

CONSOLIDATED INCOME STATEMENTS

MSEK	Note	2016	2015
Net revenue	3	180,672	164,043
Cost of sales	4	-143,282	-128,238
Gross income		37,390	35,805
Research and development expenses	4, 16	-9,374	-8,803
Selling expenses	4	-11,992	-10,951
Administrative expenses	4, 6	-6,471	-7,234
Other operating income	7	2,904	2,005
Other operating expenses	7	-1,861	-4,432
Share of income in joint ventures and associates	14	418	230
Operating income	5, 8, 9, 10, 11	11,014	6,620
Financial income	12	218	238
Financial expenses	13	-1,711	-1,469
Income before tax		9,521	5,389
Income tax	15	-2,061	-913
Net income		7,460	4,476
Net income attributable to			
Owners of the parent company		5,944	3,130
Non-controlling interest ¹⁾		1,516	1,346
		7,460	4,476

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

JANUARY – DECEMBER 2016 INCOME AND RESULT

For the full year 2016, Volvo Car Group generated net revenue of MSEK 180,672 (164,043), an increase of 10.1 per cent. The increase was primarily driven by higher sales volumes and a positive sales mix, mainly due to the XC90, but partly offset by negative exchange rate development.

Cost of sales increased by MSEK -15,044 to MSEK -143,282 (-128,238), an increase of 11.7 per cent. The increase was attributable to higher material cost due to the changed sales mix and launch costs related to the shift of production to the new S90 and V90. Gross income increased to MSEK 37,390 (35,805), due to improved net revenue, resulting in a gross margin of 20.7 (21.8) per cent.

Research and development expenses recognised in the income statement increased to MSEK -9,374 (-8,803) including amortisation and depreciation of capitalised development expenses of MSEK -4,063 (-3,301). The increase is related to costs for the renewal of the product portfolio, higher amortisation expenses and reallocation of IT-costs from Administrative expenses, offset by received government grants. See table below.

Selling expenses increased by MSEK -1,041 to MSEK -11,992 (-10,951) primarily due to increased marketing and event expenses related to the new car launches and advertising campaigns.

Administrative expenses decreased by MSEK 763 to MSEK -6,471 (-7,234). The decrease is mainly related to reallocation of IT-costs to Research and development expenses and Cost of sales, previously reported within Administrative expenses. Other operating income and expense, net, amounted to MSEK 1,043 (-2,427). The increase is mainly related to a positive result from realised cash flow hedges.

Operating income (EBIT) increased to MSEK 11,014 (6,620), resulting in an operating margin of 6.1 (4.0) per cent. Net financial items amounted to MSEK -1,493 (-1,231). The decrease is due to a negative net foreign exchange result on financing activities which was partly offset by decreased interest expenses. Tax expenses increased as a result of the increase in EBIT. Net income amounted to MSEK 7,460 (4,476).

Research and development spending, MSEK	2016	2015
Research and development spending	-11,488	-9,996
Capitalised development costs	6,177	4,494
Amortisation and depreciation of Research and development ¹⁾	-4,063	-3,301
Research and development expenses	-9,374	-8,803

1) Includes amortisation of capitalised development cost and a portion of depreciation of other intangible assets, see Note 10 – Depreciations.

CONSOLIDATED COMPREHENSIVE INCOME

MSEK	Note	2016	2015
Net income for the year		7,460	4,476
Other comprehensive income, net of income tax			
<i>Items that will not be reclassified subsequently to income statement:</i>			
Remeasurements of provisions for post-employment benefits		-1,157	1,321
<i>Items that may be reclassified subsequently to income statement:</i>			
Translation difference on foreign operations		514	-175
Translation difference of hedge instruments of net investments in foreign operations		-124	100
Change in cash flow hedge	23	-3,074	1,617
Other comprehensive income, net of income tax		-3,841	2,863
Total comprehensive income for the year		3,619	7,339
Total comprehensive income attributable to			
Owners of the parent company		2,070	6,005
Non-controlling interest		1,549	1,334
		3,619	7,339

NET FINANCIAL POSITION AND LIQUIDITY

Cash flow from operating and investing activities amounted to MSEK 6,515 (7,234) for the year.

Cash flow from operating activities increased to MSEK 26,861 (22,576). The improvement is due to an increased operating income as well as a positive working capital development. The cash flow from working capital is mainly related to the increase in accounts payable and provisions, primarily related to increased production volumes. This is slightly offset by the increase in inventories as a result of the increased production volumes during the year.

Cash flow from investing activities amounted to MSEK -20,346 (-15,342), which includes the investment in Volvofinans Bank AB of MSEK -1,849. Investments in tangible assets amounted to MSEK -12,669 (-8,677), primarily due to the ongoing construction of the US manufacturing plant as well as special tool investments related to new car models based on the SPA platform, such as the S90 and V90. Investments in intangible assets amounted to MSEK -6,394 (-4,715) as a result of continuous investments in upcoming new car models.

Cash flow from financing activities amounted to MSEK 5,792 (1,445), and is attributable to the proceeds from the new bonds of MSEK 7,579 (—) and the issuance of preference shares of MSEK 4,979 (—), offset by repayment of liabilities to credit institutions of MSEK -7,634 (-6,626).

Cash and cash equivalents including marketable securities increased to MSEK 43,373 (29,135). The revolving credit facility of MEUR 660 remains undrawn. Net cash increased to MSEK -18,873 (-7,721).

Total equity increased by MSEK 8,675 to MSEK 43,310 (34,635), resulting in an equity ratio of 26.8 (26.2) per cent. The change in equity is related to the positive net income of MSEK 7,460 and proceeds from the issuance of preference shares of MSEK 5,000, offset by negative effects in other comprehensive income, related to change in cash flow hedge reserves of MSEK -3,074 and remeasurement of post-employment benefits of MSEK -1,157.

