from JVs and associates are either increasing or decreasing, respectively, the carrying amount of investments in such companies in the balance sheet. Due to previously recognised operational losses, the carrying amount of Volvo Cars' investment in Polestar decreased to zero during the first quarter. As an effect, and in accordance with IAS 28, no further losses have therefore been recognised in Volvo Car Group during the first six months of 2022. This is a timing effect as unrecognised losses will reduce any future profits recognised once the value of the investment in Polestar increases.

The listing transactions have several financial effects for Volvo Cars described as follows. In connection with the listing, Volvo Cars interest in Polestar has been partially diluted. The dilution effect amounts to SEK 4,023 m and has been recognised on Volvo Cars' value of the shares in Polestar. The effect is a result of Volvo Cars' share of the external funds raised by Polestar in the listing process after dilution and has been recognised as income in shares in JVs and associates.

The dilution effect also increased Volvo Cars' share value in Polestar, and the previously non-recognised losses have therefore been accounted for.

As part of the listing process, Polestar has also issued earn-out rights to the shareholders owning shares. The value of Volvo Car Group's portion of the earn-out rights, which have been calculated in accordance with a Monte Carlo simulation methodology, has been accounted for as a deemed dividend from Polestar, increasing financial assets, and decreasing the

carrying amount of the shares in Polestar. As of 30 June, these earn-outs have been revalued to market value. The net effect in the balance sheet on financial assets due to the earn-out rights amounts to SEK 6,079 m as of 30 June. The part of the earn-out value exceeding the carrying amount of Polestar is accounted for in the income statement as share of income in JVs and associates. The earn-out rights can be converted to common shares in Polestar Group after a minimum of 180 days after the listing process. The conversion is subject to the Polestar share price at Nasdaq stock exchange. There are five thresholds where the first 20% of the earnouts will be converted at a price of USD 13 and then the following four thresholds amounts to USD 15.50, USD 18, USD 20.50 and USD 23, respectively, with 20% of the earn-out rights being converted at each threshold.

The net effect of the above transactions, i.e., the net of a positive dilution effect, allocation of earn-out rights, revaluation of earn-out rights and previously not recognised operational losses in Polestar during 2022, is presented in Volvo Cars income statement, as share of income in JVs and associates and amounts to SEK 5,899 m.

Directly after the listing, Volvo Cars has invested in convertible preference shares issued by Polestar for a total value of SEK 5,988 m (USD 589 m). The proceeds from this investment have been used by Polestar to repay outstanding payables to Volvo Cars. Following the investment, the convertible preference shares have been converted into common shares in Polestar Group.

After the above transactions, Volvo Car Group owns in total 48.3% of the Polestar Group. Volvo Cars, together with the other main owner PSD Investment Ltd, are still considered to have significant influence over the Polestar Group based on, among other factors, ownership and board composition. Polestar is after the transactions accounted for as an associate instead of a joint venture in accordance with the equity method. After the transactions the book value of the shares at quarter end is approximately SEK 6 bn.

First six months 2022

INCOME AND RESULT

Revenue increased by 3% to SEK 145.6 (141.1) bn, supported by mix effects, price development effects, and contract manufacturing. Wholesale volumes decreased by 18% to 292.2 (356.9) thousand cars, mainly affected by the supply chain constraints.

Gross income amounted to SEK 29.8 (30.3) bn, resulting in a gross margin of 20.5 (21.5)% with a decrease mainly due to increased raw material prices but also effects from contract manufacturing with somewhat lower margin than wholesale. The gross margin was supported by positive carline mix effects and strong price realisation.

Operating Income (EBIT) increased to SEK 16.8 (13.2) bn, resulting in an EBIT margin of 11.6 (9.4)%, mainly as a result of the successful de-SPAC listing of Polestar. For details regarding the transaction and related effects see page 13. Excluding share of income in joint ventures and associates, EBIT decreased to SEK 10.5 (11.2) bn, corresponding to a margin of 7.2 (8.0)%. The exchange rate effects including hedges had a positive effect in EBIT of SEK 1.3 bn.

Net financial items amounted to SEK -1.1 (-1.3) bn. The effective tax rate decreased to 14.6 (19.6)%. Net income was SEK 13.5 (9.6) bn. Net income in relation to revenue was 9.3 (6.8)%. Basic earnings per share amounted to SEK 4.29 (3.27).

Items affecting comparability, SEKbn	Jan-Jun 2022	Jan-Jun 2021
de-SPAC listing of Polestar, net effect	5.9	—
Share of income, Zenuity	—	1.2
Valuation effect from the private placement in Polestar Automotive Holding Ltd	—	2.0
Total	5.9	3.2

CASH FLOW

Total cash and cash equivalents, including marketable securities, decreased to SEK 57.2 (70.3) bn. Net cash decreased to SEK 28.8 (44.8) bn. Liquidity amounted to SEK 71.2 (83.6) bn, including undrawn credit facilities of SEK 13.9 (13.4) bn.

Cash flow from operating activities was positive and amounted to SEK 3.1 (2.3) bn, mainly due to payments from Polestar in connection to the listing process. Working capital was negative and amounted to SEK -12.6 (-16.0) bn.

Volvo Cars continued to invest in production capacity and in the transformation into a fully electric car company. Cash flow from investing activities amounted to SEK -21.0 (-9.2) bn, partly due to the investment in convertible preferenceshares in connection to the Polestar listing process, see page 13.

Cash flow from financing activities was positive and amounted to SEK 2.8 (-7.5) bn, mainly related to the proceeds of a new green bond issuance of SEK 5.3 (—) bn.

EQUITY

Total equity increased to SEK 112.9 (95.0) bn, resulting in an equity ratio of 38.0 (33.5)%. The change is mainly attributable to the positive net income of SEK 13.5 bn and positive effect in other comprehensive income of SEK 6.2 bn, offset by divestment under common control SEK -1.0 bn and dividend to non-controlling interest SEK -0.8 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 3.0 bn (net of tax) and remeasurements of provisions for post-employment benefits of SEK 4.1 bn (net of tax). This was partly offset by a negative change in cash flow hedge reserve from unrealised hedge contracts of SEK -0.9 (net of tax), whereof hedge contracts recycled to the income statement amounted to SEK 1.3 bn. The change in value of cash flow hedges is mainly due to a weakened SEK against most major currencies except JPY.

