GEELY SWEDEN HOLDINGS AB

ANNUAL REPORT 2020

GEELY

Contents

This is Geely Sweden Holdings

Geely Sweden Holdings AB owns shares in a group of companies in the forefront of innovation and growth. The automotive dimension consists of shares in Volvo Car Group with the brands Volvo Cars, Polestar and "M", and a strategic investment in AB Volvo. In the banking sector Geely Sweden Holdings owns shares in Saxo Bank, including its acquisition of BinckBank. Under the brand name Uni3, Geely Sweden Holdings is building a campus in Gothenburg, Sweden, which will be an enabler for collaboration in the technology sector.

Geely Sweden Holdings also incorporates a motorsport management company and a competence centre that provides services for group companies in Sweden.

Geely Sweden Holdings is owned by Zhejiang Geely Holding, a privately owned industrial group of companies headquartered in Hangzhou, China. Zhejiang Geely Holding was founded in 1986 by the current Chairman of the Board Li Shufu, who developed Geely into one of the ten largest automotive groups in the world, including brands such as Volvo Cars, Geely Auto, Lotus, Proton, Lynk & Co, Polestar, Smart and LEVC. In addition to the automotive industry, Zhejiang Geely Holding has interests in areas such as academia and research, software and user experience, financial services and property development.

2020 in Brief

- The companies in Geely Sweden Holdings developed well in 2020 despite the Covid-19 pandemic.
- The automotive sector, AB Volvo and Volvo Cars, saw a strong recovery in the second half of the year.
- Saxo Bank performed very well during the year and continues to develop its business in China.
- Construction of "Uni3 by Geely", a large new campus in Lindholmen, Gothenburg, continued according to plan. Tenants have moved into the first new building.
- Geely Group Motorsport had a remarkable year, with multiple titles in the world racing circuit.

Revenue

MSEK 262,890

Operating income

MSEK 8,719

CEO's Statement

It has been an unusual year with a global pandemic affecting business, people and society. Geely Sweden Holdings AB has balanced the needed care for our people with the development of an effective structure and organisation.

During the year, we have reviewed the Group's structure and built up the necessary functions and management structure. The company has also defined the strategic direction and focus of the company going forward.

We continue to build relationships with investors, banks and stakeholders in order to secure access to capital. We work together with our companies and our shareholders/owners/stakeholders on a daily basis. In the Nordic countries our companies have performed above expectations considering the impact of the pandemic.

The very abrupt slowdown of the global economy at the beginning of 2020 due to the spread of the coronavirus has made us look at how we work, where we work and what we can do to overcome challenges. The long-term effects are hard to predict, but at the time of writing this it seems clear that there is now light at the end of the tunnel, and thanks to the company's financial strength and diversified operations, we can conclude that we can be proud of what we accomplished during the year, both in terms of financial performance and in terms of being a positive contributor to the society.

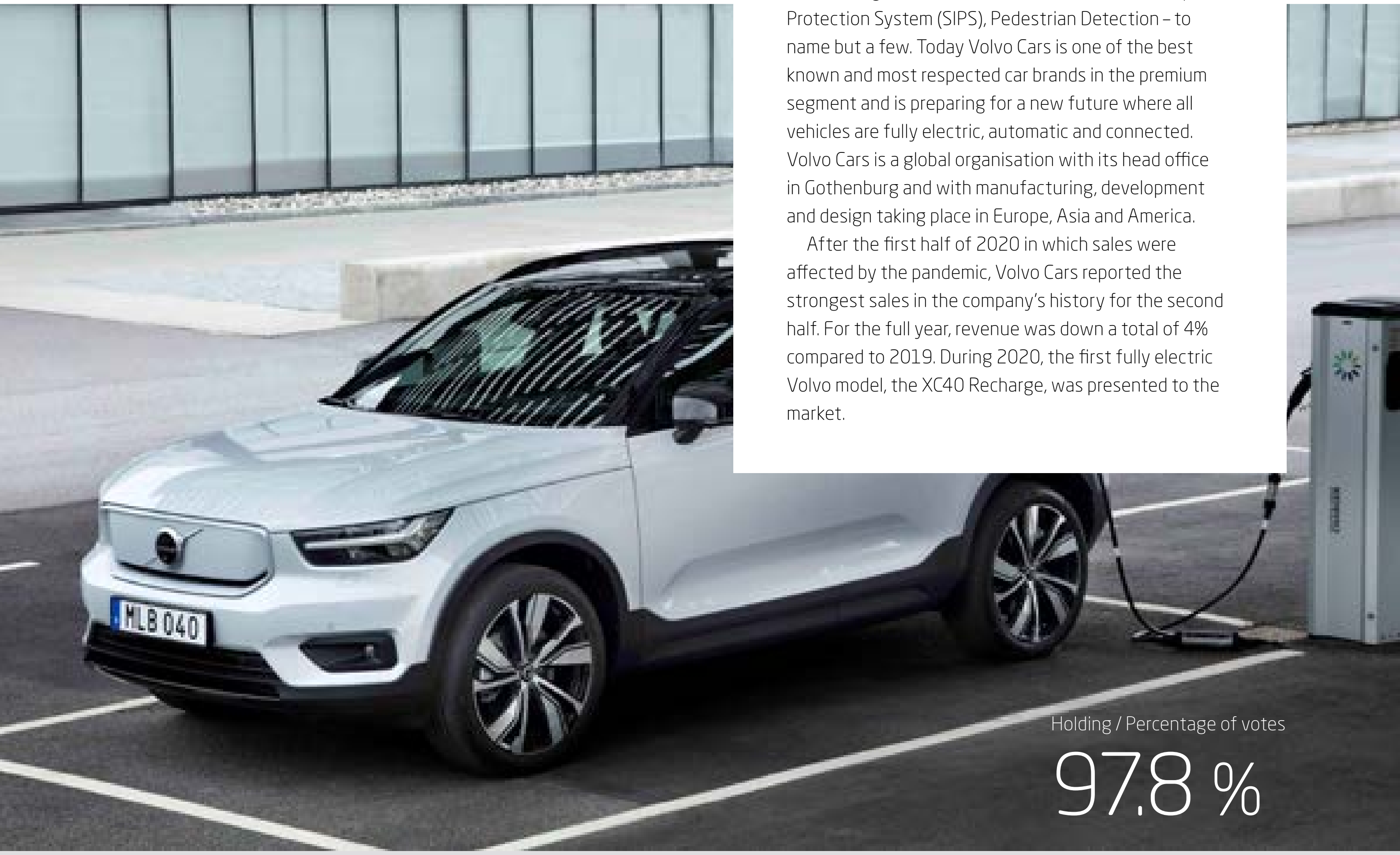
Hans Oscarsson
Chief Executive Officer
Geely Sweden Holdings AB

Holdings

Volvo Car Group

Volvo Cars has created world-leading innovations ever since the first Volvo rolled off the assembly line in Gothenburg in 1927: the modern seat belt, Side Impact Protection System (SIPS), Pedestrian Detection – to name but a few. Today Volvo Cars is one of the best known and most respected car brands in the premium segment and is preparing for a new future where all vehicles are fully electric, automatic and connected. Volvo Cars is a global organisation with its head office in Gothenburg and with manufacturing, development and design taking place in Europe, Asia and America.

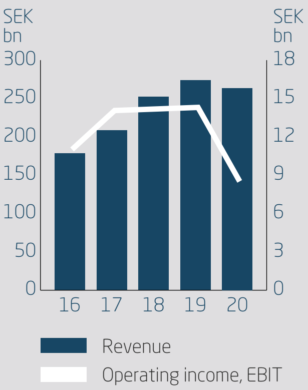
After the first half of 2020 in which sales were affected by the pandemic, Volvo Cars reported the strongest sales in the company's history for the second half. For the full year, revenue was down a total of 4% compared to 2019. During 2020, the first fully electric Volvo model, the XC40 Recharge, was presented to the market.



Holding / Percentage of votes

97.8 %

Revenue and earnings



Key ratios, MSEK	2020	2019	2018	2017[1]	2016[1]
Revenue	262,833	274,117	252,653	208,646	178,586
Operating income, EBIT	8,516	14,303	14,185	14,061	11,014
Net income	7,788	9,603	9,781	10,225	7,460
Equity ratio %	26.8	26.2	29.0	28.7	26.8
Operating and investing cash flow	13,282	11,573	4,705	–3,800	6,515

1) In 2018 there was a change related to sale of certain cars accounted for as operating leases. The comparative periods 2017 and 2016 have been changed accordingly, reducing revenue and cost of sales by an amount of MSEK 2,266 for 2017, (2016: MSEK 2,316). The change had no effect on gross income.

Volvo Group

Volvo Group is one of the world's leading manufacturers of trucks, buses, road machinery and engines for marine and industrial applications. Volvo Group also provides complete service solutions and financial services. Volvo Group, with its head office in Gothenburg, employs around 100,000 people, has production plants in 18 countries and sales in 190 markets. The shares are listed on Nasdaq Stockholm. Volvo Group's revenue in 2020 was around SEK 338 bn. Geely Sweden Holdings has been holding 8.2 per cent of AB Volvo's share capital since 2018 and sees this holding as a strategic investment in one of the world's leading companies in its sector. Volvo Group was affected by the global pandemic in the first half of the year, but recovered significantly in the second half. The revenue in 2020 was around SEK 338 bn and despite a loss of almost SEK 100 bn compared with 2019, Volvo Group was able to deliver an EBIT of SEK 27.5 bn. Volvo Group has several initiatives in the area of electrification and sustainable transports.

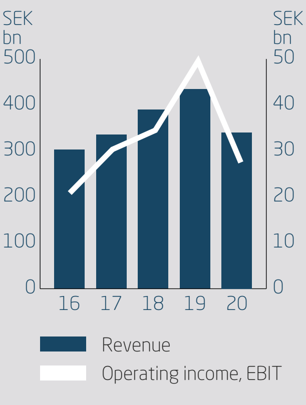
Holding

8.2%

Percentage of votes

15.9%

Revenue and earnings

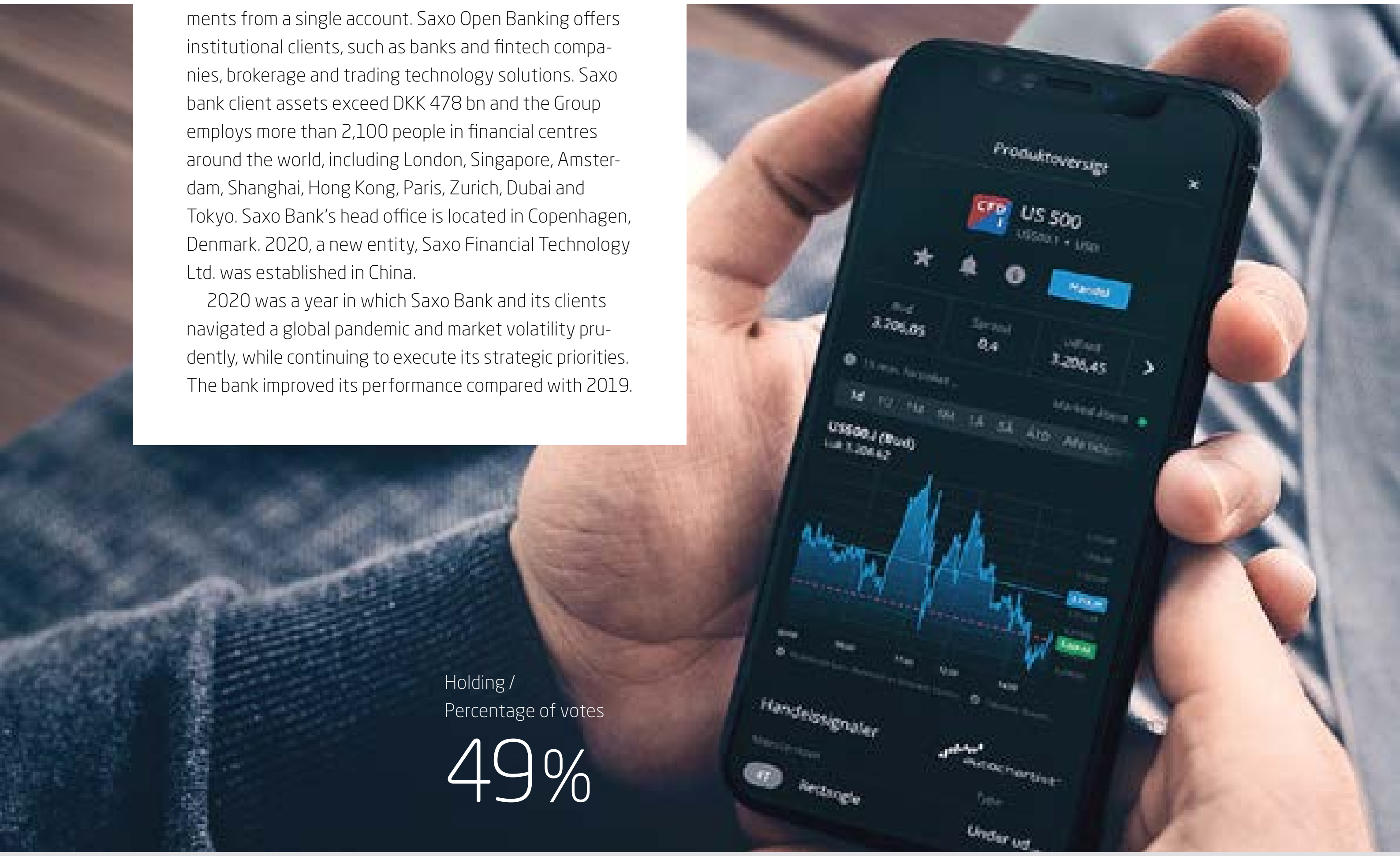


Key ratios, MSEK	**2020**	2019	2018	2017	2016
Revenue	338,446	431,980	390,834	334,748	301,914
Operating income, EBIT	27,484	49,531	34,478	30,327	20,826
Net income	20,074	36,495	25,363	21,283	13,223
Equity ratio %	29.0	27.0	26.5	26.4	24.5
Operating and investing cash flow (bn)	20.7	24.9	17.4	28.5	10.4

Saxo Bank

Saxo Bank Group is a world-leading provider of electronic trading and investment. Saxo enables private clients to trade in more than 40,000 financial instruments from a single account. Saxo Open Banking offers institutional clients, such as banks and fintech companies, brokerage and trading technology solutions. Saxo bank client assets exceed DKK 478 bn and the Group employs more than 2,100 people in financial centres around the world, including London, Singapore, Amsterdam, Shanghai, Hong Kong, Paris, Zurich, Dubai and Tokyo. Saxo Bank's head office is located in Copenhagen, Denmark. 2020, a new entity, Saxo Financial Technology Ltd. was established in China.

2020 was a year in which Saxo Bank and its clients navigated a global pandemic and market volatility prudently, while continuing to execute its strategic priorities. The bank improved its performance compared with 2019.



Holding /
Percentage of votes

49%

Key ratios, MDKK	2020	2019	2018	2017	2016
Operating income, EBIT	4,316	2,611	2,786	3,027	2,930
Profit before tax	1,080	109	1,029	554	418
Net income	750	40	963	401	302
Equity ratio %	9.4	9.5	16.1	11.6	9.7
Operating and investing cash flow	5,122	23,941	–2,086	–990	3,620

Uni3 by Geely

"Uni3 by Geely" is the name of the 105,000 square metre campus that Geely Innovation Centre Management AB is building in Lindholmen, Gothenburg. Lindholmen is the centre of the West Sweden innovation cluster and Geely's investments in Sweden have made a significant contribution there. Construction of the Uni3 campus began in 2018 and in January 2020 around 1,000 Geely employees moved into the first of five buildings. The other buildings will be finished in 2021 and 2022. In addition to having external tenants, the main building will also house a conference centre and exhibition space. A Lynk & Co showroom, offices and a design centre for cars will make up the automotive portion of the campus, while the last building will be a 4-star hotel run by an external operator.

When it is completed, the campus will be a workplace for more than 3,500 individuals and will be Geely's long-term home in Scandinavia.

Holding / Percentage of votes

100%

Geely Group Motorsport

Geely Group Motorsports International AB was formed in 2018 and the organisation has offices in Gothenburg and Hangzhou, China. Geely Group Motorsport (GGM) is focused on being a brand-neutral entity for motorsport investments made by automobile brands within the Zhejiang Geely Holding Group.

