

CONSOLIDATED INCOME STATEMENTS

MSEK	Note	2017	2016
Net revenue	3	210,912	180,902
Cost of sales	4	-164,254	-142,220
Gross income		46,658	38,682
Research and development expenses	4, 16	-10,187	-10,174
Selling expenses	4	-15,266	-11,992
Administrative expenses	4, 6	-8,182	-6,471
Other operating income	7	3,054	2,412
Other operating expenses	7	-2,216	-1,861
Share of income in joint ventures and associates	14	200	418
Operating income	5, 8, 9, 10, 11	14,061	11,014
Financial income	12	355	218
Financial expenses	13	-1,269	-1,711
Income before tax		13,147	9,521
Income tax	15	-2,922	-2,061
Net income		10,225	7,460
Net income attributable to			
Owners of the parent company		7,960	5,944
Non-controlling interests [*]		2,265	1,516
		10,225	7,460

* The non-controlling interest related to the consolidated Chinese entities refer to Zhejiang Geely Holding Group Co., Ltd, which is also the ultimate parent company of the Volvo Car Group.

JANUARY–DECEMBER 2017 INCOME AND RESULT

Volvo Cars generated Net revenue of MSEK 210,912 (180,902)¹⁾²⁾, an increase of 16.6 per cent, reflecting continued strong growth of Volvo Cars core business. The increase was a result of a positive sales volume development, where wholesale increased by 9.2 per cent to 585,334 (536,211) units, making 2017 the fourth consecutive year of record sales for Volvo Cars. The increase was also a result of an improved sales mix (driven by XC60, S90 and V90 sales), sold licenses and acquired business (First Rent A Car Group), which was partly offset by negative currency effects. Cost of sales increased by MSEK 22,034 to MSEK -164,254 (-142,220)¹⁾³⁾. The increase was attributable to higher sales volume, improved sales mix as well as moving production of the S90 series to Daqing and general ramp-up in production, including depreciation and amortisation. Gross income increased to MSEK 46,658 (38,682). Gross margin increased to 22.1 (21.4) per cent.²⁾ Volvo Cars is continuously investing in new technologies and new car models while meeting the increase in demand by ramping up production. This planned growth translates into increased expenses, where research and development, selling and administrative expenses increased to MSEK -33,635 (-28,637)³⁾. The increase also reflects a larger number of employees (see Note 9 - Employees and remuneration), higher marketing and event expenses due to the launch of new car models as well as advertising campaigns and increased IT expenses as a part of Volvo Cars' focus on digitalisation. Research and development expenses has increased but has been partly offset by received government grants. For details regarding research and development expenses, see table below. Other operating income and expense, net, increased to MSEK 838 (551)¹⁾²⁾, mainly relating to received government grants, partly offset by negative translation exchange effects on operating assets and liabilities. Operating income (EBIT) increased to MSEK 14,061 (11,014).

The improvement was largely a result of the positive gross income development related to increased volumes, positive sales mix and sold licenses.²⁾ The improvement was partly offset by increased selling and administrative expenses together with a negative foreign exchange effect of MSEK 1 595. This has resulted in an EBIT margin of 6.7 (6.1) per cent. Net financial items amounted to MSEK -914 (-1,493), mainly relating to decreased interest expenses and other financial expenses as well as increased interest income on cash and short term investments. The income tax increase is related to increased profit and withholding tax. Net income increased by 37.1 per cent to MSEK 10,225 (7,460).

Research and development spending, MSEK	2017	2016
Research and development spending	-13,665	-12,288
Capitalised development costs	7,639	6,177
Amortisation and depreciation of Research and development ⁴⁾	-4,161	-4,063
Research and development expenses	-10,187	-10,174

- 1) Prior year Net revenue and Cost of sales have been restated to hedged currency rates. Total effect amounts to MSEK -471 (175) for Net revenue and MSEK 288 (262) for cost of sales, see Note 1 - Accounting principles.
- 2) Sold licenses have been reclassified from Other operating income to Net revenue. The comparative period has been restated. Total effect amounts to MSEK 4,023 (55), see Note 1 - Accounting principles.
- 3) During 2017 costs have been reclassified from cost of sales to research and development. The comparative period has been restated. Total effect amounts to MSEK 830 (800).
- 4) Includes amortisation of capitalised development cost and a portion of depreciation of other intangible assets, see Note 10 - Depreciations.