Changes to Revenue (SEKbn)	Jan-Jun
Revenue in 2021	141.1
Volume	-18.0
Sales mix and pricing	9.6
Sale of licences	-0.2
Foreign exchange rates	8.0
Contract manufacturing	5.6
Other ¹⁾	-0.5
Revenue 2022	145.6
Change %	3

1) Including used cars, parts and accessories.

Changes to Operating income (SEKbn)	Jan-Jun
EBIT in 2021	13.2
Volume	-4.2
Sales mix and pricing	6.0
Foreign exchange rates	1.3
Share of income in JVs and associates ²⁾	4.4
Items affecting comparability – Volvo Cars operations	—
Other ³⁾	-3.9
EBIT 2022	16.8
Change %	27

2) For items affecting comparability – JVs and associates see the table above.

3) Mainly including used cars, parts and accessories, contract manufacturing, raw material increase and cost efficiencies.

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 22.

VOLVO CARS' ANNUAL GENERAL MEETING

The Annual General Meeting 2022 was held on 11 May 2022, and the following decisions were taken:

- Adoption of the income statement and the balance sheet
- No dividend should be paid for the financial year of 2021
- The Board members and the CEO were discharged from liability
- Re-election of Eric (Shufu) Li, Lone Fønss Schrøder, Thomas Johnstone, Daniel (Donghui) Li, Diarmuid O'Connell, Jonas Samuelsson, Lila Tretikov and Winfried Vahland as Board members. Anna Mossberg and Jim Rowan were elected as new Board members.
- Approval of the Board of Directors' remuneration report and the guidelines for executive remuneration.
- Implementation of a Performance Share Plan (PSP) and an Employee Share Matching Plan (ESMP). The PSP is for the top managers in the company, while the ESMP is a broad employee engagement programme that were communicated around the IPO. The implementation of the PSP programme started during June 2022 and the implementation of ESMP will be during the second half of 2022.
- Authorisation for the Board of Directors to resolve on new issues of shares of series B, with or without deviation from the shareholders' preferential right. The total number of shares issued may not exceed ten per cent of the total number of shares.

RISKS AND UNCERTAINTY FACTORS

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 2021 page 55. 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 semiconductors

The global shortage of semiconductors continued and resulted in loss of production volumes.

Volvo Cars continues to follow the development closely and work with suppliers and partners to resolve any disturbances to production and deliver vehicles to customers as soon as possible. To what extent Volvo Cars' sales, revenue and profitability will be affected in coming periods remains uncertain. Visibility is low and the risk of further disturbances in production remains.

COVID-19

The COVID-19 pandemic continued to have an impact on people's lives around the world. In China, lockdowns were in place for some provinces causing impacts on sales and supply chain. A continued Chinese 'zero-COVID' policy may cause further disturbances globally. Given the uncertain development of the pandemic, Volvo Cars remains cautious.

Macro uncertainty

The uncertain macro environment remains, including high inflation, rising interest rates, raw material price increases and ongoing geopolitical crisis. The risks of lower consumer confidence has increased.

The war in Ukraine

The war in Ukraine has a negative impact on Europe and has increased the risks in the global economy as a whole. The war has led to accelerating increases in cost of raw materials, energy and freights. This has further increased inflationary pressures in the global economy and worsened already stretched global supply chains. An escalation of the war in duration and scope could pose even more risks.

The risk of disruption to Russian gas flows also increased. Given that many automotive parts suppliers rely on natural gas, a lower supply may cause disruption to these supply chains. Volvo Cars is continuously evaluating the situation. Volvo Cars has suspended its operations in Russia, without significant financial effects so far. In 2021, Volvo Cars sold 9,309 cars in Russia, corresponding to 1.3% of global sales and 1,184 cars in Ukraine, corresponding to 0.2%.

EMPLOYEES

During the first six months 2022, Volvo Car Group employed 41.7 (40.2) thousand full-time employees (FTEs) and 4.2 (3.6) thousand agency personnel. The increase was mainly due to Taizhou plant being included.



Consolidated Income Statements

SEKm	Note	Apr–Jun 2022	Apr–Jun 2021 ¹⁾	Jan–Jun 2022	Jan–Jun 2021 ¹⁾	Full year 2021 ¹⁾
Revenue	2	71,300	72,538	145,569	141,131	282,045
Cost of sales		–57,204	–56,383	–115,759	–110,822	–221,254
Gross income		14,096	16,155	29,810	30,309	60,791
Research and development expenses		–2,918	–3,515	–6,148	–6,933	–12,714
Selling expenses		–4,565	–4,838	–9,151	–8,754	–18,796
Administrative expenses		–2,930	–2,069	–5,530	–4,242	–9,698
Other operating income		1,411	575	2,262	1,875	4,144
Other operating expenses		–482	–594	–754	–1,014	–2,501
Share of income in joint ventures and associates		6,189	–899	6,350	1,996	–951
Operating income		10,801	4,815	16,839	13,238	20,275
Financial income	3	227	195	392	385	1,003
Financial expenses	3	–1,029	–642	–1,449	–1,646	–2,518
Income before tax		9,999	4,368	15,782	11,977	18,760
Income tax		–1,021	–1,204	–2,301	–2,350	–4,583
Net income		8,978	3,164	13,481	9,627	14,177
Net income attributable to						
Owners of the parent company		8,935	2,502	12,788	8,244	12,546
Non-controlling interests		43	662	693	1,383	1,631
Basic earnings per share (SEK)	6	3.00	0.99	4.29	3.27	4.72
Diluted earnings per share (SEK)	6	3.00	0.98	4.29	3.22	4.72

1) In 2022, there has been a change in the elimination of internal profit related to sale of digital services within the Group. This change has resulted in a decrease of cost of sales, research and development expenses and selling expenses against an increase of administrative expenses. The figures for 2021 have been adjusted accordingly. The reclassification has no impact on EBIT.