GGM handles strategic coordination of contracts with World Touring Car Cup, PR and product development. The WTCR model of Lynk & Co 03 has already had great success after just two years participating in championships and now holds several prestigious racing titles.

Holding / Percentage of votes

100%

Board of Directors

Li Shufu

Chairman
Since: 2010
Born: 1963
Education: MSc in Mechanical Engineering, BSc in Management Engineering

Other assignments
Founder and Chairman of the Board Zhejiang Geely Holding Group; Member of the Board of other entities within the Zhejiang Geely Holding Group; Chairman, Volvo Car AB (publ.).

Previous positions
Founder Geely Holding Group

Li Donghui

Member of the Board
Since: 2012
Born: 1970
Education: MBA, MSc in Mechanical Engineering

Other assignments
Chairman of the Board Lotus Advance Technologies Sdn. Bhd., Group Lotus Plc., Saxo Bank; Vice Chairman of the Board Geely Automobile Holdings Ltd.; Member of the Board and CEO Zhejiang Geely Holding Group Co. Ltd.; Member of the Board, Volvo Car AB (publ.).

Previous positions
Member of the Board Proton Holdings Berhad; Executive Vice President and CFO Geely Holding Group; Director certain subsidiaries in Geely: Geely Automobile Holdings Ltd., Geely Holdings Group Ltd.; Independent Director China CYTS Tours Holding Co. Ltd., YTO Express (International) Holdings Ltd.; CFO and Vice President Liugong Machinery; Executive Director Geely Automobile Holdings Ltd.; Managing Director and several other senior positions at Cummins; CFO and other senior positions at BMW Brilliance Automotive; Senior positions at ASIMCO Braking System, Danfoss Tianjin.

Lone Fønss Schrøder

Member of the Board
Since: 2019
Born: 1960
Education: MSc in Law, MSc in Economics

Other assignments
CEO Concordium AG; Vice Chairman and Chairman of the Audit Committee, Volvo Car AB (publ.); Vice Chairman of the Board and Chairman of the Audit Committee Akastor ASA; Member of the Board and Audit Committee AKSO ASA; Member of the Board and Audit Committee INGKA Holding BV (IKEA Group); Member of the Board and Audit Committee Queen's Gambit Growth Capital.

Previous positions
Several senior management positions at A.P. Moller-Maersk A/S; President and CEO Wallenius Lines, Member of the Board in a.m.o Handelsbanken, Saxo Bank, Vattenfall, Eukor, Yara

Hans Oscarsson

Member of the Board and CEO
Since: 2019
Born: 1965
Education: MSc in Business Administration

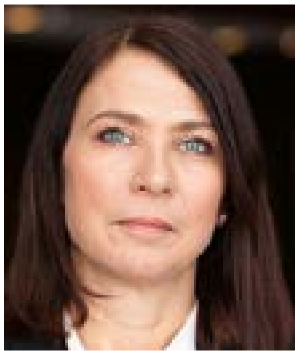
Other assignments –

Previous positions
Board member Volvo Car AB (publ), Polestar Holding, Mobility, Zenuity and Floby. CFO and SVP Finance, Volvo Car AB (publ); leading positions within finance at Volvo Car AB (publ).

Executive Management Team

Hans Oscarsson
CEO

Margareta Hernehult
Head of Finance



Anja Lindskog
Head of CEO Office

Stefan Lundin
Head of PR, Communications and Governmental Relations

Tihua Huang
General Counsel

Björn Sällström
Head of HR

Board of Directors Report

The Group

Geely Sweden Holdings AB is a holding company. The Group has investments in the industrial automotive industry (mainly Volvo Cars), separate real estate operations and individual holdings in AB Volvo and Saxo Bank. The Group also has other operations in the form of a wholly owned motorsport company and seven structured entities with the main purpose of financing and holding investments for the Group.

In 2020 Geely Sweden Holdings established a wholly owned competence centre providing the Group with financial services. The company is named Geely Business Center AB.

Registered in Gothenburg, Geely Sweden Holdings AB is a wholly owned subsidiary of Shanghai Geely Zhaoyuan International Investment Co. Ltd. registered in Shanghai, China, with ultimate majority ownership held by Zhejiang Geely Holding Group Co., Ltd., registered in Hangzhou, China.

Industrial operation

2020 was negatively affected by Covid-19 and revenue was down 4.1 per cent compared to 2019, MSEK 262,833 (274,117). Operating income (EBIT) amounted to MSEK 8,516 (14,303), equivalent to an operating margin of 3.2 per cent, which is significantly lower than last year. During the second half of the year, Volvo Cars demonstrated an extraordinary recovery, both in terms of sales and financial performance.

Electrified cars will play a more prominent role in the business of Volvo Car Group in the future. The Group is aiming for at least 50 per cent of total sales to be in electrified cars by year 2025. The fully electric XC40 Recharge is the first of a forthcoming family of fully electric models. Volvo Car Group recently launched the C40 BEV, which is the next model to be produced on the same platform as the XC40 and Polestar 2.

Real estate

"Uni3 by Geely" is the name of the 105,000 square metre campus that Geely Innovation Centre Management AB is building in Lindholmen, Gothenburg. In January 2020 around 1,000 Geely employees moved into the first of five buildings. The other buildings will be finished in 2021 and 2022. When it is completed, the campus will be a workplace for more than 3,500 individuals and will be Geely's long-term home in Scandinavia. The finished building is accounted for as an operating property according to IAS 16. The lifetime of the building is estimated at 75 years.

Individual holdings

Saxo Bank

2020 became a record year for Saxo Bank with more than 238,000 New Trading Clients, leading to a total of more than 660,000 end clients. All offices ended the year with improved performance compared to 2019. Operating income (EBIT) in 2020 for Saxo Bank amounted to MSEK 5,882 (3,558).

In June 2020, Saxo Geely Tech Holding A/S acquired 100 per cent of the shares in Saxo Financial Technology Ltd. The purpose of the company is to provide financial and regulatory technology solutions to financial institutions, banks and fintech entities in China.

Geely Group Ltd, a company outside Geely Sweden Holding Group, has signed an agreement to acquire an additional 46 percent of the shares in Geely Financial Denmark A/S, the parent company of Saxo Bank, subject to approval by the authorities. After the transaction, Geely Group Ltd will own 51 percent of the shares in Geely Financial Denmark A/S. The transaction was approved by Financial Supervisory Authority in Netherlands and in Denmark during May 2021. The completion of the transaction will take place in June 2021.

AB Volvo Group

2020 was negatively affected by Covid-19 despite a loss of almost SEK 100 bn in revenues, the Volvo Group was able to deliver a revenue of SEK 338 (432) bn and an operating profit of SEK 27 (50) bn.

Customer usage of trucks and machines increased when the Covid-19 restrictions were eased during the summer and this development continued in both Q3 and Q4. Both transport activity and the construction business are back at levels on a par with the prior year in most markets, which has improved confidence in the future among customers. This is visible in both increased order intake for trucks, engines and construction equipment and also in a gradually improved service business.

Net income and financial position

Income before tax for the Group amounted to MSEK 8,936 (12,668). Net income amounted to MSEK 7,247 (9,244). Cash and cash equivalents for the Group amounted to MSEK 62,003 (57,351). Interest-bearing liabilities not including provisions for employee benefits amounted to MSEK 5,975 (6,149). The total borrowings amounted to MSEK 75,459 (73,470) and include liabilities to credit institutions and bond liabilities. Equity share of total assets amounted to 24 (22) per cent.

Geely Sweden Holdings Group

Key ratios, MSEK	**Full year 2020**	Full year 2019	Full year 2018	Full year 2017[1)]	Full year 2016[1)]
Revenue	262,890	274,149	252,653	208,646	178,586
Operating income, EBIT	8,719	13,371	14,679	14,058	11,014
Net Income	7,247	9,244	10,731	10,252	7,460
EBITDA	23,183	28,919	27,892	26,159	21,541
Operating and investing cash flow	8,658	9,615	–34,276	–3,803	6,515
EBIT margin, %	3.3	4.9	5.8	6.7	6.2
EBITDA margin, %	8.8	10.5	11.0	12.5	12.1
Equity ratio, %	24.0	21.6	21.4	29.3	26.8
Net cash	–5,446	–12,665	–18,608	14,052	18,873

1) In 2018 there was a change related to certain car sales being recognised as operating leases. The comparative periods 2017 and 2016 have been changed accordingly, reducing revenue and cost of sales in an amount of MSEK 2,266 for 2017, (2016: MSEK 2,316). The change had no effect on gross income.

See definitions of Key Ratios in page 64.

Investments
During the period the Group made investments in intangible assets amounting to MSEK 8,620 (9,176). Investments in property, plant and equipment amounted to MSEK 10,998 (12,464), of which MSEK 3,832 (7,208) is investments in machinery and equipment, MSEK 992 (1,011) is investments in Buildings and Land, and MSEK 4,045 (3,669) in construction in progress.

Financing
Volvo Cars successfully issued its first green bond of MEUR 500 (MSEK 5,209). The proceeds are being used to fund the design, development and manufacture of fully electric cars in line with the company's recently established Green Finance Framework.

A new revolving credit facility of SEK 10.7 bn, has been signed in addition to Volvo Cars' undrawn EUR 1.3 bn facility. Furthermore, the SEK 1.5 bn facility was refinanced with a new SEK 4.0 bn credit facility with the same financing partner, Swedish Export Credit Corporation. Both facilities are partly guaranteed by the Swedish Export Credit Agency (EKN).

Employees
In total, the Group had an average of 38,382 (41,529) full-time employees. The Group also has an average of 3,421 (4,448) consultants. Information on salaries and other remuneration is presented in Note 8 – Employees and remuneration.

Covid-19
During the year, the Covid-19 pandemic has had a significant impact on people, societies and businesses. Geely Sweden Holdings continues to monitor the development of the Covid-19 situation going forward. The primary focus is the health and safety of employees and actions are continuously taken to adhere to requirements from authorities.

The pre-conditions for especially the industrial operations was changed in the beginning of the year. Volvo Cars' business was affected by lower demand during the first half of 2020 as well as supply chain disruptions and consequently sales volumes, profit and cash flow were severely negatively impacted. Mitigating actions such as closing down factories were quickly taken. A reshaping process led to Volvo Cars reducing 1,300 positions including 650 employees. All actions have allowed Volvo Cars to bounce back quickly.

Increased value of Volvo Cars' investment in Luminar
Luminar Technologies, Inc, an autonomous vehicle sensor and software company, in which Volvo Cars holds shares, was in December listed on the Nasdaq stock exchange, through a merger with Gores Metropoules, Inc, a Special Purpose Acquisition Company (SPAC). As an effect, Volvo Cars shares in Luminar have been transferred to shares in the listed entity. The value of Volvo Cars Investment increased by MSEK 1,964 and has been recognised as financial income.

The Board's work
The Board of Geely Sweden Holdings AB has four members including the CEO. There are no deputy members. All board members are elected for a one-year term. With the exception of the CEO, no board member works in an operational capacity within the Group. The General Counsel of the Group serves as secretary for the Board.

At the Annual General Meeting in year 2020, Li Shufu was elected Chairman of the Board.

The Board shall annually adopt rules of procedure that govern the structure and content of board meetings, matters to be addressed during these meetings, the division of duties between the Board and the CEO and any other relevant issues. The CEO instructions describe his duties and reporting obligations to the Board. The Board has held six meetings so far during the period in addition to the statutory meeting.

Issues addressed by the Board include strategic changes in the share portfolio, acquisition and sale of subsidiaries, the Company's risk exposure, budgets and forecasts for the subsidiaries and financial monitoring of the business.

The Audit Committee normally has meeting before Board Meetings.

Policy for remuneration and employment for CEO
The Board has decided on a policy for remuneration for the CEO in accordance with decisions taken at the Annual General Meeting (AGM). More information is presented in Note 8 – Employees and remuneration.

Risks and uncertainties
Through its operations, Geely Sweden Holdings is exposed to various risks and uncertainties that could, in varying degrees, have a negative effect on income and financial position. These risks and uncertainties are continuously monitored by Geely Sweden Holdings in order to mitigate their effect on the Group's operation.

The most relevant risks and uncertainties are presented below:

Climate change and sustainability
From a world economic point of view, climate change is a top risk, both in terms of impact and likelihood.

Climate-related risks can be divided into two major categories:
1. Transitional Risks – related to the transition to a lower-carbon economy with extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change.
2. Physical Risks – related to the physical impacts of climate change and can be event driven (acute, such as hurricanes and floodings) or longer-term shifts (chronic, such as rise of sea levels) in climate patterns.

In 2021 work with analysing and defining material sustainability aspects and frameworks for Geely Sweden Holdings has been initiated and is currently ongoing. Areas included are environment, social, economic sustainability as well as governance. The aim is to create a platform enabling structured sustainability management going forward. The analysis will include aspects and frameworks for management of climate-related risks and opportunities.

Laws and regulations
New or changing laws, regulations and government policies will affect our business. The number and extent of legal and regulatory requirements affecting our business are expected to increase in the future.

Cyber security
Cyber security breaches could cause severe disruption of our business including, but not limited to, operational disturbances affecting enterprises as well as consumers, loss of intellectual property (IP) and data leakage.

Data Privacy
Geely Sweden Holdings comprises a multitude of entities with operations all over the globe. The regulatory landscape concerning protection of per-

sonal data is ever increasing, the EU General Data Protection Regulation serving as an example for many other pieces of legislation already passed or currently being discussed in other countries.

Consumer behaviour and technical disruption

Different innovations are competing to become the new disruptive technology empowered by customer curiosity and changed behaviours.

Globalisation and digitalisation enable a rapidly changing environment for our business. These parameters also increase the uncertainty of knowing the next innovation breakthrough for customer excitement. The volatility of researching, developing and offering the next technology as a relatively small player in the automotive industry is challenging. In some cases, what customers thought would be disruptive technology yesterday, is today considered common attribute due to societal changes. We need to ensure that we can be resilient to technical changes as well as changes in customer behaviours driven by factors outside our control.

Electrification

The timing of a broader consumer demand for electrification is difficult to predict.

Volvo Car Group is adjusting its business towards electrification. Volvo Cars ambition of 50 per cent electrified vehicles by year 2025 is completely dependent on market development. Consumer preferences and political agendas can affect market rollout in ways that are difficult to predict and control. Availability of a competitive charging experience is an important enabler for customers willing to convert to electric vehicles. Volvo Car Group needs to have a competitive finding and paying offer for electric vehicles in comparison to competition. If not, it will have a direct impact on electric vehicle sales. The charging network market is far from mature and varies depending on the region, with the EU being the most fragmented. Volvo Car Group is currently in the process of separating the traditional combustion engine, see Note 33 - Asset and liabilities held for sale.

Financial risk

A description of financial instruments and management of financial risk is presented in Note 20 - Financial Risks and Financial Instruments.

Parent company

Income before tax for the parent company amounted to MSEK –154 (1,413). The equity ratio amounted to 89 (83) per cent.

Events after the balance sheet date

A closer collaboration with Geely Auto

Volvo Car AB (publ.) and Geely Automobile Holdings Limited (Hong Kong 0175) announced in February 2020 that they are considering combining their businesses to create a strong global group, which would accelerate financial and technological synergies between the two companies. In February 2021 it was announced that the two companies will continue as two stand-alone companies, with a deepened collaboration in a range of areas such as powertrains, electrification, autonomous drive technology and procurement. By doing so, two stronger, fast-growing companies will be created that can benefit from further synergies and efficiencies. Building on their strengths, being more cost-efficient and faster in technology development.

Volvo Cars plans to be fully electric by 2030

in March, Volvo Cars announced its plan to become a fully electric premium car maker by 2030 and by then have phased out cars with an internal combustion engine from the line-up – including hybrids. The plan is also for all fully electric models to be available online only. These plans are a step towards becoming a climate-neutral company by 2040.

Volvo Cars has signed a MEUR 1,300 credit facility

Volvo Cars has signed a sustainability-linked revolving credit facility, replacing the undrawn EUR 1.3 bn credit facility signed in 2017. The successful transaction demonstrates the growing confidence in the company's financial and operational transformation.