CONSOLIDATED COMPREHENSIVE INCOME

MSEK	Note	2017	2016
Net income for the year		10,225	7,460
Other comprehensive income			
<i>Items that will not be reclassified subsequently to income statement:</i>			
Remeasurements of provisions for post-employment benefits		-422	-1,422
Tax on items that will not be reclassified to income statement		62	265
<i>Items that may be reclassified subsequently to income statement:</i>			
Translation difference on foreign operations		-318	514
Translation difference of hedge instruments of net investments in foreign operations		-121	-159
Change in cash flow hedge	23	4,453	-3,941
Tax on items that may be reclassified to income statement		-953	902
Other comprehensive income, net of income tax		2,701	-3,841
Total comprehensive income for the year		12,926	3,619
Total comprehensive income attributable to			
Owners of the parent company		10,777	2,070
Non-controlling interests		2,149	1,549
		12,926	3,619

NET FINANCIAL POSITION AND LIQUIDITY

Cash flow from operating and investing activities amounted to MSEK -3,800 (6,515). Cash flow from operating activities amounted to MSEK 24,530 (26,861). The change is due to an increased operating income amounting to MSEK 14,061 (11,014), adjusting for depreciation and amortisation, an additional MSEK 12,098 (10,527) was contributed. A positive change in working capital contributed with MSEK 2,816 (7,656) which was offset by income tax paid of MSEK -3,471 (-1,705). The positive effect in working capital is mainly related to increased accounts payables, primarily due to increased production volume. Furthermore, there are positive cash flow effects from provisions and other working capital assets and liabilities, partly offset by negative effects from inventory and accounts receivables. The change in inventory is due to production related seasonality, product mix and ramp-up of production in Daqing. The change in accounts receivables is explained by increased sales.

Cash flow from investing activities amounted to MSEK -28,330 (-20,346). Investments in tangible assets amounted to MSEK -16,634 (-12,669), following the ongoing construction of the US plant and special tool investments related to new car models, such as the new XC60 and XC40. Investments in intangible assets amounted to MSEK -9,651 (-6,394) as a result of continuous investments in new and upcoming car models and new technology. Investments in shares and participations amounted to MSEK -2,081 (-1,280) primarily attributable to the 2,838 MSEK investment in Lynk & Co Investment Co., Ltd.

Cash flow from financing activities amounted to MSEK 1,333 (5,792). The change is mainly attributable to proceeds from bond issuance of MSEK 4,914 (7,579), withdrawal of credit facilities of MSEK 1,291 (1,696) and matured marketable securities of net MSEK 785 (-1,189). The positive change in financing activities was partly offset by repayment of liabilities to credit institutions of MSEK -3,658 (-7,634) and dividends paid of MSEK -2,188 (-). Cash and cash equivalents including marketable securities decreased to MSEK 39,394 (43,373). Net cash decreased to MSEK -12,513 (-18,873). Including undrawn credit facilities of MSEK 15,203 (6,305), liquidity is at MSEK 54,597 (49,678).

Total equity increased by MSEK 11,350 to MSEK 54,660 (43,310), resulting in an equity ratio of 28.7 (26.8) per cent. The change is attributable to the positive net income of MSEK 10,225 and positive effects in other comprehensive income. The latter is related to change in cash flow hedge reserve of MSEK 3,473 mainly due to fluctuations in dollar, partly offset by negative translation effect of net investments in foreign operations, including hedges, of MSEK -412 and remeasurement of post-employment benefits of MSEK -360. The acquisition of Polestar increased the non-controlling interest with 631 MSEK. A dividend of MSEK -2,188 has been paid to the shareholders, whereof MSEK 65 was distributed to the holders of preference shares.

CONSOLIDATED BALANCE SHEETS

MSEK	Note	Dec 31, 2017	Dec 31, 2016
ASSETS			
Non-current assets			
Intangible assets	16	29,157	25,368
Property, plant and equipment	8, 17	55,245	45,468
Assets held under operating leases	8, 17	2,577	2,483
Receivables on parent company		54	54
Investments in joint ventures and associates	14	5,480	2,498
Other long-term securities holdings		80	79
Deferred tax assets	15	4,558	4,112
Other non-current assets	18	3,704	2,013
Total non-current assets		100,855	82,075
Current assets			
Inventories	19	30,655	21,198
Accounts receivable	5, 20	10,832	8,717
Current tax assets		463	293
Other current assets	20	7,955	5,757
Marketable securities	22	3,992	4,738
Cash and cash equivalents	22	35,402	38,635
Total current assets		89,309	79,338
TOTAL ASSETS		190,164	161,413
EQUITY & LIABILITIES			
Equity			
Equity attributable to owners of the parent company	23	48,729	39,536
Non-controlling interests		5,931	3,774
Total equity		54,660	43,310
Non-current liabilities			
Provisions for post-employment benefits	24	6,525	6,348
Deferred tax liabilities	15	1,977	1,209
Other non-current provisions	25	7,600	6,995
Liabilities to credit institutions	26	6,622	13,910
Bonds	21, 26	12,735	7,699
Other non-current liabilities	5, 26	3,660	5,818
Total non-current liabilities		39,119	41,979
Current liabilities			
Current provisions	25	19,084	15,371
Liabilities to credit institutions	26	7,426	2,813
Advance payments from customers		657	652
Accounts payable	5	38,536	30,508
Current tax liabilities		1,380	626
Other current liabilities	27	29,302	26,154
Total current liabilities		96,385	76,124
TOTAL EQUITY & LIABILITIES		190,164	161,413