Consolidated Comprehensive Income

SEKm	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	Full year 2021
Net income for the period	8,978	3,164	13,481	9,627	14,177
Other comprehensive income					
<i>Items that will not be reclassified subsequently to income statement:</i>					
Remeasurements of provisions for post-employment benefits	3,385	–53	5,199	2,698	3,123
Tax on items that will not be reclassified to income statement	–711	10	–1,098	–557	–669
<i>Items that have been or may be reclassified subsequently to income statement:</i>					
Translation difference on foreign operations	2,561	–434	3,325	1,938	4,375
Translation difference of hedge instruments of net investments in foreign operations	–322	82	–393	–98	–265
Change in fair value of cash flow hedge related to currency and commodity price risks	–1,676	1,142	–2,430	–1,553	–2,641
Currency and commodity risk hedge contracts recycled to income statement	625	63	1,341	278	326
Tax on items that may be reclassified to income statement	283	–265	303	282	526
Other comprehensive income, net of income tax	4,145	545	6,247	2,988	4,775
Total comprehensive income for the period	13,123	3,709	19,728	12,615	18,952
Total comprehensive income attributable to					
Owners of the parent company	12,932	3,122	18,765	10,566	16,320
Non-controlling interests	191	587	963	2,049	2,632
	13,123	3,709	19,728	12,615	18,952

Consolidated Balance Sheets

SEKm	Note	30 Jun 2022	31 Dec 2021
ASSETS			
Non-current assets			
Intangible assets		50,641	43,840
Tangible assets		74,198	70,903
Investments in joint ventures and associates ¹⁾	4	14,976	6,931
Other long-term securities holdings	3	7,443	1,765
Deferred tax assets		8,530	7,367
Other non-current interest-bearing receivables		1,345	5,046
Non-current derivative assets	3	446	169
Other non-current assets		4,612	4,863
Total non-current assets		162,191	140,884
Current assets			
Inventories		43,564	36,603
Accounts receivable	4	19,403	18,553
Current tax assets		1,252	951
Current derivative assets	3	1,476	824
Other current assets		12,415	11,838
Marketable securities	3	7,204	7,996
Cash and cash equivalents	3	50,035	62,265
Assets held for sale	4	—	3,910
Total current assets		135,349	142,940
TOTAL ASSETS		297,540	283,824
EQUITY & LIABILITIES			
Equity			
Equity attributable to owners of the parent company		109,496	90,418
Non-controlling interests		3,432	4,560
Total equity		112,928	94,978
Non-current liabilities			
Provisions for post-employment benefits		6,413	11,961
Deferred tax liabilities		4,806	2,340
Other non-current provisions		8,251	8,623
Non-current liabilities to credit institutions	3	3,442	2,543
Non-current bonds	3	22,438	18,401
Non-current contract liabilities to customers		6,884	6,967
Other non-current interest-bearing liabilities		5,281	5,509
Non-current derivative liabilities	3	929	348
Other non-current liabilities		5,723	6,039
Total non-current liabilities		64,167	62,731
Current liabilities			
Current provisions		8,162	8,607
Current liabilities to credit institutions	3	608	4,471
Current bonds	3	1,999	—
Current contract liabilities to customers		21,108	22,929
Accounts payable	4	44,699	48,283
Current tax liabilities		1,468	1,402
Other current interest-bearing liabilities		1,435	1,462
Current derivative liabilities	3	3,454	2,312
Other current liabilities	4	37,512	34,524
Liabilities held for sale	4	—	2,125
Total current liabilities		120,445	126,115
TOTAL EQUITY & LIABILITIES		297,540	283,824

1) Increase mainly due to Polestar (see page 13) as well as capital contributions to Zhejiang Aurobay Intelligent Technology Co., Ltd and NOVO Energy AB.

Consolidated Statement of Changes in Equity

SEKm	30 Jun 2022	31 Dec 2021
Opening balance (as previously reported)	94,978	70,418
Effect of hyperinflation ¹⁾	49	—
Opening balance	95,027	70,418
Net income for the period	13,481	14,177
Other comprehensive income, net of income tax	6,247	4,775
Total comprehensive income	19,728	18,952
Transactions with owners		
Capital contribution from non-controlling interests ²⁾	—	1,267
Divestment of non-controlling interests	—	—65
Business combination under common control ³⁾	—	82
Divestment under common control ⁴⁾	—978	—
Redemption of preference shares	—	—5,324
New issue	—3	19,741
Directed new issue to preference shareholders	—	5,324
Dividend to shareholders ⁵⁾	—846	—15,417
Transactions with owners	—1,827	5,608
Closing balance	112,928	94,978
Attributable to		
Owners of the parent company	109,496	90,418
Non-controlling interests	3,432	4,560
Closing balance	112,928	94,978

1) For more information see Note 1 – Accounting principles.

2) Refers to the capital contribution from ECARX Technology Ltd to Zenseact AB and HaleyTek AB.

3) Refers to the acquisition of Asia Euro Automobile Manufacturing (Taizhou) Co., Ltd from Geely Auto Group Co., Ltd.

4) Refers to the divestment of Zhangjiakou Volvo Engine Manufacturing Co., Ltd to Zhejiang Aurobay Powertrain Co., Ltd.

5) Dividends to shareholders include dividends to the main shareholder of SEK — (—5,530) m, non-controlling interest of SEK —846 (—9,708) m and preference shareholders of SEK — (—179) m.