Dividend AB Volvo

On March 31st, the Annual General Meeting for Volvo Group, in accordance with the Board of Director's proposal, resolved that an ordinary dividend of SEK 6.00 per share and an extraordinary dividend of SEK 9.00 per share should be paid to the shareholders, resulting in a total dividend for Geely Sweden Holdings AB of MSEK 2,509.

Volvo Cars to evaluate a potential IPO

The Board of Volvo Cars on 12 May decided to evaluate the possibility of an initial public offering (IPO) of the company on the Nasdaq Stockholm stock exchange later in 2021. A final decision to list will be subject to market conditions and there can be no certainty that a listing will proceed.

Volvo Cars dividend to Geely Sweden Holding AB

On 31st of May, the extra general meeting for Volvo Cars decided to distribute an extra dividend to its shareholders, of which the dividend to Geely Sweden Holdings amounts to MSEK 5,979. The intention is to settle the dividend through transfer of all shares in Powertrain Engineering Sweden AB and Volvo Car Services 5 AB.

Environment

Geely Sweden Holdings' major impact on environmental sustainability is through its portfolio companies' business activities. The Group has a longstanding commitment to be a responsible company with a clear focus on sustainable development. This commitment is, for example, described in the annual reports prepared by Volvo Cars and Volvo Group in line with international reporting guidelines set out in the Global Reporting Initiative (GRI), UN Global Compacts 10 principles and Sustainable Development Goals (SDGs). Volvo Group and Volvo Cars have also committed to TCFD and Science Based Targets going forward. All businesses have permits to regulate the environmental impact of their operations. Continuous reporting on this impact is carried out according to guidelines and requirements issued by local and national environmental authorities.

At the disposal of the AGM:

Share premium reserve	SEK	6,509,200,000
Other contributed capital	SEK	3,693,131,899
Retained earnings carried forward	SEK	14,272,595,442
Net income for the year	SEK	–153,528,421
At the disposal of the AGM	**SEK**	**24,321,398,920**

The Board proposes the following allocation of funds:

Carried forward	SEK	24,321,398,920
Total	**SEK**	**24,321,398,920**

Future prospects

No forecast will be published.

Contents Financial Report

Consolidated Income Statements

MSEK	Note	2020	2019
Revenue	2	262,890	274,149
Cost of sales	3	–216,825	–222,052
Gross income		**46,065**	**52,097**
Research and development expenses	3, 15	–11,374	–11,446
Selling expenses	3	–15,733	–17,315
Administrative expenses	3	–8,694	–9,542
Other operating income	6	2,442	3,880
Other operating expenses	6	–3,926	–3,252
Share of income in joint ventures and associates	13	–61	–1,051
Operating income	4, 5, 7, 8, 9, 10	**8,719**	**13,371**
Financial income	11	3,091	2,261
Financial expenses	12	–2,874	–2,964
Income before tax		**8,936**	**12,668**
Income tax	14	–1,689	–3,424
Net income		**7,247**	**9,244**
Net income attributable to			
Owners of the parent company		5,294	6,757
Non-controlling interests		1,953	2,487
		7,247	**9,244**

INCOME AND RESULT

The Group's revenue decreased by 4.1 per cent to MSEK 262,890 (274,149). Wholesales decreased by 5.8 per cent to 662,625 (703,534) cars as a consequence of the decreases during the first half year due to the Covid-19 pandemic. The sales mix was strong with a continuously increasing share of SUVs and XC40s in particular. Other revenue, such as rentals, used cars sales, as well as parts and accessories, increased by MSEK 1,545, mainly related to used car sales. Furthermore, the increasing share of rechargeable cars resulted in surplus CO_2 credits. The exchange rate effect in revenue was negative and amounted to MSEK –6,660 as an effect of the strengthened SEK.

Gross income amounted to MSEK 46,065 (52,097), resulting in a gross margin of 17.5 (19.0) per cent. The lower gross margin was largely related to Covid-19 effects during the first half of the year, with lower sales volumes. The negative effects were partly offset by reduced material cost as an effect of the continuous focus on cost reductions. In total, the cost of sales decreased by 2.4 per cent to MSEK –216,825 (222,052). The foreign exchange rate effect on cost of sales amounted to MSEK 2,201. The net effect of foreign exchange rate on gross income amounted to MSEK –4,460.

In order to mitigate the negative effects from Covid-19, early measures were taken to adapt the cost structure. Disciplined cost efficiency activities were implemented to meet both short- and longer-term challenges. Short-term, plants were temporarily closed in all regions and lay-offs with governmental support were implemented in several European markets, as well as in the US. Governmental support related to Covid-19 amounted to MSEK 1,013, mainly related to lay-offs in Sweden and tax subsidies in China. In other countries, such as Belgium and the US, support has been received through payments from governments directly to the employees. Furthermore, in order to realign the operations and reduce personnel cost long-term, a restructuring invloving giving notice to approximately 650 indivuals in white-collar positions was executed in Sweden. The short- and long-term measures partly mitigated the negative effect of decreased car volumes.

Research and development expenses amounted to MSEK –11,374 (–11,446), see table below.

Administrative expenses decreased to MSEK –8,694 (–9,542), mainly due to reduced manning. Selling expenses decreased to MSEK –15,733 (–17,315) as a result of cost efficiency programmes as well as fewer events due to Covid-19 situation.

Other operating income and expenses, net, decreased to MSEK –1,484 (628), affected by costs for early phase-out of certain components and by government grants received. The share of income in joint ventures and associates increased and amounted to MSEK –61 (–1,051).

The operating income (EBIT) decreased compared to last year to 8,719 (13,371) resulting in an EBIT margin of 3.3 per cent (4.9) per cent. The decreased EBIT margin is a result of Covid-19 effects during the first half of the year, mainly volume decreases, partly offset by cost-reduction measures within cost of sales and administrative and selling expenses. Furthermore, it has been affected by non-recurring items including restructuring costs and costs for vehicle recalls. The net effect of foreign exchange rates in EBIT amounted to MSEK –4,970.

Financial items, net, amounted to MSEK 217 (–703).

The effective tax rate was 18.9 (27.0) per cent due to increased tax credits related to emissions, mainly in the US.

Net income amounted to MSEK 7,247 (9,244) and net income in relation to revenue was 2.8 (3.4) per cent.

Research and development spending, MSEK	2020	2019
Research and development spending	–14,828	–14,662
Capitalised development costs	7,517	8,088
Amortisation and depreciation of research and development[1)]	–4,063	–4,872
Research and development expenses	**–11,374**	**–11,446**

1) The amortisation expenses has decreased by MSEK 666 (—), due to adjustments of the useful life period to reflect updated assumptions and cycle plan changes.

Consolidated Comprehensive Income

MSEK	Note	2020	2019
Net income		7,247	9,244
Other comprehensive income			
Items that will not be reclassified subsequently to income statement:			
Change in fair value of other long-term securities holdings	20	6,198	6,942
Remeasurements of provisions for post-employment benefits		–992	–3,780
Tax on items that will not be reclassified to income statement		212	792
Items that may be reclassified subsequently to income statement:			
Translation difference on foreign operations		–3,376	982
Translation difference of hedge instruments of net investments in foreign operations		368	–139
Change in fair value of cash flow hedge related to currency and commodity price risks		2,862	–4,220
Currency and commodity risk hedge contracts recycled to income statement		3,156	1,003
Tax on items that may be reclassified to income statement		–1,318	691
Other comprehensive income, net of income tax		**7,110**	**2,271**
Total comprehensive income		**14,357**	**11,515**
Total comprehensive income attributable to			
Owners of the parent company		13,113	8,801
Non-controlling interests		1,244	2,714
		14,357	**11,515**

NET FINANCIAL POSITION AND LIQUIDITY

Cash flow from operating and investing activities amounted to MSEK 8,658 (9,615).

Cash flow from operating activities amounted to MSEK 31,208 (29,453). The positive operating cash flow is mainly due to the operating income of MSEK 8,719 (13,371), adjusted for depreciation and amortization of MSEK 14,464 (15,548), items not affecting cash flow of MSEK 3,699 (–1,533) related to items negatively affecting EBIT that have not yet generated cash flow, combined with tax paid of MSEK –2,857 (–4,094) and a positive working capital development of MSEK 8,979 (7,686).

The positive cash flow from working capital is mainly an effect of the rapid recovery during the second half year and the ramping up of the production. The higher production volume resulted in increased accounts payable of MSEK 5,306 (2,019), partly offset by increased accounts receivable of MSEK –2,186 (1,030). Furthermore, the positive cash flow from contract liabilities of MSEK 3,872 (6,503) was mainly driven by increased sales generated obligations and prepayments from customers.

Cash flow from investing activities amounted to MSEK –22,550 (–19,838). Investments in property, plant and equipment amounted to MSEK –10,998 (–12,464) and are mainly related to investments in car and engine production capacity, and for tooling. Investments in intangible assets amounted to MSEK –8,620 (–9,176) as a result of continuous investments in new and upcoming car models and new technology. Investments in shares and participations amounted to –4,947 (–287).

Cash flow from financing activities amounted to MSEK –1,190 (5,712) , mainly related to proceeds from green bond issuance of MSEK 5,209 (12,483), proceeds from loans of MSEK 5,482 (16,790), offset by repayments of loans and other interest-bearing liabilities of MSEK –6,789 (–19,444) and investments in marketable securities, net, of MSEK –4,692 (–1,985).

Total cash and cash equivalents including marketable securities increased to MSEK 70,090 (60,869). Net cash amounted to MSEK 5,446 (–12,665). Including undrawn credit facilities of MSEK 24,700 (13,593), liquidity was at MSEK 94,790 (74,462).

EQUITY

Total equity increased to MSEK 74,106 (61,654), resulting in an equity ratio of 24.0 (21.6) per cent. The change is attributable to positive net income of MSEK 7,247 and a positive net effect in other comprehensive income of MSEK 7,110, partly offset by shareholder transactions related to the restructuring of Polestar. For further information, see Note 13 - Investments in joint ventures and associates. The change in other comprehensive income is related to a positive change in fair value of the shares in AB Volvo of MSEK 6,198 and a positive change in the cash flow hedge reserve from unrealised hedge contracts of MSEK 4,779, net of tax, of which hedge contracts recycled to the income statement amounted to MSEK 3,156. The change in value of cash flow hedges is mainly due to a strengthened SEK against USD and GBP. This was partly offset by a negative foreign exchange translation effect, including hedges of net investments in foreign operations of MSEK –3,087 (net of tax).

Remeasurements of provisions for post-employment benefits gave an effect of MSEK –780 (net of tax), due to changes in actuarial assumptions, of which MSEK –473 is an adjustment due to changes in the actuarial calculation method related to the Swedish ITP2 plan.

Consolidated Balance Sheets

MSEK	Note	Dec 31, 2020	Dec 31, 2019
ASSETS			
Non-current assets			
Intangible assets	15	37,234	32,806
Property, plant and equipment	7, 16	59,675	70,963
Assets held under operating leases	7, 16	4,490	3,243
Investments in joint ventures and associates[1]	13	17,055	16,036
Other long-term securities holdings	20	35,003	26,652
Deferred tax assets	14	7,476	7,448
Other non-current assets	17	4,899	3,472
Total non-current assets		**165,832**	**160,620**
Current assets			
Inventories	18	35,515	38,911
Accounts receivable	4, 19	14,882	13,278
Current tax assets		784	959
Other current assets	19	13,510	10,616
Marketable securities	21	8,087	3,518
Cash and cash equivalents	21	62,003	57,351
Assets held for sale	33	7,849	–
Total current assets		**142,630**	**124,633**
TOTAL ASSETS		**308,462**	**285,253**
EQUITY & LIABILITIES			
Equity	22		
Equity attributable to owners of the parent company		61,797	50,704
Non-controlling interests		12,309	10,950
Total equity		**74,106**	**61,654**
Non-current liabilities			
Provisions for post-employment benefits	23	14,187	12,583
Deferred tax liabilities	14	1,044	975
Other non-current provisions	24	8,179	7,316
Liabilities to credit institutions	20	39,331	40,125
Bonds, non-current	20	24,768	27,863
Non-current contract liabilities to customers	25	5,630	5,210
Other non-current interest-bearing liabilities	7	4,815	5,076
Other non-current liabilities[1]	4, 26	5,778	6,876
Total non-current liabilities		**103,732**	**106,024**
Current liabilities			
Current provisions	24	8,530	8,357
Liabilities to credit institutions	20	4,306	5,482
Bonds, current	20	7,054	–
Current contract liabilities to customers	25	21,842	20,478
Accounts payable	4	46,890	45,008
Current tax liabilities		1,486	1,295
Other current interest-bearing liabilities	7	1,160	1,073
Other current liabilities[1]	27	37,607	35,882
Liabilities held for sale	33	1,749	–
Total current liabilities		**130,624**	**117,575**
TOTAL EQUITY & LIABILITIES		**308,462**	**285,253**

1) During 2020, the internal profit elimination related to the sale of licences and technology to Polestar was reclassified and the comparative figures have been adjusted accordingly. The effect in previous year was MSEK 1,803 on investments in joint ventures and associates, MSEK 1,558 on other non-current liabilities and MSEK 245 on other current liabilities.

Changes in Consolidated Equity

MSEK	Share capital[1]	Share premium	Other contributed capital	Currency translation reserve	Other reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
Balance at January 1, 2019	**–**	**11,405**	**7,993**	**423**	**-13,777**	**36,301**	**42,345**	**8,907**	**51,252**
Net income	**–**	**–**	**–**	**–**	**–**	**6,757**	**6,757**	**2,487**	**9,244**
Other comprehensive income									
Change in fair value of other long-term securities holdings[2]	–	–	–	–	6,942	–	6,942	–	6,942
Remeasurements of provisions for post-employment benefits	–	–	–	–	–	–3,780	–3,780	–	–3,780
Translation difference on foreign operations	–	–	–	744	–	–	744	238	982
Translation difference of hedge instruments, net investments in foreign operations	–	–	–	–139	–	–	–139	–	–139
Change in fair value of cash flow hedge related to currency and commodity price risks	–	–	–	–	–4,221	–	–4,221	1	–4,220
Currency and commodity risk hedge contracts recycled to income statement	–	–	–	–	1,016	–	1,016	–13	1,003
Tax attributable to items recognised in other comprehensive income	–	–	–	30	660	792	1,482	1	1,483
Other comprehensive income	**–**	**–**	**–**	**635**	**4,397**	**–2,988**	**2,044**	**227**	**2,271**
Total comprehensive income	**–**	**–**	**–**	**635**	**4,397**	**3,769**	**8,801**	**2,714**	**11,515**
Transactions with owners									
Issue of preference shares[3]	–	4,988	–	–	–	1	4,989	–	4,989
Redemption of preference shares[3]	–	–4,896	–	–	–	–849	–5,745	–	–5,745
Transactions with non-controlling interests[3]	–	–	–	–	–	–714	–714	714	–
Capital injection into joint venture under common control[4]	–	–	–	–	–	1,153	1,153	–	1,153
Dividend to shareholders[5]	–	–	–	–	–	–125	–125	–1,385	–1,510
Transactions with owners	**–**	**92**	**–**	**–**	**–**	**–534**	**–442**	**–671**	**–1,113**
Balance at December 31, 2019	**–**	**11,497**	**7,993**	**1,058**	**–9,380**	**39,536**	**50,704**	**10,950**	**61,654**
Net income	**–**	**–**	**–**	**–**	**–**	**5,294**	**5,294**	**1,953**	**7,247**
Other comprehensive income									
Change in fair value of other long-term securities holdings[2]	–	–	–	–	6,198	–	6,198	–	6,198
Remeasurements of provisions for post-employment benefits[6]	–	–	–	–	–	–992	–992	–	–992
Translation difference on foreign operations	–	–	–	–2,666	–	–	–2,666	–710	–3,376
Translation difference of hedge instruments of net investments in foreign operations	–	–	–	368	–	–	368	–	368
Change in fair value of cash flow hedge related to currency and commodity price risks	–	–	–	–	2,862	–	2,862	–	2,862
Currency and commodity risk hedge contracts recycled to income statement	–	–	–	–	3,155	–	3,155	1	3,156
Tax attributable to items recognised in other comprehensive income	–	–	–	–79	–1,239	212	–1,106	–	–1,106
Other comprehensive income	**–**	**–**	**–**	**–2,377**	**10,976**	**–780**	**7,819**	**–709**	**7,110**
Total comprehensive income	**–**	**–**	**–**	**–2,377**	**10,976**	**4,514**	**13,113**	**1,244**	**14,357**
Transactions with owners									
Shareholder transaction in joint venture under common control[4]	–	–	–	–	–	–1,901	–1,901	–	–1,901
Transactions with non-controlling interests[3]	–	–	–	–	–	–119	–119	119	–
Dividend to shareholders	–	–	–	–	–	–	–	–4	–4
Transactions with owners	**–**	**–**	**–**	**–**	**–**	**–2,020**	**–2,020**	**115**	**–1,905**
Balance at December 31, 2020	**–**	**11,497**	**7,993**	**–1,319**	**1,596**	**42,030**	**61,797**	**12,309**	**74,106**

1) Share capital amounted to SEK 100,000 (100,000).
2) For further information, see Note 20 – Financial risks and financial instruments.
3) For further information, see Note 22 – Equity.
4) For further information, see Note 13 – Investments in joint venture and associates.
5) For further information, see Note 4 – Related parties.
6) Included in the change of provisions for post-employment benefits is an adjustment due to changes in actuarial calculation method related to the Swedish ITP2 plan amounting to MSEK –473 (—).