CONSOLIDATED BALANCE SHEETS

MSEK	Note	Dec 31, 2016	Dec 31, 2015
ASSETS			
Non-current assets			
Intangible assets	16	25,368	22,834
Property, plant and equipment	8, 17	45,468	37,428
Assets held under operating leases	8, 17	2,483	2,172
Receivables on parent company		54	—
Investments in joint ventures and associates	14	2,498	701
Other long-term securities holdings		79	15
Deferred tax assets	15	4,112	3,841
Other non-current assets	18	2,013	1,326
Total non-current assets		82,075	68,317
Current assets			
Inventories	19	21,198	20,306
Accounts receivable	5, 20	8,717	8,805
Receivables on parent company	20	—	54
Current tax assets		293	307
Other current assets	20	5,757	5,393
Marketable securities	22	4,738	3,512
Cash and cash equivalents	22	38,635	25,623
Total current assets		79,338	64,000
TOTAL ASSETS		161,413	132,317
EQUITY & LIABILITIES			
Equity			
Equity attributable to owners of the parent company	23	39,536	32,550
Non-controlling interests		3,774	2,085
Total equity		43,310	34,635
Non-current liabilities			
Provisions for post-employment benefits	24	6,348	4,701
Deferred tax liabilities	15	1,209	1,768
Other non-current provisions	25	6,995	5,909
Liabilities to credit institutions	26	13,910	15,168
Bonds	21, 26	7,699	—
Other non-current liabilities	5, 26	5,818	2,927
Total non-current liabilities		41,979	30,473
Current liabilities			
Current provisions	25	15,371	12,456
Liabilities to credit institutions	26	2,813	6,246
Advance payments from customers		652	534
Accounts payable	5	30,508	26,282
Current tax liabilities		626	446
Other current liabilities	27	26,154	21,245
Total current liabilities		76,124	67,209
TOTAL EQUITY & LIABILITIES		161,413	132,317

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 interest	Total
Balance at January 1, 2015	—	6,509	12,809	-256	-746	14,488	32,804	1,464	34,268
Net income for the year	—	—	—	—	—	3,130	3,130	1,346	4,476
Other comprehensive income									
Remeasurements of provision for post-employment benefits	—	—	—	—	—	1,705	1,705	—	1,705
Translation difference on foreign operations	—	—	—	-163	—	—	-163	-12	-175
Translation difference of hedge instruments of net investments in foreign operations	—	—	—	128	—	—	128	—	128
Change in cash flow hedge, recognised in other comprehensive income	—	—	—	—	2,073	—	2,073	—	2,073
Tax attributable to items recognised in other comprehensive income	—	—	—	-28	-456	-384	-868	—	-868
Other comprehensive income	—	—	—	-63	1,617	1,321	2,875	-12	2,863
Total comprehensive income	—	—	—	-63	1,617	4,451	6,005	1,334	7,339
Transactions with owners									
Group contributions ³⁾	—	—	-8,767	—	—	—	-8,767	—	-8,767
Unconditional shareholders' contribution	—	—	3,992	—	—	—	3,992	—	3,992
Capital transaction under common control	—	—	—	—	—	-1,484	-1,484	-713	-2,197
Transactions with owners	—	—	-4,775	—	—	-1,484	-6,259	-713	-6,972
Balance at December 31, 2015	—	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 ⁴⁾	—	—	—	—	—	—	—	140	140
Bonus issue	50	—	—	—	—	-50	—	—	—
New issue of preference shares ⁵⁾	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

1) Share capital amounts to SEK 50,500,000 (100,000).

2) For specification of Other reserves, see Note 23 – Equity.

3) Group contribution before tax amounted to MSEK — (-11,240).

4) For further information, see Note 31 – Business combinations.

5) For further information, see Note 23 – Equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

MSEK	Note	2016	2015
OPERATING ACTIVITIES			
Operating income		11,014	6,620
Depreciation and amortisation of non-current assets	10	10,527	9,399
Interest and similar items received		218	141
Interest and similar items paid		-953	-1,022
Other financial items		-418	-176
Income tax paid		-1,705	-1,645
Adjustments for items not affecting cash flow	30	522	-235
		19,205	13,082
<i>Movements in working capital</i>			
Change in inventories		-231	-1,742
Change in accounts receivable		730	-994
Change in accounts payable		4,023	7,658
Change in items relating to repurchase commitments		-342	29
Change in provisions		3,497	1,979
Change in other working capital assets/liabilities		-21	2,564
Cash flow from movements in working capital		7,656	9,494
Cash flow from operating activities		26,861	22,576
INVESTING ACTIVITIES			
Investments in shares and participations, net	14, 31	-1,462	-2,239
Dividends received from joint ventures and associates	14	187	26
Investments in intangible assets		-6,394	-4,715
Investments in property, plant and equipment		-12,669	-8,677
Disposal of property, plant and equipment		—	263
Other		-8	—
Cash flow from investing activities		-20,346	-15,342
Cash flow from operating and investing activities		6,515	7,234
FINANCING ACTIVITIES			
Proceeds from credit institutions	26	1,696	5,935
Proceeds from bond issuance	21	7,579	—
Proceeds from issuance of preference shares	23	4,979	—
Repayment of liabilities to credit institutions	26	-7,634	-6,626
Received shareholders' contribution	23	—	3,992
Investments in marketable securities, net	22	-1,189	-2,488
Other	30	361	632
Cash flow from financing activities		5,792	1,445
Cash flow for the year		12,307	8,679
Cash and cash equivalents at beginning of year	22	25,623	17,002
Exchange difference on cash and cash equivalents		705	-58
Cash and cash equivalents at end of year		38,635	25,623