Consolidated Statement of Cash Flows

SEKm	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	Full year 2021
OPERATING ACTIVITIES					
Operating income	10,801	4,815	16,839	13,238	20,275
Depreciation and amortisation of non-current assets	4,020	3,546	8,005	7,680	15,005
Dividends received from joint ventures and associates	72	112	72	1,287	1,991
Interest and similar items received	281	–1,023	446	341	602
Interest and similar items paid	–455	809	–694	–708	–1,139
Other financial items	23	–566	124	–667	–815
Income tax paid	–706	–1,454	–2,066	–2,413	–3,673
Adjustments for other non-cash items	–5,897	3,200	–6,993	–470	–750
	8,139	9,439	15,733	18,288	31,496
Movements in working capital					
Change in inventories	–559	1,666	–4,540	–3,025	3,643
Change in accounts receivable	5,050	153	5,045	–1,120	2,845
Change in accounts payable	–1,250	–4,666	–6,023	–7,570	–3,328
Change in provisions	–2,817	–33	–4,581	127	–1,126
Change in contract liabilities to customers	772	–566	–715	–687	2,239
Change in other working capital assets/liabilities	–1,964	528	–1,787	–3,680	–5,917
Cash flow from movements in working capital	–768	–2,918	–12,601	–15,955	–1,644
Cash flow from operating activities	7,371	6,521	3,132	2,333	29,852
INVESTING ACTIVITIES					
Investments in shares and participations	–6,460	–27	–8,220	1,395	–11,518
Divestment in shares	116	—	716	—	—
Capital repayments from shares and participations	—	132	—	132	132
Investments in intangible assets	–4,187	–2,852	–7,323	–5,348	–11,972
Investments in tangible assets	–2,179	–3,813	–5,937	–5,473	–11,352
Disposal of tangible assets	24	30	45	62	123
Other	–285	—	–285	—	–150
Cash flow from investing activities	–12,971	–6,530	–21,004	–9,232	–34,737
Cash flow from operating and investing activities	–5,600	–9	–17,872	–6,899	–4,885
FINANCING ACTIVITIES					
Proceeds from credit institutions	959	1,241	1,024	1,452	1,579
New share issue	—	—	—	—	20,807
Capital contribution from Non-controlling interest	—	—	—	—	360
Proceeds from bond issuance	5,260	—	5,260	—	—
Repayment of bond	—	–5,065	—	–5,065	–8,064
Repayment of liabilities to credit institutions	–4,288	–1,029	–4,292	–1,358	–2,957
Repayment of interest bearing liabilities	–393	–343	–800	–677	–1,450
Dividends paid to shareholders and/or Non-controlling interest	—	–4,709	—	–4,867	–10,462
Investments in marketable securities	–2,227	–1,745	–11,483	–6,427	–15,015
Matured marketable securities	2,555	4,615	12,629	9,558	15,475
Other ¹⁾	460	198	488	–73	905
Cash flow from financing activities	2,326	–6,837	2,826	–7,457	1,178
Cash flow for the period	–3,274	–6,846	–15,046	–14,356	–3,707
Cash and cash equivalents at beginning of period	51,418	56,211	62,265	61,592	61,592
Exchange difference on cash and cash equivalents	1,891	–915	2,816	1,214	4,380
Cash and cash equivalents at end of period	50,035	48,450	50,035	48,450	62,265

1) For Apr–Jun Other is attributable to realised result from financial instruments of SEK 465 (194) m and change in Other non-current liabilities of SEK –5 (4) m. For Jan–Jun Other is attributable to realised result from financial instruments of SEK 494 (–38) m and change in Other non-current liabilities of SEK –6 (–35) m.

Condensed Parent Company Income Statements

SEKm	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	Full year 2021
Administrative expenses	–9	–5	–14	–8	–26
Operating income/loss	–9	–5	–14	–8	–26
Financial income ¹⁾	226	223	402	409	3,886
Financial expenses	–150	–221	–283	–455	–763
Income before tax	67	–3	105	–54	3,097
Income tax	–13	–8	–21	2	58
Net income	54	–11	84	–52	3,155

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	30 Jun 2022	31 Dec 2021
ASSETS		
Non-current assets	38,874	33,909
Current assets	20,467	22,488
TOTAL ASSETS	59,341	56,397
EQUITY & LIABILITIES		
Equity		
Restricted equity	61	61
Non-restricted equity	33,676	33,595
Total equity	33,737	33,656
Non-current liabilities	23,379	18,401
Current liabilities	2,225	4,340
Total liabilities	25,604	22,741
TOTAL EQUITY & LIABILITIES	59,341	56,397

NOTE 1 – Accounting policies

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 2021 (available at www.volvocars.com).

The IASB has published amendments to standards effective on or after 1 January 2022. These additions have not had any significant impact on the financial statements.

Performance Share plan (PSP)

The PSP is a new equity-settled share-based programme. The fair value of the equity-settled programme is determined at the grant date, and based on a value component and a number component. The value component reflects the fair value of the equity instruments granted at grant date. The fair value is based on the listed price of the common share of class B in Volvo Car AB (publ) and is not adjusted subsequently for any changes in the fair value. The number component reflects the number of equity instruments which are expected to be achieved based on fulfillment rate of service- and non-market performance conditions. At each reporting date, the estimate number of equity instruments is revised based on the achievement of the non-market performance conditions in the programme.

The cost is recognised during the three-year vesting period as an operating expense and with a corresponding effect in equity. A deferred tax asset is recognised when there are costs which are not deductible until the settlement of the allotted shares.

Additional social expenses are reported as provisions, revalued at each balance date based on the market price of the common share of class B in Volvo Car AB (publ).

Hyperinflation

In determining hyperinflationary economies, data published by the International Monetary Fund (IMF) and other relevant sources are considered alongside the indicators in IAS 29. From 30 June 2022, Turkey is deemed to be a hyperinflationary economy and as a consequence IAS 29 has been applied to Volvo Car Group's Turkish business since 1 January 2022.

To reflect changes in purchasing power at the balance sheet date the carrying amounts of non-monetary assets and liabilities, shareholders' equity and comprehensive income at subsidiaries in hyperinflationary economies are restated in terms of the measuring unit current at the balance sheet date. These are indexed using a general price index in accordance with IAS 29. The Turkish subsidiary's financial statements are based on a historical cost approach and have been restated retrospectively in order to reflect the current purchasing power of their functional currency, the Turkish lira. Pursuant to IAS 21 paragraph 42, the comparative amounts of the previous reporting period were not restated.

The restatements have been made based on the Consumer Price Index (CPI) which on 30 June 2022, have increase by 136% and 79% on a 3-year and 12-month cumulative rate respectively.

The application of the standard does not have a material effect on the Group's profitability, liquidity and overall financial position. The net accounting impact is included in Consolidated Statement of Changes in Equity on 'Effect of hyperinflation in subsidiary' and amounts to SEK 49 m and in Consolidated Income Statements on Cost of sales and amounts to SEK 49 m.