Consolidated Statement of Cash Flows

MSEK	Note	2020	2019
OPERATING ACTIVITIES			
Operating income		8,719	13,371
Depreciation and amortisation of non-current assets	9	14,464	15,548
Interest and similar items received		591	514
Interest and similar items paid		–1,876	–1,372
Other financial items		–511	–667
Income tax paid		–2,857	–4,094
Adjustments for items not affecting cash flow	30	3,699	–1,533
		22,229	**21,767**
Movements in working capital			
Change in inventories		–456	–3,066
Change in accounts receivable		–2,186	1,030
Change in accounts payable		5,306	2,019
Change in provisions		–303	926
Change in contract liabilities to customers		3,872	6,503
Change in other working capital assets/liabilities		2,746	274
Cash flow from movements in working capital		**8,979**	**7,686**
Cash flow from operating activities		**31,208**	**29,453**
INVESTING ACTIVITIES			
Investments in shares and participations, net[1)]	13, 31	–4,947	–287
Loans to affiliated companies		1,251	–
Dividends received from joint ventures and associates	13	333	64
Dividends received from investments in other long-term securities holdings		–	1,672
Investments in intangible assets		–8,620	–9,176
Investments in property, plant and equipment		–10,998	–12,464
Disposal of property, plant and equipment		431	353
Cash flow from investing activities		**-22,550**	**-19,838**
Cash flow from operating and investing activities		**8,658**	**9,615**
FINANCING ACTIVITIES			
Proceeds from credit institutions		5,482	16,790
Proceeds from bond issuance	20	5,209	12,483
Repayment of liabilities to credit institutions		–5,439	–18,088
Repayment of interest-bearing liabilities		–1,350	–1,356
Proceeds from preference shares issuance	22	–	5,011
Redemption of preference shares	22	–	–5,745
Dividend paid to shareholders[2)]	4	–4	–1,510
Investments in marketable securities, net[3)]	21	–4,692	–1,985
Other[4)]		–396	112
Cash flow from financing activities		**-1,190**	**5,712**
Cash flow for the year		**7,468**	**15,327**
Cash and cash equivalents at beginning of year		**57,351**	**41,053**
Exchange difference on cash and cash equivalents		–2,816	971
Cash and cash equivalents at end of year	21	**62,003**	**57,351**

1) Investments amounted to MSEK –5,411 (–705) and capital repayments from Joint ventures amounted to MSEK 464 (418).
2) For further information, see Changes in Consolidated Equity on page 21.
3) Investments amounted to MSEK –8,805 (–8,888) and matured investments amounted to MSEK 4,113 (6,903).
4) Other is attributable to realised result from financial instruments MSEK –424 (226) and change in other non-current liabilitities of MSEK 28 (–114).

Notes to the Consolidated Financial Statements

All amounts are in MSEK unless otherwise stated.
Amounts in brackets refer to the preceding year.

NOTE 1 – GENERAL INFORMATION FOR FINANCIAL REPORTING WITHIN GEELY SWEDEN HOLDINGS GROUP

Basis of preparation

The consolidated financial statements of Geely Sweden Holdings AB Group were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the European Union. This Annual Report was prepared in accordance with IAS 1 Presentation of Financial Statements and the Swedish Annual Accounts Act. In addition, RFR 1 Supplementary Rules for Groups, a standard issued by the Swedish Financial Reporting Board, has been applied. RFR 1 specifies mandatory additions to the IFRS disclosure requirements in accordance with the Swedish Annual Accounts Act. Group companies apply the same accounting principles, irrespective of national legislation, as defined in the Group accounting directives and they have been applied consistently for all periods, unless otherwise stated.

All accounting principles considered material to the Group are described in conjunction with each note. When a new accounting principle has been implemented or when there have been changes in disclosures, this is described as part of the relevant note.

Preparation of the financial statements in accordance with IFRS requires the company's Executive Management and the Board of Directors to make estimations and judgements that affect the value of the reported assets, liabilities, income and expenses. Estimates are based on historical experience. Estimates and judgements will affect the values of assets and liabilities. The actual outcome (value) may differ from these estimates and judgements and corrections may be necessary. The estimates and judgements are reviewed on a regular basis. Changes are recognised in the period of the change and in future periods if the change affects both.

Estimates and judgements that are deemed to be the most important for an understanding of the Group's financial statements within each area, taking into account the degree of materiality and uncertainty, are presented as part of each applicable note.

In order to avoid duplication of information, cross-references have been made between different parts of the Annual Report.

Basis of consolidation

The consolidated financial statements include Geely Sweden Holdings AB and its subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

All wholly owned subsidiaries and certain companies owned to 50 per cent, mainly in China, are consolidated, see Note 8 – Participation in subsidiaries (parent company). Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Foreign currency

The primary economic environment is the one in which a group company primarily generates and spends cash. Normally the functional currency is the currency of the country where the company is located. The Group's and Geely Sweden Holdings AB's presentation currency is Swedish krona (SEK).

Assets and liabilities denominated in foreign currencies other than the functional currency are translated to the functional currency using the rate on the balance sheet date. Exchange rate differences are recognised in the income statement.

Exchange rate differences on operating assets and liabilities are recognised in other operating income and expenses, while exchange rate differences arising on financial assets and liabilities are recognised in financial income and expenses.

When preparing the consolidated financial statements, items in the income statements of foreign subsidiaries are translated to SEK using monthly average exchange rates. Balance sheet items are translated into SEK using exchange rates at year-end (closing rate). Exchange rate differences arising on translation are recognised in other comprehensive income and accumulated in equity. The accumulated translation differences related to subsidiaries, joint ventures or associates are reversed in the income statement as a part of the gain/loss arising from disposal of such a company.

The main exchange rates applied are presented in the table below:

		Average rate		Close rate	
Country	Currency	**2020**	2019	**2020**	2019
China	CNY	1.34	1.37	1.25	1.34
Euro zone	EUR	10.51	10.56	10.02	10.46
Great Britain	GBP	11.90	12.04	11.16	12.31
United States	USD	9.26	9.42	8.17	9.32
Japan	JPY	0.09	0.09	0.08	0.09

Classification of current and non-current assets and liabilities

An asset is classified as current when it is held primarily for the purpose of trading, is expected to be realised within 12 months after the balance sheet date or consists of cash or cash equivalents, provided that it is not subject to any restrictions. All other assets are classified as non-current. A liability is classified as current when it is held primarily for the purpose of trading or is expected to be settled within 12 months after the balance sheet date. All other liabilities are classified as non-current.

When the criteria for being classified as a non-current asset held for sale are fulfilled and the asset or disposal group is of significant value, the asset or disposal group and the related liabilities are recognised on a separate line in the balance sheet, see Note 33 – Asset and liabilites held for sale.

NOTE 2 – REVENUE

ACCOUNTING PRINCIPLES

Revenue is defined as the sale price for goods or services net of variable considerations and consideration to be paid.

Revenue is recognised when the customer obtains control of delivered goods or services, and thus has the ability to direct the use and obtain the benefits from the goods or services. Revenue could either be recognised at a point in time or over time depending on the business model applied. The sale of goods or services will sometimes give rise to recognition of contract liabilities to customers. These liabilities are recognised when the Group is obligated to transfer goods or services for which consideration is already received. Contract liabilities to customers include sales-related obligations, deferred revenue from extended service contracts, sales with repurchase commitments, as well as advance payments from customers.

Revenue from sale of goods

Revenue is recognised when the customer has gained control over the goods according to agreed contract terms. If the customer contracts include variable considerations or consideration to be paid, the revenue recognised will be effected. In the case of volume discounts that are triggered over time a contract liability will be recognised. This is also the case for other variable considerations, like incentive programmes and variable marketing expenses.

Revenue from the sale of a vehicle to a customer, where a residual value guarantee has been issued to an independent financing provider, is recognised at the time of sale, less an amount corresponding to the estimated residual value risk. The estimated residual value risk remaining in the Group is recognised as a contract liability, see Note 25 – Current and non-current contract liabilities to customers. Revenue is only recognised provided that transfer of control over the vehicle can be confirmed.

Revenue from sale of a vehicle to a customer combined with a repurchase commitment (the right or obligation -put option- to buy back the car) is recognised over the contract period as if it were an operating lease contract. This is based on the fact that the customer has not obtained control of the vehicle. Based on historical experience, a majority of customers use the put option at the end of the contract period. During the contract period the cars are recognised on the balance sheet and are depreciated to the estimated residual value, see Note 9 – Depreciation and amortisation. The useful life of the asset and the corresponding residual value is monitored closely and changed if necessary, see Note 18 – Inventories and Note 16 – Property, plant and equipment. Liabilities related to repurchase commitments are recognised as other non-current and other current liabilities, see Note 26 – Other non-current liabilities and Note 27 – Other current liabilities.

Revenue from sale of services

The Group sells services in the form of maintenance contracts and extended warranties to customers. Revenue from these sales is deferred and revenue recognised on a straight-line basis over the contract period. The deferred revenue is recognised as contract liabilities to customers, since the customer's payment is made before the service is performed. When an extended warranty contract is included in the sales price of the car, and the inclusion in the contract is assessed to be common practice in the market, such extended warranty costs are recognised as a provision. This warranty is not recognised as a separate performance obligation.

Where an extended warranty is included in the sale of a car and the offer goes beyond common practice in the market, it is accounted for as a separate performance obligation; a stand-alone selling price is identified, and revenue is recognised on a straight-line basis over the contract period. The stand-alone selling price is not directly observable, why the price is in general estimated based on expected cost plus a reasonable margin.

Revenue from sale of licences

Revenue from the sale of licences is recognised at a point in time or over time, depending on whether the licence sold gives the customer the right to use or the right to access the underlying asset. The Group sells both types of licences and revenue is therefore recognised in accordance with the substance of the relevant agreement. Income from sold licences related to intellectual property (IP) and other developed technology is classified as revenue.

Revenue from subscription, leasing and rental business

Revenue from subscription, leasing and rental business is recognised as revenue on a straight-line basis over the contract period. Revenues related to an operating lease arrangement is recognised as revenue on a straight-line basis over the lease term.

CO_2 emission credits

During the year, the Group fulfilled and overachieved its emission targets, set by the EU. The Group has been able to enter into a pooling arrangement with Ford offering its surplus CO_2 emissions in line with the pooling system implemented by the European Commission. The pooling arrangement also includes CO_2 emission credits from Volvo Car's joint venture Polestar. The compensation received by Ford has been accounted for as revenue, and an additional part is received through the share of income from Polestar. The classification as revenue is based on that it is directly related to the Group's core business.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Variable consideration

The inherent risk with regard to different forms of variable considerations is that recognised revenue has to be reversed in future periods as an effect of not allocating the correct portion of the transaction price to the variable consideration. As a direct effect of this, the Group is cautious in its assessment of variable considerations, in order to minimise the risk of reversal, that is, rather overstating the contract liabilities than overstating revenue. Variable consideration can be paid out in the future or it can be reversed in the income statement.

Volume discounts

Cars may be sold with volume discounts based on aggregate sales over a 3–12 month period. Revenue from these sales is recognised based on the price specified in the contract, adjusted for volume discounts for the full sales period. Historical experience is used to estimate and calculate the total discount. A contract liability is recognised based on expected volume discounts to customers in relation to sales made.

Residual value guarantees

The Group is exposed to residual value risks, meaning that there is a potential loss for the Group if the future market value of a used car is lower than the guaranteed value of the car according to the contract. This potential negative effect is recognised as a contract liability and the future market value of cars is monitored individually on a continuing basis. An estimate is made based on evaluating recent car auction values, future price deterioration due to expected changes in market conditions, vehicle quality data and repair and reconditioning costs etc.

Repurchase Commitments

Cars sold with a repurchase obligation are recognised in the balance sheet as assets under operating leases or inventories, depending on the contract period. During the contract period there is risk of a potential loss for the Group if the estimated value of the car is lower than the market value at the time. This potential negative effect is recognised as an increased depreciation or an impairment of the car. An estimate of the value of the car is therefore made based on recent car auction values, future price deterioration due to expected change in market conditions, vehicle quality data, repair and reconditioning costs etc. The value of the car in the balance sheet is adjusted if necessary.

Consideration payables

When the customer, as part of a sale transaction, will receive cash or goods with a monetary value, revenue is recognised net of the consideration paid to the customer.

The Revenue allocated to geographical regions:	2020	2019
China	61,286	60,530
US	40,581	40,110
Europe[1]	121,911	131,015
of which Sweden	*25,548*	*26,124*
of which Germany	*18,319*	*20,343*
of which United Kingdom	*15,866*	*16,911*
Other markets	39,112	42,494
of which Japan	*7,345*	*7,937*
of which South Korea	*5,059*	*4,623*
Total	**262,890**	**274,149**

The Revenue allocated to category:		
Sale of products and related goods and services	239,620	251,139
Sale of used cars	16,288	15,840
Revenue from subscription, leasing and rental business	2,706	4,177
Sale of licences	2,068	1,648
Other revenue	2,208	1,345
Total	**262,890**	**274,149**

1) Europe is defined as EU28+EFTA.
2) Including effects of CO_2 credits and sold services.

Revenue recognised in relation to contract liabilities to customers

For revenue recognised in the current reporting period in relation to the opening balance of contract liabilities, see Note 25 – Current and non-current contract liabilities to customers. The majority of the Group's contract liabilities are classified as current and will most likely be recognised as revenue during the coming year.

NOTE 3 – EXPENSES BY NATURE

	2020	2019
Material cost incl. freight, distribution and warranty	–185,277	–186,126
Personnel	–34,759	–37,026
Amortisation/depreciation[1]	–14,464	–15,548
Other	–18,126	–21,655
Total	**–252,626**	**–260,355**

1) The amortisation expenses have decreased by MSEK 666 (—), due to adjustments of the useful life period to reflect updated changes in assumptions and cycle plans.

Capitalised development costs and government grants received have reduced the amounts recognised as personnel and other. See Note 10 – Government grants.

NOTE 4 – RELATED PARTIES

ACCOUNTING PRINCIPLES

The Group has multiple related parties, in particular related to development of new technology. Related parties include companies outside the Group but within the Geely sphere of companies, but also other companies such as associates and joint ventures.

All transactions with related parties are conducted on commercial terms.

During the year, Group companies entered into the transactions with related parties presented below. The information in the table includes all assets and liabilites with regards to related parties. Besides from other non-current assets of MSEK 694 (376) all assets and liabilities are current.

	Sales of goods, services and other		Purchases of goods, services and other	
	2020	2019	**2020**	2019
Related companies[1) 2)]	5,308	4,398	–7,091	–4,957
Joint ventures and associated companies[1)]	1,303	1,320	–2,363	–2,603

	Receivables		Payables	
	Dec 31, 2020	Dec 31, 2019	**Dec 31, 2020**	Dec 31, 2019
Related companies[1)]	12,652	8,964	5,504	2,941
Joint ventures and associated companies[1)]	518	733	1,202	408

1) Joint ventures within the Geely sphere are reported as related companies. For joint ventures and associated companies, see Note 13 – Investments in joint ventures and associates.
2) Revenue from sale of licences and technology represent a value of MSEK 1,774 (1,410).