CHANGES IN CONSOLIDATED EQUITY

MSEK	Share capital ¹⁾	Share premium	Other contributed capital	Currency translation reserve	Other reserves ²⁾	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
Balance at January 1, 2016	—	6,509	8,034	-319	871	17,455	32,550	2,085	34,635
Net income for the year	—	—	—	—	—	5,944	5,944	1,516	7,460
Other comprehensive income									
Remeasurements of provision for post-employment benefits	—	—	—	—	—	-1,422	-1,422	—	-1,422
Translation difference on foreign operations	—	—	—	481	—	—	481	33	514
Translation difference of hedge instruments of net investments in foreign operations	—	—	—	-159	—	—	-159	—	-159
Change in cash flow hedge, recognised in other comprehensive income	—	—	—	—	-3,941	—	-3,941	—	-3,941
Tax attributable to items recognised in other comprehensive income	—	—	—	35	867	265	1,167	—	1,167
Other comprehensive income	—	—	—	357	-3,074	-1,157	-3,874	33	-3,841
Total comprehensive income	—	—	—	357	-3,074	4,787	2,070	1,549	3,619
Transactions with owners									
Acquisition of non-controlling interest ³⁾	—	—	—	—	—	—	—	140	140
Bonus issue	50	—	—	—	—	-50	—	—	—
New issue of preference shares ⁴⁾	1	4,915	—	—	—	—	4,916	—	4,916
Transactions with owners	51	4,915	—	—	—	-50	4,916	140	5,056
Balance at December 31, 2016	51	11,424	8,034	38	-2,203	22,192	39,536	3,774	43,310
Net income for the year	—	—	—	—	—	7,960	7,960	2,265	10,225
Other comprehensive income									
Remeasurements of provision for post-employment benefits	—	—	—	—	—	-422	-422	—	-422
Translation difference on foreign operations	—	—	—	-202	—	—	-202	-116	-318
Translation difference of hedge instruments of net investments in foreign operations	—	—	—	-121	—	—	-121	—	-121
Change in cash flow hedge, recognised in other comprehensive income	—	—	—	—	4,453	—	4,453	—	4,453
Tax attributable to items recognised in other comprehensive income	—	—	—	27	-980	62	-891	—	-891
Other comprehensive income	—	—	—	-296	3,473	-360	2,817	-116	2,701
Total comprehensive income	—	—	—	-296	3,473	7,600	10,777	2,149	12,926
Transactions with owners									
Capital contribution from non-controlling interest ^{4) 5)}	—	—	—	—	—	—	—	631	631
Issue of preference shares ⁴⁾	—	-19	—	—	—	—	-19	—	-19
Dividend to shareholders ⁶⁾	—	—	—	—	—	-1,565	-1,565	-623	-2,188
Transactions with owners	—	-19	—	—	—	-1,565	-1,584	8	-1,576
Balance at December 31, 2017	51	11,405	8,034	-258	1,270	28,227	48,729	5,931	54,660

- 1) Share capital amounts to SEK 50,500,000 (50,500,000).
- 2) For specification of Other reserves, see Note 23 – Equity.
- 3) For further information, see Note 31 – Business combinations.
- 4) For further information, see Note 23 – Equity.
- 5) For further information, see Note 8 – Participation in subsidiary (Parent company).
- 6) For further information, see Note 5 – Related parties.

CONSOLIDATED STATEMENT OF CASH FLOWS

MSEK	Note	2017	2016
OPERATING ACTIVITIES			
Operating income		14,061	11,014
Depreciation and amortisation of non-current assets	10	12,098	10,527
Interest and similar items received		303	218
Interest and similar items paid		-1,016	-953
Other financial items		-383	-418
Income tax paid		-3,471	-1,705
Adjustments for items not affecting cash flow	30	122	522
		21,714	19,205
<i>Movements in working capital</i>			
Change in inventories		-9,524	-231
Change in accounts receivable		-1,474	730
Change in accounts payable		8,220	4,023
Change in items relating to repurchase commitments		235	-342
Change in provisions		3,432	3,497
Change in other working capital assets/liabilities		1,927	-21
Cash flow from movements in working capital		2,816	7,656
Cash flow from operating activities		24,530	26,861
INVESTING ACTIVITIES			
Investments in shares and participations, net	14, 31	-2,081	-1,280
Dividends received from joint ventures and associates	14	37	5
Investments in intangible assets		-9,651	-6,394
Investments in property, plant and equipment		-16,634	-12,669
Other		-1	-8
Cash flow from investing activities		-28,330	-20,346
Cash flow from operating and investing activities		-3,800	6,515
FINANCING ACTIVITIES			
Proceeds from credit institutions	26	1,291	1,696
Proceeds from bond issuance	21	4,914	7,579
Proceeds from issuance of preference shares, net	23	-82	4,979
Repayment of liabilities to credit institutions	26	-3,658	-7,634
Dividend paid to shareholders	5	-2,188	—
Investments in marketable securities, net	22	785	-1,189
Other	30	271	361
Cash flow from financing activities		1,333	5,792
Cash flow for the year		-2,467	12,307
Cash and cash equivalents at beginning of year	22	38,635	25,623
Exchange difference on cash and cash equivalents		-766	705
Cash and cash equivalents at end of year		35,402	38,635