NOTE 2 – Revenue

Revenue allocated to geographical regions:

SEKm	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	Full year 2021
China	14,012	17,707	31,421	34,335	63,526
US	16,247	12,765	27,568	23,771	52,015
Europe	28,429	30,062	62,568	60,800	121,027
<i>of which Sweden</i>	<i>7,838</i>	<i>6,361</i>	<i>18,239</i>	<i>13,890</i>	<i>28,245</i>
<i>of which Germany</i>	<i>4,354</i>	<i>3,748</i>	<i>8,481</i>	<i>7,472</i>	<i>16,823</i>
<i>of which United Kingdom</i>	<i>3,623</i>	<i>3,733</i>	<i>7,117</i>	<i>7,234</i>	<i>15,610</i>
Other markets	12,612	12,004	24,012	22,225	45,477
<i>of which Japan</i>	<i>2,263</i>	<i>1,958</i>	<i>4,123</i>	<i>3,733</i>	<i>7,477</i>
<i>of which South Korea</i>	<i>1,424</i>	<i>1,580</i>	<i>2,887</i>	<i>3,087</i>	<i>5,893</i>
Total	71,300	72,538	145,569	141,131	282,045

Revenue allocated to category:

SEKm	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	Full year 2021
Sales of new cars	55,105	58,391	111,619	114,366	221,546
Sales of used cars	3,938	5,373	8,135	9,496	21,001
Sales of parts and accessories	7,090	6,272	14,243	12,348	25,921
Revenue from subscription, leasing and rental business	1,150	817	2,110	1,517	3,489
Sales of licences and royalties	138	406	532	755	2,663
Contract manufacturing	2,050	—	5,538	—	1,618
Other revenue	1,829	1,279	3,392	2,649	5,807
Total	71,300	72,538	145,569	141,131	282,045

NOTE 3 – Fair value of financial instruments

The comparative figures for balance sheet items in this note refer to 31 December 2021. Valuation principles for financial instruments, as described in the Volvo Car Group Annual Report 2021, Note 21 – Financial risks and financial instruments, have been applied consistently throughout the reporting period.

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 rights)
 - 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.

NOTE 3 – Fair value of financial instruments – continued

Financial instruments recorded at fair value through the income statement

30 Jun 2022 (SEKm)	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows	—	793	—	793
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	479	—	479
Derivative instruments for hedging of interest risk	—	77	—	77
Commodity derivatives	—	573	—	573
Commercial papers ¹⁾	—	2,303	—	2,303
Other long-term securities holdings	298	—	7,145	7,443
Total assets	298	4,225	7,145	11,668
Derivative instruments for hedging of currency risk in future commercial cash flows	—	4,068	—	4,068
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	29	—	29
Derivative instruments for hedging of interest rate risk	—	231	—	231
Commodity derivatives	—	55	—	55
Total liabilities	—	4,383	—	4,383
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 ¹⁾	—	2,692	—	2,692
Other long-term securities holdings	750	—	1,015	1,765
Total assets	750	3,685	1,015	5,450
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
Total liabilities	—	2,660	—	2,660

1) Includes SEK 1,655 (1,860) m reported as marketable securities and SEK 648 (832) m reported as cash and cash equivalents.

Most derivative financial instruments and commercial papers that Volvo Car Group holds as of 30 June 2022 belong to level 2. Fair value measurement of financial instruments belonging to level 2 is based on prevailing observable market data and on a discounting of estimated cash flows using the deposit/swap curve of the cash flow currency and includes risk assumptions. For currency option instruments, the valuation is based on the Black & Scholes formula. Fair value of commodity contracts is calculated by discounting the difference between the contracted forward price and the contracted forward price that can be obtained on the balance sheet date for the remaining contract period. The total fair value of the level 2 financial derivative portfolio as of 30 June 2022 amounted to SEK –2,461 (–1,667) 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	
	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021
Nominal hedge %	51	56	18	20	—	—
CFaR incl. hedges %	51	46	19	16	—	—

NOTE 3 – Fair value of financial instruments – continued

Amounts invested in other long-term securities holding totalled SEK 7,443 (1,765) m, with SEK 298 (750) m of the holdings categorised as level 1 financial instruments and SEK 7,145 (1,015) m as level 3.

The most substantial level 3 instrument is earn-out rights in Polestar Group. The fair value of the earn-out rights amounts SEK 6,079 m. The valuation of these instruments is made by using a Monte Carlo simulation. The simulation is based on a volatility of 70% and a risk-free interest rate of 3%. A change in volatility of +/-10 percentage points resulting in a value range of SEK 11,541–12,827 m. Furthermore, the risk-free interest rate flexed +/-2 percentage points, resulting in a value range of SEK 12,065–12,487 m with a volatility of 70%.

Other instruments within other long-term securities holdings are non-listed share warrants in the listed company Luminar Technologies Inc (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 2.5% and 2.9%. Volatility of the underlying share price has been determined to 91%. There are also traditional holdings of equity instruments in Luminar which are listed, these holdings is categorised as level 1 financial instruments.

The fair value of share warrants and earn-out rights in the level 3 categorised financial instruments in Luminar as of 30 June 30 2022, amounted to SEK 131 (431) m and the financial impact of the same instruments recognised in the income statement is SEK –300 (–311) m. The share warrants are, as of 30 June 2022, deep in the money with a strike price well under the current list price. The total fair value change of all holdings in Luminar amounted to SEK –752 (–707) 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 91% and a start value of SEK 131 m.

Sensitivity analysis for warrants (SEKm)

Volatility	Likelihood of triggering event				
	–10%	–5%	0%	5%	10%
–10%	107	115	122	130	138
–5%	111	119	128	136	144
91%	114	122	131	139	147
5%	120	129	137	146	155
10%	124	133	142	151	160

Financial liabilities valued at amortised cost

SEKm	30 Jun 2022		31 Dec 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds and liabilities to credit institutions	28,487	27,030	25,415	26,362
Total	28,487	27,030	25,415	26,362

The carrying amount of financial liabilities measured at amortised cost, is stated in the table above.