In 2020, a legal restructuring of the Polestar Group took place. The restructuring of Polestar as such, has not had any effect on the Group's interest in Polestar's underlying operational activities. During the restructuring in mid-September 2020, the holding company Polestar Automotive (Shanghai) Co., Ltd sold its subsidiaries (i.e. the operational entities) to a newly formed holding company; Polestar Automotive (Singapore) Pte. Ltd, registered in Singapore, a subsidiary to the new parent company Polestar Automotive Holding Ltd, registered in Hong Kong, in which the Group owns 50 per cent. Transactions with Polestar up until mid-September 2020 are therefore presented below as transactions with the Polestar Shanghai Group and transactions thereafter are presented below as transactions with the Polestar Automotive Holding Ltd Group. For further information regarding the restructuring and the two different joint ventures, see Note 13 – Investments in joint ventures and associates.

Transactions with the Polestar Shanghai Group

In 2020, the Group recognised revenue of MSEK 1,098 (1,320) related to the sale of technology licences and development of technology to the Polestar Shanghai Group. The sale of other services, recognised as other income, amounted to MSEK 349 (731).

The Group's purchases amounted to MSEK 210 (472) and are related to a performance enhancement product provided to the end customers. The purchases have been recognised as cost of sales.

Transactions with the Polestar Automotive Holding Ltd Group

In 2020, the Group recognised revenue of MSEK 442 (—) related to the sale of technology licences and development of technology to the Polestar Automotive Holding Ltd Group. The sale of other services, recognised as other income, amounted to MSEK 83 (—).

The Group's purchases amounted to MSEK 96 (—) and are related to a performance enhancement product provided to the end customers. The purchases have been recognised as cost of sales.

As of year-end, the Group had a payable to Polestar Automotive Holding Ltd of MSEK 959 (—), related to warranty expenses.

Transactions with Asia-Europe Automobile Manufacturing (Taizhou) Co., Ltd, "the Luqiao plant"

Since 2016, the Group has an agreement with Asia-Europe Automobile Manufacturing (Taizhou) Co., Ltd, with respect to "the Luqiao plant", related to the production of the new range of smaller 40-series CMA-based cars, like the XC40. The Luqiao plant is owned by Zhejiang Geely Holding Group Co., Ltd, but is operated by Volvo Car Group. The support service for operating the plant has resulted in other income of MSEK 424 (356). The Group has also sold engines to the plant for its production of Lynk&Co CX11 vehicles. These sales have been recognised as revenue of MSEK 922 (856).

The Group's purchases of cars from the Luqiao plant amounted to MSEK –4,426 (–3,465) and have been recognised as cost of sales.

Furthermore, since 2019 the Group has, been providing machinery to the plant through a leasing agreement, which has resulted in non-current assets of MSEK 694 (376). For further information, see Note 7 – Leasing.

Transactions with other Related Parties

In 2020, the Group entered into an agreement with Ningbo UMD Automobile Transmission Co., Ltd. to deliver gearboxes for PHEV XC40 plug-in hybrid cars. The purchase of the gearboxes has been recognised as cost of sales of MSEK –716 (—).

Since 2019, the Group is selling fleet cars to Ningbo Fuhong Auto Sales Co Ltd., which has generated revenue of MSEK 747 (251).

In 2020, the Group bought a license to Background IP from Zenuity AB of MSEK 1,067 (—). The licence has been recognised as an intangible asset. For further information, see Note 13 – Investments in joint ventures and associates and Note 15 – Intangible assets.

The Group has issued short-term loans to Geely International (Hong Kong) Ltd. of MUSD 486 (MEUR 116), Geely Group Ltd. MEUR 35 (35) and Geely Financials Denmark A/S of MEUR 54 (53). The loans to Geely International are all guaranteed by Zhejiang Geely Holding Group Co. Ltd. The loan to Geely Group Ltd of MEUR 35 was repaid during March 2021.

Dividends

In 2019, Volvo Car AB (publ.) paid dividends to its preference shareholders amounting to MSEK 125 and Daqing Volvo Car Manufacturing Co., Ltd paid dividend amounting to MSEK 1,381 to its shareholder Zhejiang Geely Holding Group Co. Ltd.

The Group does not engage in any transactions with Board Members or senior executives except for the services and the share-based programmes as described in Note 8 – Employees and remuneration.

NOTE 5 – AUDIT FEES

	2020	2019
Deloitte		
Audit fees	–51	–38
Audit-related fees	–8	–5
Tax services	–2	–4
Other services	–2	–5
Total	**–63**	**–52**

Audit fees involve audit of the Annual Report, interim reports and of the administration by the Board of Directors and the Managing Directors. The audit also includes advice and assistance as a result of the observations made in connection with the audit.

Audit-related fees refer to other assignments to ensure the quality of the financial statements including consultations on reporting requirements and internal control.

Tax services include tax-related advisory services.

All other work performed by the auditor is defined as **other services**.

NOTE 6 – OTHER OPERATING INCOME AND EXPENSES

	2020	2019
Other operating income		
Foreign exchange rate gains[1)]	—	537
Sold services	981	1,379
Government grants [2)]	234	633
Other	1,227	1,331
Total	**2,442**	**3,880**

	2020	2019
Other operating expenses		
Amortisation and depreciation of intangible and property, plant and equipment	–248	–244
Foreign exchange rate loss[3)]	–1,011	—
Royalty	–774	–916
Property tax	–124	–110
Other	–1,769	–1,982
Total	**–3,926**	**–3,252**

1) The gross foreign exchange rate gain on operating assets and liabilities amounted to MSEK 1,036 (1,155)
2) The major part of the government grants in 2020 are related to governmental support for Covid-19, in the form of tax subsidies in China.
3) The gross foreign exchange rate loss on operating assets and liabilities amounted to MSEK –2,047 (–618)

NOTE 7 – LEASING

ACCOUNTING PRINCIPLES

The Group as a lessee

At the lease commencement date, a right-of-use asset and a lease liability are recognised on the balance sheet. The lease liability is initially measured at an amount equal to the present value of the future lease payments under the lease contract. Lease payments included in the measurement of the lease liability comprise of fixed lease payments including in-substance fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee and payments related to options that the Group is reasonably certain to exercise. The lease payments are discounted using the interest rate implicit in the lease if this can be readily determined. In cases where the interest rate is not implicit in the lease, the Group has generally used the incremental borrowing rate.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and the estimate of costs to dismantle and remove the underlying asset or the site on which it is located, less any lease incentives received. The asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. For more information regarding deprecation see Note 9 – Depreciation and amortisation. The right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Group applies the recognition exemptions regarding short-term leases and leases where the underlying asset is of low value. Hence, payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less and low value assets are defined as asset classes that are typically of low value, for example small IT equipment (cell-phones, laptops, computers, printers) and office furniture. Non-lease components are included in the measurement of the lease liability for all asset classes.

In the balance sheet, lease liabilities are recognised as other non-current and current interest bearing liabilities. Right-of-use assets are presented as part of property, plant and equipment, see Note 16 – Property, plant and equipment. In the income statement, depreciation of right-of-use asset is presented on the same line/ lines with similar expenses. Interest expense on a lease liability is recognised as part of finance expenses. In the statement of cash flows, amortisation on the lease liability is recognised as cash flow from financing activities. Payments of interest as well as payments for short-term leases and leases of low value are recognised as cash flow from operating activities.

The Group as lessor

The Group is acting as a manufacturer finance lessor in a few cases. In these cases revenue is recognised at fair value of the underlying asset or the present value of the lease payments, if lower, reduced with the carrying amount of the asset less any unguaranteed residual values.

Sale transactions, including repurchase commitments, are recognised as operating leases. Operating lease contracts with a maturity less than or equal to 12 months are recognised as inventory, see Note 18 – Inventories. Operating lease contracts with a maturity more than 12 months are recognised as property, plant and equipment, see Note 16 – Property, plant and equipment. These operating leases are mainly related to vehicles sold with repurchase commitments. The difference between the original sales price and the repurchase price is recognised in the income statement as revenue on a straight-line basis over the lease term, see Note 2 – Revenue. The remaining lease revenue yet to be recognised is presented as part of current and non-current contract liabilities to customers in the balance sheet, see Note 25 – Current and non-current contract liabilities to customers. The repurchase obligation is considered to be a financial liability and is classified as non-current or current liabilities, see Note 26 – Other non-current liabilities and see Note 27 – Other current liabilities.

Sub-leases and sale and leaseback transactions are not considered material for the Group.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Complex contracts require the Group to make judgemental decisions, when determining the lease term for contracts, especially in leasing of buildings. Factors included in the determination of the lease term are if the Group, as a lessee, have made investments to improve the asset or has tailored it for specific needs and/or the importance of the underlying asset to the Group's operations.

Lease term

When determining the lease term, management is considers all factors and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. A reassessment is made if a significant event or a significant change in circumstances occurs that may affect the assessment.

Discount rate

When determining the disount rate, the Group uses an applicable industrial yield curve and takes into consideration, for example, credit risk, foreign exchange adjustments, the lease term and the economic environment.

The Group as lessee

The Group mainly leases buildings and other items such as IT-equipment and production equipment.

Right-of-use asset	Buildings and land	Machinery and equipment	Total
Acquisition cost			
Balance at January 1, 2019	–	–	–
Reclassification from finance lease of Property, plant and equipment (Note 16)	36	58	94
Operating leases (first application IFRS 16)	6,294	590	6,884
Additions	308	131	439
Balance at December 31, 2019	**6,638**	**779**	**7,417**
Additions	704	545	1,249
Divestments and disposals	–147	–196	–343
Reclassifications	–16	0	–16
Effect of foreign currency exchange rate differences	–279	–20	–299
Balance at December 31, 2020	**6,900**	**1,108**	**8,008**
Accumulated depreciation			
Balance at January 1, 2019	–	–	–
Depreciation expense	–981	–221	–1,202
Balance at December 31, 2019	**–981**	**–221**	**–1,202**
Depreciation expense	–994	–277	–1,271
Divestments and disposals	180	187	367
Reclassifications	1	0	1
Effect of foreign currency exchange rate differences	46	19	65
Balance at December 31, 2020	**–1,748**	**–292**	**–2,040**
Net balance at December 31, 2019	**5,657**	**558**	**6,215**
Net balance at December 31, 2020	**5,152**	**816**	**5,968**

Lease liabilities	2020	2019
Non-current lease liabilities	4,815	5,076
Current lease liabilities	1,175	1,073

The lease liabilities related to the lease-contracts are presented in the balance sheet as other non-current interest-bearing liabilities and Other current interest-bearing liabilities. The maturity analysis of lease liabilities is presented in Note 20 – Financial risks and financial instruments.

Amounts recognised in profit and loss	2020	2019
Depreciation expenses on right-of-use	–1,271	–1,225
Interest expense on lease liabilities	–219	–236
Expense relating to short-term leases	–123	–156
Expense relating to leases of low value assets	–29	–27
Expense relating to variable lease payments not included in the measurement of the lease liability	–29	–23
Income from sub-leasing right-of-use assets	46	26

The total cash outflow for leases amounts to MSEK 1,625 (1,641). The amount includes payments for lease agreements recognised as liabilities, variable payments, short-term payments and payments for leases of low value.

The Group as lessor

Operating lease contracts mainly relate to vehicles sold with repurchase commitments and contracts under the name of Care by Volvo.

Operating leases contracts

The table presents a maturity analysis of leasing payments and the total of undiscounted lease payments that will be received after the balance sheet date.

Future lease income of operating lease contracts, undiscounted.	2020	2019
No later than 1 year	1,217	934
Later than 1 year but no later than 2 years	466	194
Later than 2 year but no later than 3 years	8	104
Later than 3 year but no later than 4 years	7	9
Later than 4 year but no later than 5 years	7	8
Later than 5 years	83	—
Total	**1,788**	**1,249**

Finance lease contracts

Volvo Car Group enters into finance lease arrangements as a lessor for certain equipment.

Amounts receivable under finance leases	2020	2019
No later than 1 year	125	59
Later than 1 year but no later than 2 years	125	59
Later than 2 year but no later than 3 years	125	59
Later than 3 year but no later than 4 years	125	59
Later than 4 year but no later than 5 years	125	59
Later than 5 years	338	139
Undiscounted lease payments	**963**	**434**
Less unearned finance income	146	58
Net investment in the lease	**817**	**376**

The following table presents the amounts included in income statement

	2020	2019
Financial income on the net investment in finance leases	29	10

The selling profit for financial lease amounts to MSEK – (–).

NOTE 8 – EMPLOYEES AND REMUNERATION

ACCOUNTING PRINCIPLES

Incentive programmes

The Group manages a total of five different global incentive programmes:

- The Short Term Variable Pay Programme for Senior Leaders (STVP for Senior Leaders)
- The Volvo Bonus programme
- The Long Term Variable Pay (LTVP) programme
- The Volvo Car AB share-based programme
- The Polestar share-based programme

The design and payout of all programmes are subject to approval of the Board of Directors. Certain decisions related to the share-based programmes for Volvo Car Group are subject to decision by the Annual General Meeting for Volvo Car Group.

Short-term incentive programmes

For the short-term incentive programmes a liability is recognised if all prerequisites are met.

Long-term incentive programme

The LTVP is a cash-settled share based programme.

The fair value of the cash payments is determined on the grant date, and revalued at each balance sheet date, and is recognised as an operating expense during the vesting period and as a corresponding liability. An assessment whether the terms for allotment will be fulfilled is made continuously. Based on such assessment, the expense might be adjusted.

The fair value is based on the share price reduced by dividends connected with the share during the vesting period. As Volvo Car Group is not listed, no official market value is available. The LTVP programme is therefore based on a synthetic share price derived from variables known to determine the value of an automotive OEM. Additional social expenses are reported as a liability, revalued at each balance sheet date.

Share-based incentive programme

The Volvo Car AB share-based incentive programme is cash based. The fair value of the warrants acquired by the participants is determined at the grant date and is recognised as a financial liability. The liability is revalued at each balance sheet date and changes of the fair value are recognised in the income statement as financial income or expense.

The programme will not require any recognition of personnel expenses as it is based on fair values.

Polestar programme

The programme is recognised as a share-based incentive programme that will be cash-settled based on the participant's option to receive cash at fair value for the shares under certain circumstances and during predetermined periods.A liability is recognised in the Group's balance sheet based on this.

Average number of employees by region:	2020	Of whom women	2019	Of whom women
Sweden	21,104	27%	23,012	28%
Nordic countries other than Sweden	587	33%	736	34%
Belgium	4,789	14%	5,109	15%
Europe other than the Nordic countries and Belgium	1,316	35%	1,237	32%
North and South America	1,850	35%	2,036	33%
China	7,709	17%	8,404	16%
Asia other than China	905	20%	883	17%
Other countries	122	43%	112	32%
Total	**38,382[1)]**	**24%**	**41,529**	**24%**

Number of board members and senior executives[2)]	Dec 31, 2020	Of whom women	Dec 31, 2019	Of whom women
	Board members (Chief Executive Officers and senior executives)		Board members (Chief Executive Officers and senior executives)	
Parent company	4	25%	4	25%
Subsidiaries	131 (301)	23% (29%)	129 (303)	19% (26%)
Total	**135 (301)**	**23% (29%)**	**133 (303)**	**19% (26%)**

Salaries and other remuneration	2020		2019	
	Wages and salaries, other remuneration	Social security expenses (of which pension expenses)	Wages and salaries, other remuneration	Social security expenses (of which pension expenses)
Parent company	10	7(4)	6	4(2)
Subsidiaries	21,341	8,994 (4,646)	22,748	8,823 (4,233)
Total	**21,351**	**9,001 (4,650)**	**22,754**	**8,827 (4,235)**

1) The decrease in the average number of employees is mainly a result of temporary lay-offs during the second quarter, and to some extent cost-efficiency activities related to the competence shift finalised in the third quarter of 2020.
2) Senior executives are defined as key personnel within the subsidiaries.

Remuneration for board members

In accordance with a decision at the Annual General Meeting, no remuneration was paid to the Board of Directors of Geely Sweden Holdings AB in 2020.

Board member	2020 Ordinary remuneration, TSEK	2019 Ordinary remuneration, TSEK
Li Shufu, Chairman	—	—
Li Donghui	—	—
Hans Oscarsson	—	—
Lone Fønss Schrøder	—	—
Total	—	—

Terms of employment and remuneration for the CEO

The Board has determined the remuneration principles for the CEO, subject to approval at shareholders' meeting. The CEO is entitled to remuneration consisting of fixed annual salary, STVP for Senior Leaders and other benefits such as a company car and insurance. The CEO has a defined benefit pension plan.

The notice period for the CEO is 12 months if the CEO resigns and 12 months in the case of termination by the Group. Furthermore the CEO is, in the case of termination by the Group, entitled to severance pay based on the fixed salary for a period of maximum 12 months.

Remuneration for the Executive Management Team

The Board has determined the remuneration to the Executive Management Team (EMT). Geely Sweden Holdings AB's EMT is entitled to remuneration consisting of fixed annual salary, STVP for Senior Leaders and other benefits such as company car and insurance.

Members of EMT employed in Sweden are covered by the ITP pension plan. For members of EMT employed outside of Sweden, pension terms and conditions vary, depending on the country of employment.

Other long-term benefits

Apart from the remuneration accounted for under Incentive programmes, the CEO in Geely Sweden Holdings AB does not have any other long-term benefits.

Incentive programmes

Short-term incentive programmes

Volvo Bonus

The Volvo Bonus programme is a programme that includes all Volvo Car employees. The purpose of the programme is to strenghten global alignment among employees around Volvo Car Group´s vision, objectives and strategies and to encourage all employees to achieve and exceed the business plan targets. To qualify for Volvo Bonus the profit target (EBIT) must be reached. In order for Volvo Bonus to be paid out at all, a minimum acceptable performance regarding EBIT needs to be met. This is called the threshold level and the remaining two levels (target and maximum) increase the bonus paid out in relation to increased performance. Depending on the employee's position, he/she is eligible for a certain target level that is either a fixed amount or a percentage of the employee´s annual base salary. The bonus is paid in cash.

The financials for the first half of 2020 were severely impacted by the Covid-19 pandemic. The Board of Volvo Car Group decided to cancel the Volvo Bonus targets for full-year 2020 and to establish new financial targets for H2 2020. The bonus amounts were adjusted accordingly to 50 per cent of the full-year amount. A corresponding change was made to the profit target (EBIT) included as an element in the STVP as the same principles are applied in the two programmes.

STVP for Senior Leaders

The STVP for Senior Leaders is an incentive programme for the CEO, EMT and certain senior executives within Geely Sweden Holdings and Volvo Car Group respectively. The purpose of the STVP for Senior Leaders is to support the corporate strategy and transformation of Geely Holdings or Volvo Cars. To reach maximum pay-out a number of performance targets must be reached. Targets include a profit target (EBIT), but also other targets related to quality and transformation activities. The STVP for Senior Leaders is based on a percentage of annual base salary and the remuneration is paid in cash.

Liability and cost

The cost of the Volvo Bonus/STVP programmes amounted to MSEK 1,109 (1,402), including social security expenses.

Long-term incentive programmes

LTVP

The purpose of the LTVP programme is to attract, motivate and retain key competence within Volvo Car Group. The LTVP-programme is based on calculated market value of the Volvo Car Group calculated over three years. As Volvo Car Group is not listed, no official market value is available. Thus, the LTVP -programmes for previous years are based on a synthetic share price derived from variables known to determine the value of an automotive OEM. Valuation of Volvo Car Group is based on the 4-year business plan and trading multiples for listed peers. The business plan is adopted annually by the Board. The valuation of Volvo Cars has been carried out by an external party and in two ways:

i) through discounted cash flow analysis of Volvo Cars estimated future cash flows, based on Volvo Cars latest business plan over the next four years and certain key assumptions; and
ii) through comparable market analysis based on peer group analysis.

Depending on the participants' position, they receive the LTVP bonus award equivalent to a certain percentage of their annual base salary. Each LTVP award has a vesting period of three years and is paid out in cash. The cash amount paid depends on the valuation of Volvo Cars on the vesting date, three years after the grant date and the achievement of financial performance targets. From 2020, the LTVP includes two performance factors related to profit (EBIT) and revenue growth, which can increase or decrease the payment, depending on target achievement.

The programme is capped to a maximum of 300 per cent of the value of the award on the grant date. To be eligible for pay out, the employee must remain within the Group on the pay-out date.

Liability and cost

The cost for the LTVP-programme amounted to MSEK 110 (130) including social security expenses. The total liability amounted to MSEK 180 (214).

Share-based incentive programmes

Volvo Car AB programme

During 2015 Volvo Car AB's (publ.) subsidiary Volvo Car Corporation issued 1,359 warrants with the right to subscribe for shares in Volvo Car Corporation, which the parent company decided to offer to a number of members of management and Board of Directors for purchase. Purchases were made at fair market value in accordance with an external valuation. Each warrant confers the right to subscribe for one share in Volvo Car Corporation for a predetermined amount under certain periods during the years 2016–2021.

If a participant is no longer employed, and also under other specified circumstances, the parent company has an option to redeem the warrants. For the duration of the programme the participants (i.e. the holders of the warrants) at certain predetermined periods, have an option to sell the warrants at fair market value to Volvo Car AB (publ).

The terms of the agreement is from 2016 to 2021. The warrants have been valued at fair market value by an external party. The valuation has been made based on all material conditions in the agreement in accordance with the Black & Scholes model. The valuation has been made based on the following assumptions:

- The market value of the warrants has been established at SEK 271,194 as per 31 December, 2020.
- The duration for the warrants has been established at six years.
- The volatility has been established as 40 per cent.
- Assessed risk-free interest has been established to –0.38 per cent.

Considering a weighted assessment of the conditions in the agreement, the programme is accounted for as a share-based programme that will be cash-settled and is therefore accounted for as a financial liability at fair value through the income statement, with changes in fair value recognised as financial income or expense.

As the participants have been offered to purchase the warrants at fair market value, the programme will not render any personnel costs.

TSEK	Number of warrants	Assessed fair market value
At the beginning of the year	567	121,777
Used/redeemed	—	—
Sold during the year	—	—
Change in valuation	—	31,990
At the end of the year	**567**	**153,767**

As amounts are recognised at fair value, there is no difference between the carrying amount and fair value. Fair value is based on a valuation by an external party.

Specification of warrant programme	Number of warrants
CEO in Geely Sweden Holdings AB	11
CEO, EMT and Board of Directors in Volvo Car AB (publ.)	556
Total	**567**

Liability and cost

For the duration of the programme, the participants, during certain predetermined periods, between the years 2016–2021, have an option to sell the warrants received at fair value to Volvo Car AB (publ.) As the warrants have been acquired by the participants at fair value, why the programme will not render any personnel costs.

Polestar programme

In 2019, Volvo Car AB (publ.), through its subsidiary Volvo Car Corporation, launched a share-based incentive programme to certain members of executive management of Volvo Car Group and Polestar Group. Each participant was offered to purchase shares in the Group´s subsidiary PSINV AB which in turn owns shares in the Group´s joint venture Polestar Automotive Holding Limited and thus the participants are indirectly minority owners of the Polestar Group. The investment was made at fair market value in accordance with an external valuation. In case a participant is no longer employed, and during other specified predetermined periods, the participants (i.e the shareholders) have an option to sell the shares at fair market value to Volvo Cars and at the same time Volvo Cars has an option to repurchase the shares from the participants. At the time of the transaction the fair value of each share was established at SEK 1,000. In total 38,125 shares have been acquired by the participants, which corresponds to indirect ownership in the Polestar Group of 0.17 per cent.

The programme runs until 30 June 2029 and will thereafter be prolonged as long as none of the parties terminates the agreement. The shares have been valued at fair market value by an external party.

TSEK	Number of shares	Assessed fair market value
Total number sold to participants	38,125	38,125
Redeemed during the year	—	—
Sold during the year	—	—
Change in valuation	—	—
At the end of the year	**38,125**	**38,125**

As amounts are recognised at fair value, there is no difference between the carrying amount and fair value. The fair value is based on an assessment by an external party.

Specification of share programme	Number of shares
CEO and Board of Directors in Volvo Car Group	12,500
Other members of EMT in Volvo Car Group	8,375
Members of Polestar Board and management	17,250
Total	**38,125**

Compensation for the Executive Management Team (EMT), TSEK	2020			2019		
	Salary[3]	Variable pay	Social security expenses (of which pension expenses)	Salary[3]	Variable pay	Social security expenses (of which pension expenses)
Hans Oscarsson, CEO in Geely Sweden Holdings AB	3,278	2,036	3,001 (1,372)	1,345	1,181	1,425 (631)
Other members of EMT[4]	2,633	670	2,194 (1,201)	— (—)	— (—)	— (—)
Total	**5,911**	**2,706**	**5,195 (2,573)**	**1,345**	**1,181**	**1,425 (631)**

3) Includes benefits such as healthcare and company car.
4) The EMT of Geely Sweden Holding was appointed in 2020 and consists of five members and the CEO.. The EMT includes two external part-time consultants whose invoiced fees of TSEK 906 are included in administration expenses. In addition, one member of EMT is remunerated by another company within the Zhejiang Geely Holding Group.

NOTE 9 – DEPRECIATION AND AMORTISATION

ACCOUNTING PRINCIPLES

Amortisation methods for intangible assets

Intangible assets with definite useful lives are amortised on a straight-line basis over their respective expected useful lives. The amortisation period for contractual rights such as licences does not exceed the contract period. All intangible assets are considered to have a definite useful life, with the exception of goodwill and trademarks. Trademarks are assumed to have indefinite useful lives since the Group has the right and the intention to continue to use the trademarks for the foreseeable future, while generating net positive cash flows for the Group. Intangible assets with an indefinite useful life are not amortised. The following useful lives are applied:

Dealer network	30 years
Software	3–8 years
Capitalised development costs	3–10 years
Patents, licences and similar rights	3–10 years

Amortisation is included in cost of sales, research and development expenses as well as selling or administrative expenses, depending on what way the assets have been used.

Depreciation methods for property, plant and equipment

Property, plant and equipment are systematically depreciated over the expected useful life of the asset. Each component of property, plant and equipment, with a cost that is significant in relation to the total cost of the item, is depreciated separately when the useful life of the component differs from the useful life of the other components of the item. Land is assumed to have an indefinite useful life and is not depreciated.

Vehicles sold combined with a repurchase commitment are depreciated evenly over their respective useful lives. They are depreciated from their original acquisition cost to their expected residual value, being the estimated net realisable value, at the end of the lease term. If the market value of these vehicles is lower than the originally residual value established, the depreciations made are adjusted during the contract period.

The following useful lives are applied in the Group:

Buildings	14.5–75 years
Land improvements	30 years
Machinery	8–30 years
Equipment	3–20 years

Depreciation is included in cost of sales, research and development expenses, as well as selling or administrative expenses, depending on how the assets have been used.

Impairment of assets

The carrying amount of tangible and intangible assets with definite useful lives is tested for impairment whenever events or changes in circumstances indicate that the value of the asset will not be recovered. Intangible assets that have an indefinite useful life as well as assets that are not yet available for use are not subject to amortisation and are tested for impairment at least annually or whenever there is an indication that the value will not be recoverable.

When performing an impairment test, the asset's recoverable amount is calculated. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Value in use is defined as the present value of the future cash flows expected to be derived from an asset. For the purpose of assessing impairment, assets are grouped in cash-generating units. If the recoverable amount is lower than the carrying amount an impairment loss is recognised. Previously recognised impairment losses are reversed, with the exception of goodwill, if reasons for the previously made impairment loss no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount after reversal does not exceed the carrying amount, net of amortisation, which would have been recognised if no impairment loss had been recognised.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The useful life of intangible assets is to a large extent based on historical experience, expected application as well as other individual characteristics of the asset. The useful life of assets are regularly assessed and adjusted if necessary.

In order to test an asset or a group of assets for impairment, several estimates need to be performed, which are further described in Note 15–Intangible assets and Note 16 –Property, plant and equipment.

Operating income includes depreciation and amortisation as specified below:	**2020**	2019
Software	–288	–287
Capitalised development costs[3]	–4,051	–4,872
Other intangible assets	–514	–472
Buildings and land improvements[1)2)]	–1,871	–1,839
Machinery and equipment[1)2)]	–7,396	–7,673
Assets under operating leases	–344	–405
Total	**–14,464**	**–15,548**

Depreciation and amortisation according to plan by function:	**2020**	2019
Cost of sales[1)2)]	–8,061	–8,550
Research and development expenses[3)]	–4,667	–5,357
Selling expenses[1)2)]	–507	–496
Administrative expenses	–1,003	–808
Other income and expense	–226	–337
Total	**–14,464**	**–15,548**

1) Depreciation expense related to buildings and land include right-of-use assets of MSEK –994 (–981) and Machinery and equipment include Right-of-use assets of MSEK –277 (–221).
2) Of which impairment losses of MSEK –22 (–10).
3) The amortisation expenses have decreased by MSEK 666 (—), due to adjustments of the useful life period to reflect changes in assumptions and cycle plans.

NOTE 10 – GOVERNMENT GRANTS

ACCOUNTING PRINCIPLES

Government grants are recognised in the financial statements in accordance with their purpose, either as a reduction of expense or as a reduction of the carrying amount of an asset. Government grants recognised as a cost reduction, are recognised in the same periods as the expenses for which the grant was intended to compensate for occurred. Government grants related to acquiring assets are deducted from the carrying amount of the asset and are recognised in the income statement over the life of the depreciable asset as a reduced depreciation expense. In cases where a government grant is not intended to compensate for any expenses or acquisition of assets, it is recognised as other income. Government grants for future expenses are recognised as deferred income.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attached to the grant and that the grant will be received.

Judgements include assessing whether the Group is in compliance with the prerequisites in the contract or not and if there is a potential risk of repayment if these prerequisites are breached during the contract period. As of today the Group's assessment is that there are no government grants received where there is a risk of material repayments.

The Group receives grants from several parties, mainly from the Swedish, American, Chinese and Belgian governments, as well as from the European Union. In 2020, as a result of the ongoing Covid-19 pandemic, governmental support was also received from several other governments worldwide. Government grants received in 2020 amounted to MSEK 1,340 (1,177) and government grants recognised in the income statement amounted to MSEK 1,811 (741). Of the government grants realised in the income statement, MSEK 1,013 (—) was recognised as an effect of the Covid-19 pandemic, mainly related to support for temporary layoffs in Sweden and tax subsidies in China. In other countries where the Group has many employees, such as Belgium and the US, employees received the support directly from governments. Furthermore, grants of MSEK 625 (138) related to support for production facilities of new car models reduced the carrying amount of the related machinery and equipment, of which MSEK — (138) has been received.

Non-monetary government grants were received in China, mainly in the form of rent-free office and factory premises, and in the US in the form of reduced lease fees related to office premises and manufacturing plants.

NOTE 11 – FINANCIAL INCOME

ACCOUNTING PRINCIPLES

Interest income is recognised using the effective interest method, in relation to financial assets recognised at amortised cost. Dividend income is recognised in profit or loss on the date on which the right to receive payment is established. Also see Note - 20 Financial risks and financial instruments.

	2020	2019
Net foreign exchange gain on financing activities	408	—
Interest income on bank deposits from related parties	198	67
Interest income on bank deposits	542	519
Fair value through profit or loss[1)]	1,943	3
Dividends received[2)]	—	1,672
Total	**3,091**	**2,261**

1) Including fair value changes related to shares, warrants and earn-out shares in Luminar.
2) From AB Volvo.

NOTE 12 – FINANCIAL EXPENSES

ACCOUNTING PRINCIPLES

Interest expenses mainly consist of interest on bonds and liabilities to credit institutions. These expenses are recognised with the effective interest method. Interest expenses on lease liabilities and interest effect on lessor repurchase obligations consist of accrual of interest, similar to effective interest. Expenses for availability of credit facilities are recognised in the period the expenses relates to. Interest on post-employment benefits is estimated as the net liability for defined benefit obligations times the discount rate used for such obligations.