As of June 2022, Volvo Car Group hedges the fair value risk of EUR-denominated bonds by using interest rate swaps, where fixed interest payments are swapped into floating interest payments. The total carrying amount of the bonds is SEK 22,438 (16,403) m. Volvo Car Group has hedged parts of these fixed interest rate bonds and these are measured at fair value through the income statement, as of June 30 2022, amounting to SEK 54 (—) m. The remaining part is measured at amortised cost. Changes in the fair value of interest rate swaps that are designated and qualify as fair value hedges are recorded in the profit and loss, together with any changes in the fair value of the hedged bonds that are attributable to the hedged risk. The fair value part of the bonds is measured applying a Level 2 method, which is discounting the future interest coupon payments and the face value of the bonds.

NOTE 4 – Related party transactions

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

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

- In January, Volvo Cars and Northvolt jointly established NOVO Energy AB and its subsidiaries NOVO Energy R&D AB and NOVO Energy Production AB with the aim to accelerate the development and production of sustainable batteries. Volvo Cars and Northvolt will jointly invest in a new R&D centre and a battery manufacturing plant in Gothenburg. The gigafactory is planned to commence its operations in 2025. In total a sum of SEK 108 m has been paid as capital contribution from VCC to NOVO Energy AB.
- On 31 January, Volvo Car Group finalised the separation of its combustion engine operations and the control of the 50% owned subsidiary Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd was transferred to the acquirer, the associated company Zhejiang Aurobay Powertrain Co., Ltd (Aurobay), China. Further, Volvo Cars (China) Investment Co., Ltd and Zhejiang Geely Chantou Holding Co., Ltd made capital contributions to Zhejiang Aurobay Powertrain Co., Ltd as part of the signed agreement when the jointly owned company, in which Volvo Cars has a shareholding of 33%, was established. Share capital and other contribution capital amounting to SEK 1,489 m has been paid to Aurobay in January. During 2022 the remaining capital will be contributed by both Volvo Cars and Geely.
- As of 24 June, the Polestar Group was listed on the Nasdaq Stock Exchange in New York in a so-called de-SPAC process through the merger with the SPAC company Gores Guggenheim. The listing transactions have several financial effects for Volvo Cars. For further details, see page 13.

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 366 (5,196) m. For further details refer to section Specification of transactions with Related Parties.

Sales of goods, services and other

SEKm	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	Full year 2021
Related companies ¹⁾²⁾	2,909	1,603	7,526	2,675	7,128
Associated companies and joint ventures	356	359	779	708	1,448

Purchases of goods, services and other

SEKm	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	Full year 2021
Related companies ¹⁾³⁾	–3,971	–1,856	–10,882	–3,830	–12,665
Associated companies and joint ventures	–449	–431	–898	–855	–1,815

SEKm	Receivables		Payables	
	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021
Related companies ¹⁾	14,091	18,626	9,630	4,758
Associated companies and joint ventures	683	991	431	499

1) Related companies are companies within the Geely sphere of companies. Joint ventures within the Geely sphere are presented as Related companies.

2) Increase in Jan–Jun 2022 compared to same period previous year is mainly related to acquisition of the Taizhou plant and contract manufacturing.

3) Increase in Jan–Jun 2022 compared to same period previous year is mainly related to the separation of ICE powertrain operations.

NOTE 4 – Related party transactions – continued

Specification of significant transactions with Related Parties

The Polestar Group

Volvo Car Group recognised revenue from the Polestar Group of SEK 2,486 (795) m in the second quarter and SEK 6,511 (1,226) m for the first six months. The revenue was mainly related to sale of Polestar cars from the Taizhou plant, technology licences and development of technology as well as revenue related to sale of other services. Volvo Car Group's purchases amounted to SEK –133 (–2) m in the second quarter and SEK –410 (–297) for the first six months and are mainly related to purchases of Polestar cars from Polestar and a performance enhancement product provided to the end customers.

Powertrain Engineering Sweden AB (PES)

Powertrain Engineering Sweden AB (PES) is, with effect from 30 June 2021, a related party to Volvo Cars, currently 100% owned by Geely Sweden Holdings AB. The total purchases from Powertrain Engineering Sweden AB amounted to SEK –2,443 m in the second quarter and SEK –5,238 m for the first six months, mainly relating to combustion engines and product development. The purchase of combustion engines amounted to SEK –2,293 m in the second quarter and SEK –4,934 m for the first six months and has mainly been recognised as cost of sales. The purchase of research and development services amounted to SEK –155 m in the second quarter and SEK –315 m for the first six months, whereof SEK –82 m has been capitalised as product development in the second quarter and SEK –167 m for the first six months.

Zhangjiakou Aurobay Powertrain Manufacturing Co., Ltd

The Zhangjiakou plant is since 31 January 2022 a related party to Volvo Car Group. The purchase of combustion engines for the second quarter amounted to SEK –1,256 m and SEK –2,636 m for the first six months and has mainly been recognised as cost of sales.

Zhejiang Liankong Technology Co., Ltd

The purchase of research and development services from Zhejiang Liankong Technology Co., Ltd amounted to SEK –1,885 m for the first six months, all purchased during the first quarter. The full amount has been capitalised as intangible assets.

Zhejiang Geely Holding Group Co., Ltd

In June, total dividends to Zhejiang Geely Holding Group Co., Ltd amount to SEK 846 m, whereof Daqing Volvo Car Manufacturing Co., Ltd, of which Volvo Cars owns 50%, has declared to pay SEK 840 m each to its shareholders Zhejiang Geely Holding Group Co., Ltd and Volvo Cars (China) Investment Co., Ltd.

NOTE 5 – Divestment of business

Volvo Car Bern AG

On 29 April 2022, Volvo Cars wholly-owned subsidiary Volvo Car Switzerland AG signed a share transfer agreement with an external buyer regarding their 100% shareholdings in Volvo Car Bern AG. Volvo Car Bern AG is an authorised Volvo dealer in Switzerland. Volvo Car Group has consolidated the company until 29 April 2022 when control was ceased. The purchase consideration received amounted to SEK 52 m and total cash effect from the divestment amounted to SEK 116 m. The fair value of assets and liabilities as at the date of the divestment was SEK 5 m. Gain on sale of operation recognised in income statement amounted to SEK 47 m. The total cost of divestment and carrying values have been determined provisionally, thus, the divestment analyses may be subject to adjustment during a twelve months period.