	2020	2019
Net foreign exchange rate losses on financing activities	—	–418
Interest effect from the measurement of repurchase obligations	–175	–187
Interest expenses related to provisions for post-employment benefits	–208	–216
Expenses for credit facilities	–59	–81
Interest expenses to related parties	–1	–7
Interest expenses	–2,013	–1,700
Interest expenses related to lease liabilities	–209	–242
Other financial expenses	–209	–113
Total	**–2,874**	**–2,964**

NOTE 13 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

ACCOUNTING PRINCIPLES

Joint ventures refer to joint arrangements where the Group together with one or more parties have joint control and rights to the net assets of the arrangements.

Associated companies are companies in which the Group has a significant but not controlling influence, which generally is when the Group holds between 20 and 50 per cent of the shares. This also includes investments with less participation if significant influence is proven based on other facts and circumstances.

Investments in joint ventures and associated companies are recognised in accordance with the equity method and are initially measured at acquisition cost. The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post- acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless it has incurred legal or constructive obligations in relation to the associate or joint venture.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The critical judgement in terms of associates relate to situations where the Group has voting power of less than 20 per cent but, based on other facts or circumstances, could have significant influence over a company. This could be based on the content of a shareholder agreement or other market-based assumptions and other relationship-based facts. The judgement that is made is whether the Group based on these identified facts and circumstances can conclude on significant influence. Currently the Group does not recognise any associate with a voting power of less than 20 per cent.

In terms of a joint venture the judgement is whether joint control really exists when other facts or circumstances are taken into consideration.

	2020	2019
Share of income in joint ventures	–64	–1,054
Share of income in associates	3	3
Total	**-61**	**-1,051**

Share of income in joint ventures and associates is specified below:	2020	2019
V2 Plug-In Hybrid Vehicle Partnership HB[1]	365	454
Volvofinans Bank AB[2]	222	210
Zenuity AB[3]	297	–657
Lynk & Co Investment Co., Ltd[4]	160	237
Polestar Automotive (Shanghai) Co., Ltd[5]	1,129	–414
Polestar Automotive Holding Ltd[6]	–2,817	—
Geely Financials Denmark A/S[7]	587	–883
Other companies	–4	2
Total	**-61**	**-1,051**

Investments in joint ventures and associates	Dec 31, 2020	Dec 31, 2019
At beginning of the year/acquired acquisition value	16,036	15,564
Share of net income	–61	–1,051
Investment in Saxo Geely Tech Holding A/S[9]	822	52
Investment in Zenuity AB[3]	240	550
Investment in Polestar Automotive Holding Ltd[6]	3,773	—
Investment in World of Volvo AB[10]	125	—
Investment in Volvo Car Financial Services UK Ltd[11]	388	—
Reversal internal profit elimination[5][6]	–213	–341
Capital injection into joint venture under common control[5]	—	1,153
Shareholder transaction in joint venture under common control[5]	–1,901	—
Obligation to cover accumulated losses classified as Non-current liabilities[3]	–210	107
Capital repayment V2 Plug-In Hybrid Vehicle Partnership HB[1]	–464	–418
Dividends	–333	–67
Translation difference	–1,147	487
Total[12]	**17,055**	**16,036**

The Group's carrying amount in joint ventures and associates:	Corp. ID no.	Country of incorporation	% interest held	Dec 31, 2020	Dec 31, 2019
Joint ventures					
Geely Financials Denmark A/S[7]	38976176	Denmark	49	6,480	6,773
Saxo Geely Tech Holding A/S[9]	15731249	Denmark	50	874	52
Volvo Trademark Holding AB	556567-0428	Sweden	50	6	6
V2 Plug-In Hybrid Vehicle Partnership HB[1]	969741-9175	Sweden	50	132	232
Volvofinans Bank AB[2]	556069-0967	Sweden	50	2,649	2,427
VH Systems AB	556820-9455	Sweden	50	38	37
Zenuity AB[3]	559073-6871	Sweden	50	—	—
World of Volvo AB[10]	559233-9849	Sweden	50	113	—
VCFS Germany GmbH	HRB 85091	Germany	50	2	1
VCIS Germany GmbH	HRB 86800	Germany	50	4	5
Volvo Car Financial Services UK Ltd[11]	12718441	United Kingdom	50	388	—
Polestar Automotive (Shanghai) Co., Ltd[5]	91310000MA1FL17P99	China	50	1,817	2,998
Polestar Automotive Holding Ltd[6]	2942747	Hong Kong, China	50	1,110	—
GV Automobile Technology (Ningbo) Co., Ltd[8]	91330201MA2AGKLQ8E	China	50	36	34
Lynk & Co Investment Co., Ltd[4]	91330200MA2AF25Y7B	China	30	3,380	3,446
Associated companies					
VCC Tjänstebilar KB	969673-1950	Sweden	50	3	4
VCC Försäljnings KB	969712-0153	Sweden	50	2	2
Volvohandelns PV Försäljnings KB	916839-7009	Sweden	50	4	4
Volvohandelns PV Försäljnings AB	556430-4748	Sweden	50	12	11
Trio Bilservice AB	556199-1059	Sweden	33	—	—
Göteborgs Tekniska College AB	556570-6768	Sweden	26	4	4
Leiebilservice AS	879 548 632	Norway	20	1	—
Carrying amount, participations in joint ventures and associates				**17,055**	**16,036**

The share of voting power corresponds to holdings in per cent as per above. For practical reasons, some of the joint ventures and associates are included in the consolidated financial statements with a certain time lag, normally one month.

1) V2 Plug-In Hybrid Vehicle Partnership HB is a joint venture between Volvo Car PHEV Holding AB and Vattenfall PHEV Holding AB. The Group and Vattenfall have together developed the world's first diesel-powered hybrid car, which can be driven as an ordinary diesel car, as a hybrid, or as a fully electric car. In 2020, V2 Plug-In Hybrid Vehicle Partnership HB provided a repayment of MSEK 464 (418) to Volvo Car PHEV Holding AB.
2) Volvofinans Bank AB is a joint venture between Volvo Car Corporation and AB Volverkinvest. In Sweden, Volvofinans Bank AB is the leading bank within vehicle financing services.
3) Zenuity AB was until June 30, 2020 a joint venture between Volvo Car Corporation and Veoneer Sweden AB. On July 1, Zenuity AB became a joint venture between the wholly-owned subsidiary Zenseact AB and Veoneer Sweden AB. The purpose of the company was to develop software for autonomous driving and driver assistance systems. In April 2020 the business was divided into two parts in order for the owners the Group and Veoneer Sweden AB, to focus more effectively on their respective strategies. On July 1, the two companies signed and implemented the final agreement whereby the Group acquired, through a wholly-owned stand-alone subsidiary Zenseact AB, certain assets and liabilities of Zenuity AB. The purpose of Zenuity AB, after the final agreement is to hold IP-rights. It will have no other operatons since all product development and personnel have been transferred to the Group and Veoneer. Due to the fact that the Group, together with the other investor, was obligated to cover the accumulated losses in Zenuity AB larger than the accumulated investment, a non-current liability was recognised in prior year, see Note 26 – Other non-current liabilities.
4) The joint venture company Lynk & Co Investment Co., Ltd is an establishment between Volvo Cars (China) Investment Co., Ltd, (30 per cent), Zhejiang Jirun Automobile Co., Ltd (50 per cent) and Zhejiang Haoqing Automobile Manufacturing Co., Ltd (20 per cent). The principal activity of the Lynk & Co Investment Co., Ltd is to engage in the manufacturing and selling of vechicles under the "Lynk & Co" brand, and support after-sale services relating thereto.
5) In September 2018, Zhejiang Geely Holding Group Co., Ltd (Geely Group) subscribed for 50 per cent of the equity in Polestar Automotive (Shanghai) Co., Ltd. the parent company in the Polestar Shanghai Group, resulting in Polestar Shanghai Group being jointly owned by the Group and Zhejiang Geely Holding Group Co., Ltd. In connection with the Geely investment, a shareholders agreement was signed between Volvo Cars (China) Investment Co., Ltd and Zhejiang Geely Holding Group Co., Ltd giving the owners joint control over the Polestar Shanghai Group. In 2019 and 2018, subsequent to the initial investment, Geely Group injected capital into Polestar Automotive (Shanghai) Co., Ltd. which increased the Group's investment in the joint venture with MSEK 1,153 (846).

   In mid September 2020, according to a restructuring plan, Polestar Automotive (Shanghai) Co., Ltd ceased its business operation and transfered all its subsidiaries to a newly created holding company registered in Singapore. Since September 2020, Polestar Automotive (Shanghai) Co., Ltd is a standalone company jointly owned by Volvo Cars (China) Investment Co., Ltd and Zhejiang Geely Holding Group Co., Ltd. During the autumn Polestar Automotive (Shanghai) Co., Ltd. also transferred all of its non-cash assets and liabilities and personnel to the newly formed Polestar Holding Group with only assets being cash remaining on its balance sheet. In December 2020, Zhejiang Geely Holding Group Co., Ltd and Volvo Cars (China) Investment Co., Ltd signed a capital reduction agreement under which Geely Group will to withdraw its investment from Polestar Automotive (Shanghai) Co., Ltd. As a result of the capital reduction, Geely Group ceased to be a shareholder of Polestar Automotive (Shanghai) Co., Ltd and the joint venture company was in January 2021 converted into a wholly-owned subsidiary of Volvo Cars (China) Investment Co., Ltd. Under the agreement between Zhejiang Geely Holding Group Co., Ltd and Volvo Cars (China) Investment Co., Ltd. the capital reduction and potential liquidation would allow the two shareholders to fully achieve a return of their respective initial investment. As a consequence of the capital reduction agreement, the Group's share value has been reflected accordingly in equity as a shareholder transaction.
6) In May 2020, the joint venture company Polestar Automotive Holding Ltd was established between the Group's wholly owned subsidiary Snita Holding B.V. 50 per cent shareholding and PSD Investment Ltd. The purpose of Polestar Automotive Holding Ltd. is to be the parent company in the new Polestar Automotive Holding Group. In mid September 2020, Polestar Automotive Holding Ltd's new established wholly-owned subsidiary, Polestar Automotive (Singapore) Pte. Ltd, acquired all the shares in Polestar Performance AB, including its subsidiaries, Polestar Holding AB and Polestar Automotive Shanghai Co., Ltd. including its subsidiaries from Polestar Automotive (Shanghai) Co., Ltd. According to the restructuring plan, the business operation in the underlying subsidiaries were also transfered to Polestar Automotive (Singapore) Pte. Ltd. The restructuring of the Polestar Group as such, has not had any effect on the Groups' interest in Polestar Group's underlying operational activities. In November 2020, Snita Holding B.V. sold 0.86 per cent of its shares in Polestar Automotive Holding Ltd. to PSINV AB, another subsidiary within the Group.
7) In September 2018, Geely Financials Denmark A/S acquired 52 per cent of the shares in Saxo Bank A/S, the parent company in the Saxo Bank Group. In December 2018 an agreement was signed with Geely Group Ltd whereby 5 per cent of the shares in Geely Financials Denmark A/S was sold. In connection with this, an additional agreement was signed, under which Geely Group Ltd has an option to acquire another 46 per cent of the shares in Geely Financials Denmark A/S, increasing the voting power to 51 per cent. During May 2021 the Financial Supervisory Authority in Denmark and Netherlands approved the execution of the option transaction. Consequently, Geely Financials Denmark A/S Group has been accounted for as a joint venture using the equity method for the period from September 2018. See Note 8 - Participation in subsidiaries (parent company) for further information.
8) GV Automobile Technology (Ningbo) Co., Ltd. is a joint venture between Volvo Car Corporation and Ningbo Geely Automobile Research & Development Co., Ltd. The purpose of the company is to coordinate engineering of shared technologies and common sourcing in order to reach industrial synergies and economics of scale. The GV Automobile Technology Group consists of the parent company GV Automobile Technology (Ningbo) Co., Ltd. and its subsidiary GV Technology Sweden AB.
9) In December 2019, Geely Sweden Holdings AB acquired 50 per cent of the shares in Saxo Geely Tech Holding A/S resulting in Saxo Geely Tech Holding A/S being jointly owned by Geely Sweden Holdings AB and Saxo Bank A/S. The purpose of the company is to provide financial and regulatory technology solutions to financial institutions, banks and fintech firms. Saxo Geely Tech Holding Group consists of the parent company Saxo Geely Tech Holding A/S and its subsidiary Saxo Financial Technology Ltd.
10) World of Volvo AB is a joint venture between Volvo Car Corporation and AB Volvo (publ.). The purpose of the company is to reinforce the Volvo brand position and the Volvo trademark by creating a new centrally-located premium brand experience center, which will include the Volvo Museum, in Gothenburg, Sweden.
11) In November 2020, the joint venture company Volvo Car Financial Services UK Ltd. was established between Volvo Car Corporation and Santander Consumer (UK) Plc. The purpose of the company is to provide financial services in the UK market and improve dealer and customer satisfaction.
12) In 2020, the internal profit elimination related to the sale of licences and technology to the Polestar Shanghai Group, was reclassified and the comparative figures have been adjusted accordingly. The effect in previous year was MSEK 1,803 (1,253) on investments in joint ventures and associates, MSEK 1,558 (1,253) on other non current liabilities and MSEK 245 (—) on current liabilities.

The following tables present summarised financial information for the Group's material joint ventures.

	Geely Financials Denmark A/S[7]		Volvofinans Bank AB[2) 20)]		Zenuity AB[3) 21)]		Lynk & Co Investment Co., Ltd[4) 22)]		Polestar Automotive (Shanghai) Co., Ltd[5) 23)]		Polestar Automotive Holding Ltd [6) 24)]	
Summarised balance sheets	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Percentage voting/ownership	49/95	49/95	50	50	50	50	30	30	50	50	50	—
Non-current assets	8,141	8,052	37,390	37,162	—	456	14,093	13,126	7	10,094	12,136	—
Cash and cash equivalents	4	4	2,357	2,622	232	326	826	2,134	7,429	2,178	2,995	—
Other current assets	95	87	4,352	4,474	2,139	176	15,058	9,165	—	2,723	5,016	—
Total assets	**8,240**	**8,143**	**44,099**	**44,258**	**2,371**	**958**	**29,977**	**24,425**	**7,436**	**14,995**	**20,147**	**–**
Equity[13)]	7,607	7,498	4,546	4,103	2,364	697	11,230	11,448	7,436	6,075	5,537	—
Non-current liabilities[13) 14) 15)]	—	—	37,084	37,659	—	40	4,609	3,377	—	145	651	—
Current liabilities[16) 17) 18) 19)]	633	645	2,469	2,496	7	221	14,138	9,600	—	8,775	13,959	—
Total equity and liabilities	**8,240**	**8,143**	**44,099**	**44,258**	**2,371**	**958**	**29,977**	**24,425**	**7,436**	**14,995**	**20,147**	**–**

13) Equity and non-current liabilities are adjusted by the portion of untaxed reserves where appropriate.
14) In Volvofinans Bank AB, the non-current liabilities include financial liabilities of MSEK 36,093 (36,775).
15) In Lynk & Co Investment Co., Ltd, the non-current liabilities include financial liabilities of MSEK 1,251 (—).
16) In Polestar Automotive (Shanghai) Co.,Ltd, the current liabilities include financial liabilities of MSEK — (4,980).
17) In Polestar Automotive Holding Ltd, the current liabilities include financial liabilities of MSEK 2,921 (—).
18) In Lynk & Co Investment Co., Ltd, the current liabilities include financial liabilities of MSEK 1,251 (—).
19) In Geely Financials Denmark A/S, the current liabilities include financial liabilities of MSEK 557 (555).
20) Volvofinans Bank AB's equity share in the Group is included with a time lag of onequarter.
21) The figures include the consolidated figures from Zenuity AB and its subsidiaries Zenuity GmbH, Zenuity Inc. and Zenuity Software Technology Co., Ltd. up until 30 June 2020. Thereafter Zenuity AB is a stand alone company.
22) The figures include the consolidated figures from Lynk & Co Investment Co., Ltd and its subsidiaries Kai Yue Zhangjiakou Component Manufacturing Co., Ltd, Lynk & Co Automobile Sales Co., Ltd, Lynk & Co Automobile(Taizhou) Co., Ltd, Lynk & Co International AB, Lynk & Co Hong Kong International Co., Ltd, Lynk & Co Europe AB, Yuyao Lynk & Co Automobile Part Co., Ltd, Chengdu Lynk & Co Automobile Co., Ltd. , Lynk & Co Automobile (Zhang Jiakou) Co., Ltd, Lynk & Co Sales Belgium Ltd, Lynk & Co Sales Sweden AB, Lynk & Co Sales Italy S.R.L, Lynk & Co Sales France SAS, Lynk & Co Sales Germany GmbH and Lynk & Co Sales Spain S.L.
23) The figures include the consolidated figures from Polestar Automotive (Shanghai) Co., Ltd and its subsidiaries, Polestar Holding AB, Polestar Performance AB, Polestar Automotive Sweden AB, Polestar Automotive USA Inc, Polestar Automotive UK Ltd, Polestar Automotive Canada Inc, Polestar Automotive Norway AS, Polestar Automotive Netherlands B.V., Polestar Automotive Germany GmbH, Polestar Automotive Belgium BV, Polestar Automotive Switzerland AG, Polestar Automotive Shanghai Co., Ltd, Polestar Consulting Service (Shanghai) Co., Ltd, Polestar Automotive China Distribution Co., Ltd, Polestar Automotive China Distribution Co., Ltd (Taizhou) and Polestar New Energy Vehicle Co., Ltd. until mid September 2020. Thereafter Polestar Automotive (Shanghai) Co., Ltd is a stand-alone company.
24) The figures include the consolidated figures from Polestar Automotive Holding Ltd and its subsidiaries Polestar Automotive (Singapore) Pte. Ltd, Polestar Holding AB, Polestar Performance AB, Polestar Automotive Sweden AB, Polestar Automotive USA Inc, Polestar Automotive UK Ltd, Polestar Automotive Canada Inc, Polestar Automotive Norway AS, Polestar Automotive Netherlands B.V., Polestar Automotive Germany GmbH, Polestar Automotive Belgium BV, Polestar Automotive Switzerland AG, Polestar Automotive Shanghai Co., Ltd, Polestar Consulting Service (Shanghai) Co., Ltd, Polestar Automotive China Distribution Co., Ltd, Polestar Automotive China Distribution Co., Ltd (Taizhou) and Polestar New Energy Vehicle Co., Ltd from mid September 2020.