NOTE 6 – Earnings per share

Basic earnings per share (SEKm)	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	Full year 2021
Net income attributable to owners of the parent company	8,935	2,502	12,788	8,244	12,546
Preference share returns relating to the period	—	–31	—	–62	–360
Net income attributable to owners of ordinary shares in the parent company	8,935	2,471	12,788	8,182	12,186
Weighted average number of ordinary shares outstanding, undiluted	2,979,524,179	2,500,000,000	2,979,524,179	2,500,000,000	2,579,920,697
Basic earnings per share (SEK)	3.00	0.99	4.29	3.27	4.72

Diluted earnings per share ¹⁾ (SEKm)	Apr–Jun 2022	Apr–Jun 2021	Jan–Jun 2022	Jan–Jun 2021	Full year 2021
Net income in basic earnings per share	8,935	2,471	12,788	8,182	12,186
If preference shares had been converted, no preference yield had accrued	—	31	—	62	360
Net income in diluted earnings per share	8 935	2,502	12,788	8,244	12,546
Weighted average number of ordinary shares outstanding, diluted	2,979,524,179	2,556,939,700	2,979,524,179	2,556,939,700	2,627,370,447
Diluted earnings per share (SEK)	3.00	0.98	4.29	3.22	4.72

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

NOTE 7 – Significant events after the period

Announcement of new manufacturing plant in Slovakia

On 1 July, Volvo Cars announced the establishment of a new manufacturing plant in Slovakia. The new plant will be climate neutral and build only electric cars. The new facility represents an investment of around EUR 1.2 bn and will be located close to Košice in the eastern part of Slovakia. Construction of the Košice plant is planned to start during 2023, with equipment and production lines installed during 2024. Series production of next-generation, pure electric Volvo cars is scheduled to start in 2026.

GENERAL DEFINITIONS

Volvo Cars and Volvo Car Group

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 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 and has rights to the net assets of the arrangement.

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 Cars, Audi, BMW, Lexus, Mercedes, Tesla and so on.

Electrified cars

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

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 in JVs & associates

EBIT margin excl. share of income in JVs & associates is defined as EBIT less the result from share of income in JVs & associates as a percentage of revenue. The margin presents the profitability of the operation excluding share of income in 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 non-current interest-bearing 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

Alternative performance measures are presented in SEKm unless otherwise stated.

SEKm	Apr–Jun 2022	Apr–Jun 2021	Full year 2021 ¹⁾
Revenue	71,300	72,538	282,045
Revenue per new car, BEV (SEKk)	466.9	ND ²⁾	430.8
Revenue per new car, non-BEV (SEKk)	417.8	ND ²⁾	356.8
Cost of sales	–57,204	–56,383	–221,254
Research and development expenses	–2,918	–3,515	–12,714
Operating income, EBIT	10,801	4,815	20,275
EBIT margin, excl. share of income in JVs & associates	4,612	5,714	21,226
Net income	8,978	3,164	14,177
EBITDA	14,821	8,361	35,280
Gross income per new car, BEV (SEKk)	70.7	ND ²⁾	57.3
Gross income per new car, non-BEV (SEKk)	93.4	ND ²⁾	68.7
Gross margin, %	19.8	22.3	21.6
Gross margin BEV, %	15.1	ND ²⁾	13.3
Gross margin non-BEV, %	22.3	ND ²⁾	19.3
EBIT margin, %	15.1	6.6	7.2
EBIT margin excl. share of income in JVs & associates, %	6.5	7.9	7.5
EBITDA margin, %	20.8	11.5	12.5
Equity ratio, %	38.0	27.1	33.5
Net cash	28,806	24,090	44,846
Share of investing cash flow BEV, %	69.9	ND ²⁾	53.6
Share of investing cash flow non-BEV, %	8.5	ND ²⁾	12.9
Return on invested capital, ROIC %	N/A	N/A	18.5

1) In 2022, there has been a change in the elimination of internal profit related to sale of digital services within the Group. This change has resulted in a decrease of cost of sales, research and development expenses and selling expenses against an increase of administrative expenses. The figures for 2021 have been adjusted accordingly. The reclassification has no impact on EBIT.

2) Not disclosed.

	Apr–Jun 2022	Full year 2021
Total revenue		
BEV vehicles, new cars	3,383	10,243
Non-BEV vehicles, new cars	51,649	208,280
Other revenue	16,268	63,522
Total revenue	71,300	282,045

	Apr–Jun 2022		Full year 2021	
Revenue per new car	BEV	Non-BEV	BEV	Non-BEV
Revenue, new cars	3,383	51,649	10,243	208,280
Vehicles, wholesales new cars (units)	7,246	123,622	23,779	583,737
Revenue per new car (SEKk)	466.9	417.8	430.8	356.8

	Apr–Jun 2022				Full year 2021			
Gross income split	BEV (new cars)	Non-BEV (new cars)	Other	Total	BEV (new cars)	Non-BEV (new cars)	Other	Total
Gross income	512	11,541	2,043	14,096	1,362	40,116	19,313	60,791

	Apr–Jun 2022		Full year 2021	
Gross income per new car	BEV	Non-BEV	BEV	Non-BEV
Gross income, new cars	512	11,541	1,362	40,116
Vehicles, wholesales new cars (k units)	7.2	123.6	23.8	583.7
Gross income per new Car (SEKk)	70.7	93.4	57.3	68.7

VOLVO CAR GROUP

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES, CONTINUED

	Apr–Jun 2022	Apr–Jun 2021	Full year 2021
Gross margin, %			
Gross income	14,096	16,155	60,791
Revenue	71,300	72,538	282,045
Gross margin, %	19.8	22.3	21.6

	Apr–Jun 2022				Full year 2021			
Gross Margin BEV/Non-BEV	BEV (new cars)	Non-BEV (new cars)	Common	Total	BEV (new cars)	Non-BEV (new cars)	Common	Total
Gross income	512	11,541	2,043	14,096	1,362	40,116	19,313	60,791
Revenue	3,383	51,649	16,268	71,300	10,243	208,280	63,522	282,045
Gross margin, %	15.1	22.3	12.6	19.8	13.3	19.3	30.4	21.6

	Apr–Jun 2022	Apr–Jun 2021	Full year 2021
Operating income, EBIT/EBIT margin, %			
Operating income, EBIT	10,801	4,815	20,275
Revenue	71,300	72,538	282,045
EBIT margin, %	15.1	6.6	7.2

	Apr–Jun 2022	Apr–Jun 2021	Full year 2021
EBIT and EBIT margin, excl. share of income in JVs & associates, %			
Operating income, EBIT	10,801	4,815	20,275
Share of income in JVs & associates	6,189	–899	–951
EBIT excl. share of income in JVs & associates	4,612	5,714	21,226
Revenue	71,300	72,538	282,045
EBIT margin, excl. share of income in JVs & associates, %	6.5	7.9	7.5

	Apr–Jun 2022	Apr–Jun 2021	Full year 2021
EBITDA/EBITDA margin, %			
Operating income, EBIT	10,801	4,815	20,275
Depreciation and amortisation of non-current assets	4,020	3,546	15,005
EBITDA	14,821	8,361	35,280
Revenue	71,300	72,538	282,045
EBITDA margin, %	20.8	11.5	12.5

	LTM ¹⁾	Full year 2021
Operating cash		
Average two-year revenue × 10%	28,934	27,244
Operating cash	28,934	27,244

	LTM ¹⁾	Full year 2021
Invested capital²⁾		
Total assets	275,542	273,068
Receivables from parent company	—	—
Other long-term securities holdings	–4,611	–2,107
Cash and cash equivalents	–49,243	–61,929
Marketable securities	–6,172	–8,042
Operating cash	28,934	27,244
Total current liabilities	–119,615	–126,234
Current liabilities to parent company	—	—
Total current interest-bearing liabilities	6,915	7,311
Total invested capital	131,751	109,311

1) Last twelve months.

2) Calculated on two-year average figures.

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES, CONTINUED

Return on invested capital, ROIC, %	LTM ¹⁾	Full year 2021
EBIT (last twelve months)	23,876	20,275
Invested capital	131,751	109,311
Return on invested capital, ROIC, %	18.1	18.5

1) Last twelve months.

Equity ratio	30 Jun 2022	31 Dec 2021
Total equity	112,928	94,978
Total assets	297,540	283,824
Equity ratio, %	38.0	33.5

Share of Investing Cash Flow, %	Apr–Jun 2022				Full year 2021			
	BEV (new cars)	Non-BEV (new cars)	Common	Total	BEV (new cars)	Non-BEV (new cars)	Common	Total
Investments in intangible assets	-3,229	-425	-533	-4,187	-6,837	-1,629	-3,506	-11,972
Investments in property, plant and equipment	-953	-84	-758	-1,795	-3,071	-749	-2,680	-6,500
Investments in other tangible assets ²⁾	—	—	-385	-385	—	—	-4,852	-4,852
Subtotal	-4,182	-509	-1,676	-5,982	-9,908	-2,378	-11,038	-23,324
Share of investing cash flow²⁾, %	69.9	8.5	20.6	100.0	53.6	12.9	33.5	100.0

2) Investments in other tangible assets is excluded when calculating the Share of investing cash flow.

Net cash	30 Jun 2022	31 Dec 2021
Cash and cash equivalents	50,035	62,265
Marketable securities	7,204	7,996
Liabilities to credit institutions (non-current)	-3,442	-2,543
Bonds (non-current) ³⁾	-22,384	-18,401
Other interest-bearing liabilities ⁴⁾	—	—
Liabilities to credit institutions (current)	-608	-4,471
Bonds (current) ³⁾	-1,999	—
Net cash²⁾	28,806	44,846

3) The bonds are presented above at amortised cost. The fair value risk of the EUR-denominated bonds is hedged and the bonds with fixed interest payments have been swapped into floating interest payments. Part of the bonds is therefore measured at fair value through the income statement and the remaining part is measured at amortised cost. On 30 June 2022 the fair value component amounted to SEK 54 (—) m.

4) The net cash calculation excludes current SEK -1,397 (-1,462) m and non-current SEK -5,355 (-5,509) 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	30 Jun 2022	31 Dec 2021
Cash and cash equivalents	50,035	62,265
Undrawn credit facilities	13,926	13,377
Marketable securities	7,204	7,996
Liquidity	71,165	83,638

VOLVO CAR GROUP

The Board of Directors and the Chief Executive Officer certify that the half year financial 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, 19 July 2022

Eric Li (Li Shufu)
Chairperson of the Board

Jim Rowan
Board member, President and CEO

Lone Fønss Schrøder
Vice Chairperson of the Board

Daniel Li (Li Donghui)
Board member

Anna Mossberg
Board member

Diarmuid O'Connell
Board member

Winfried Vahland
Board member

Jonas Samuelson
Board member

Lila Tretikov
Board member

Thomas Johnstone
Board member

Adrian Avdullahu
*Board member,
employee representative*

Jörgen Olsson
*Board member,
employee representative*

Björn Ohlsson
*Board member,
employee representative*

REVIEW REPORT

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

Introduction

We have reviewed the condensed interim financial information (interim report) of Volvo Car AB (publ) as of 30 June, 2022 and the six-month period then ended. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other

generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion

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

Gothenburg, 19 July, 2022

Deloitte AB

Jan Nilsson

Authorized Public Accountant

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FINANCIAL CALENDAR & CONFERENCE CALL

Webcast and conference call

At 9:30 CEST on 20 July, Volvo Cars will host a webcast for investors, analysts, financial media and media. The report will be presented by CEO Jim Rowan and acting CFO Johan Ekdahl.

Link: live.volvocars.com

For those tuning in from China, link:

<https://live.volvocars.com.cn>

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China +86 400 122 47 42

Press *0 for the number for China.

Upcoming investor Events

27 October 2022: Q3 2022 report

9 February 2023: Q4 2022 report

4 April 2023: Annual General Meeting

27 April 2023: Q1 2023 report

20 July 2023: Q2 2023 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.

V O L V O