Summarised income statements	Geely Financials Denmark A/S[7)] 2020	2019	Volvofinans Bank AB[2) 20)] 2020	2019	Zenuity AB[3) 21)] 2020	2019	Lynk & Co Investment Co., Ltd[4) 22)] 2020	2019	Polestar Automotive (Shanghai) Co., Ltd[5) 23)] 2020	2019	Polestar Automotive Holding Ltd[6) 24)] 2020	2019
Revenue	–	–	4,861	4,729	2,595	35	31,708	23,673	1,492	721	4,048	—
Profit/loss from continuing operations[25)26)27)28)29)30)]	426	–227	364	325	1,894	–1,316	607	694	**–2,380**	–1,511	–1,826	—
Profit (loss) for the year	**426**	**–227**	**364**	**325**	**1,894**	**–1,316**	**607**	**694**	**–2,380**	**–1,511**	**–1,826**	—
Other comprehensive income for the year	**–19**	**12**	**–**	**–**	**–3**	**3**	**9**	**–9**	**–116**	**85**	**11**	—
Total comprehensive income for the year	**407**	**–215**	**364**	**325**	**1,891**	**–1,313**	**616**	**685**	**–2,496**	**–1,426**	**–1,815**	—
Dividends received from joint ventures during the year	—	—	—	49	326	—	—	—	—	—	—	—

25) In Geely Financials Denmark A/S the profit (loss) for the year includes interest expenses of MSEK –5 (–2).
26) In Volvofinans Bank AB the profit for the year includes depreciation and amortisation of MSEK –8 (–6).
27) In Zenuity AB the profit (loss) for the year includes depreciation and amortisation of MSEK –67 (–113), interest income of MSEK — (5) and interest expenses of MSEK — (–5).
28) In Lynk & Co Investment Co., Ltd the profit for the year includes depreciation and amortisation of MSEK –2,114 (–1,268), interest income of MSEK 38 (14) and interest expenses of MSEK –79 (—).
29) In Polestar Automotive (Shanghai) Co., Ltd the loss for the year includes depreciation and amortisation of MSEK –1,248 (–276), interest income of MSEK 38 (124) and interest expenses of MSEK –143 (–174).
30) In Polestar Automotive Holding Ltd the loss for the year includes depreciation and amortisation of MSEK –632 (—), interest income of MSEK 4 (—) and interest expenses of MSEK –84 (—).

Reconcilation of the summarised financial information presented on the carrying amount of participations in joint ventures.

Reconciliation of summarised financial information	Geely Financials Denmark A/S[7)] 2020	2019	Volvofinans Bank AB[2) 20)] 2020	2019	Zenuity AB[3) 21)] 2020	2019	Lynk & Co Investment Co., Ltd[4) 22)] 2020	2019	Polestar Automotive (Shanghai) Co., Ltd[5) 23)] 2020	2019	Polestar Automotive Holding Ltd[6) 24)] 2020	2019
Net asset of the joint venture	7,607	7,498	4,546	4,103	2,364	697	11,230	11,448	7,436	6,075	5,537	—
Proportion of the Group's ownership in the joint venture	95%	95%	50%	50%	50%	50%	30%	30%	50%	50%	50%	—
Adjustment to call option	183	—	—	—	1	1	—	—	—	—	—	—
Goodwill	—	—	376	376	—	—	—	—	—	—	—	—
Adjustments for Common control transaction	21	21	—	—	—	—	11	11	—	—	—	—
Elimination of intra-group profit net of foreign exchange rate effect	–639	–666	—	—	–736	–112	—	—	—	—	—	—
Capital injection from investors other than the Group	25	27	—	—	–447	–447	—	—	—	—	–1,834	—
Obligation to cover accumulated losses classified as non-current liabilities	—	—	—	—	—	210	—	—	—	—	—	—
Shareholder transaction in joint venture under common control[12)]	—	—	—	—	—	—	—	—	–1,901	—	—	—
Net foreign exchange rate effect	–336	268	—	—	—	—	—	—	—	–40	175	—
Carrying amount of the Group´s participations in joint ventures	**6,480**	**6,773**	**2,649**	**2,427**	**–**	**–**	**3,380**	**3,446**	**1,817**	**2,998**	**1,110**	**–**

Significant restrictions

For the Chinese joint venture companies, there are some restrictions on the Group's ability to access cash.

NOTE 14 – TAXES

ACCOUNTING PRINCIPLES

Income taxes

The Group's tax expense consists of current tax (including witholding tax on licence sale to China) and deferred tax. Taxes are recognised in the income statement except when the underlying transaction is recognised directly in equity or other comprehensive income, whereupon related taxation is also recognised in equity or in other comprehensive income.

Current tax is tax that must be paid or will be received in the current year. Current tax includes adjustments to current tax attributable to previous periods. Deferred tax is calculated according to the balance sheet method for all temporary differences, with the exception of goodwill, that arise between the tax value and the carrying amount of assets and liabilities.

Deferred tax assets and liabilities are measured at the nominal amount and at the tax rates that are expected to be applied when the asset is realised or the liability is settled, using the tax rates and tax rules that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets relating to deductible temporary differences and loss carry-forwards are recognised to the extent it is probable that they will be utilised in the future. Deferred tax assets and deferred tax liabilities are offset when they are attributable to the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis and the affected company in question has a legally adopted right to offset tax assets against tax liabilities.

Tax laws in Sweden and in certain other countries allow companies to defer tax payments through allocation to untaxed reserves. These items are treated as temporary differences in the consolidated balance sheet where the untaxed reserves are divided between deferred tax liability and equity. In the consolidated income statement an allocation to, or withdrawal from, untaxed reserves is divided between deferred taxes and net income for the year.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Deferred tax assets

The recognition of deferred tax assets requires assumptions to be made with regard to the level of future taxable income and the timing of recovery of deferred tax assets. These assumptions take into consideration forecasted taxable income. The measurement of deferred tax assets is subject to uncertainty and the actual result may diverge from judgements due to future changes in the business climate, altered tax law, etc. An assessment is made at each closing date of the likelihood that the deferred tax asset will be utilised. If necessary, the carrying amount of the deferred tax asset will be altered. The judgements that have been made may affect net income both positively or negatively.

Income tax recognised in income statement	2020	2019
Current income tax for the year	–3,322	–3,114
Current income tax for previous years	20	–46
Deferred taxes	1,350	–140
Withholding taxes[1]	54	–193
Other taxes	209	69
Total	**-1,689**	**-3,424**

1) Witholding tax on royalties and licence sales, mainly to China

Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate	2020	2019
Income before tax for the year	8,936	12,668
Tax according to applicable Swedish tax rate, 21.4% (21.4%)	–1,912	–2,711
Operating income/costs, non-taxable	–17	–69
Witholding taxes	54	–193
Other taxes, non-taxable	209	69
Capital gains or losses, non-taxable	–186	–15
Effect of different tax rates	–82	–213
Tax effect on deferred tax due to change of tax rate	241	–68
Revaluation of previously non-valued losses and other temporary differences	53	–216
Other	–49	–8
Total	**-1,689**	**-3,424**

Income tax recognised in other comprehensive income	2020	2019
Deferred tax		
Tax effects on cash flow hedge reserve	1,239	–661
Tax effect of remeasurement of provisions for post-employment benefits	–212	–792
Tax effects on translation difference of hedge instruments for net investments in foreign operations	79	–30
Total	**1,106**	**-1,483**

Specification of deferred tax assets	Dec 31, 2020	Dec 31, 2019
Goodwill arising from the purchase of the net assets of a business	125	161
Provision for employee benefits	2,848	2,489
Unutilised tax loss carry-forwards	5,758	5,593
Reserve for unrealised income in inventory	20	78
Provision for warranty	1,275	1,382
Fair value of financial instruments	—	1,090
Other temporary differences	6,895	6,375
Total deferred tax assets	**16,921**	**17,168**
Netting of assets/liabilities	–9,445	–9,720
Total deferred tax assets, net	**7,476**	**7,448**

Specification of deferred tax liabilities	Dec 31, 2020	Dec 31, 2019
Fixed assets	8,260	7,771
Untaxed reserves	44	219
Auto lease portfolio	1,984	2,664
Fair value of financial instruments	27	—
Other temporary differences	174	41
Total deferred tax liabilities	**10,489**	**10,695**
Netting of assets/liabilities	–9,445	–9,720
Total deferred tax liabilities, net	**1,044**	**975**

Deferred tax assets and deferred tax liabilitites are offset when the item relates to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

Deferred tax assets are only recognised in countries where Volvo Car Group expects to be able to generate corresponding taxable income in the future to benefit from tax reductions.

Significant tax loss carry-forwards are related to countries with long or undefinite periods of utilisation, mainly Sweden and the US. Of the total MSEK 5,758 (5,593) recognised, deferred tax assets related to tax loss carry-forwards, of MSEK 5,085 (4,258) relates to Sweden with indefinite periods of utilisation. MSEK 440 (1,230) relates to the US where tax loss carry-forwards are expected to be utilised before expiration date. The assessement is that Volvo Car Group will be able to generate sufficient income in the coming years to also utilise the remaining part of the recognised amounts.

Deferred tax that may arise on distribution of the remaining unrestricted earnings of foreign subsidiaries has not been booked, hence they can be distributed free of tax or Volvo Car Group may consider them permanently reinvested in the subsidiaries.

Changes in deferred tax assets and liabilities during the reporting period	**Dec 31, 2020**	**Dec 31, 2019**
Net book value of deferred taxes at January 1	6,473	4,909
Deferred tax income/expense recognised through income statement	1,350	–140
Change in deferred taxes recognised directly in other comprehensive income	–1,106	1,483
Reclassification[2)3)]	–41	—
Exchange rate impact	–244	221
Net book value of deferred taxes at December 31	**6,432**	**6,473**

2) MSEK –17 (—) of deferred tax assets have been reclassified to assets held for sale. For more information, see Note 33 – Assets and liabilities held for sale.
3) MSEK –24 of deferred tax assets have been reclassified due to adjustments related to previous years.

Deferred tax assets regarding tax loss carry-forwards are reported to the extent that realisation of the related tax benefit through future taxable profits is probable also when considering the period during which these can be utilised, as described below.

Deferred tax assets have been considered on all tax losses carry forward as per 2020 and as of December 31, 2020, the recognised tax loss carry-forwards amounted to MSEK 27,540 (25,836). The tax value of these tax loss carry-forwards is reported as an asset. The final years in which the recognised loss carry-forwards can be utilised are shown in the following table.

Tax-loss carry-forwards; year of expiration	**Dec 31, 2020**	**Dec 31, 2019**
Due date		
2021	91	—
2022	—	—
2023	—	17
2024	33	64
2025	17	—
2026–	27,399	25,755
Total	**27,540**	**25,836**

NOTE 15 – INTANGIBLE ASSETS

ACCOUNTING PRINCIPLES

An intangible asset is recognised when it is identifiable, the Group controls the asset, the cost can be measured reliably and it is expected to generate future economic benefits. Intangible assets consist of product development, licences and patents, trademarks, goodwill, dealer network and investments in IT-systems and software. Intangible assets such as trademarks, goodwill and dealer networks are normally identified and measured at fair value in connection with business combinations.

Both acquired and internally generated intangible assets are recognised at acquisition cost, less accumulated amortisation and any impairment loss (with the exception of goodwill and trademark). Goodwill and trademark are recognised at fair value on the date of the acquisition less any accumulated impairment losses.

Borrowing costs are included in the cost of assets that take a substantial period of time to be ready for their intended use. Subsequent expenditure on intangible assets increases the cost only if it is gives rise to future economic. All other subsequent expenditure is expensed in the period in which it is incurred.

Capitalised development costs

The Group's research and development activities are divided into a concept phase and a product development phase. Costs incurred during the concept phase are normally research costs for developing new products at an early stage, where the outcome of the project is still uncertain and where, for example, different options and alternatives are still evaluated. Research costs during the concept phase are expensed as incurred.

When a research and development project has developed to the extent that there is a definable future product that is expected to generate future economic benefits, the project is considered to be in the development phase. Costs for development of new products, production systems and software are recognised as an asset if certain conditions are met. Capitalised development costs are all expenditures that can be directly attributed to the development phase and that serve to prepare the asset for use. All other development costs are expensed as incurred.

Development costs incurred by the Group that are contractually shared with other parties and where the Group remains in control of a share of the developed product, either through a licence or through ownership of patents, are recognised for as intangible assets, reflecting the relevant proportion of the Group interests.

The Group incurs development costs on behalf of other parties. In cases where the developed technology is sold and therefore not controlled by the Group, the costs are expensed as Cost of Sales at the time of the sale. These costs are also used to measure development progress for revenue recognition for the sold technology, licences or IP. See Note 2 – Revenue for more information.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Intangible assets with a definite useful life are amortised on a straight-line basis over their estimated useful lives. Management regularly reassesses the useful life of all significant assets. If circumstances change such that the estimated useful life needs to be revised, additional amortisation could be the result in future periods. Assets with definite useful lives are only tested for impairment if there are any indications of impairment. Intangible assets with indefinite useful lives, i.e. trademark, goodwill, and other intangible assets not yet ready for use, are tested for impairment annually or when there are any indications of impairment.

An impairment test is done by calculating the asset's or assets' recoverable amount. If the recoverable amount is less than the carrying amount, the asset is written down to its recoverable amount. The recoverable value in the form of value in use, is based on discounted cash flows, where certain estimations must be made regarding future cash flows, required return on investments and other adequate assumptions. The estimated future cash flows are based on assumptions that represent management's best estimate of the economic conditions that will exist during the asset's remaining useful life and are based on internal business plans or forecasts. Future cash flows are determined on the basis of long-term planning, which is approved by Management and which is valid at the date of preparation of the impairment test and this planning is based on expectations regarding future market share, market growth as well as the products' profitability.

	Capitalised development cost[1)]	Software	Trademark and goodwill[2)]	Other intangible assets[3)]	Total
Aquisition cost					
Balance at January 1, 2019	37,980	3,852	3,755	12,422	58,009
Additions	8,088	576	—	103	8,767
Divestments and disposals	–28	–424	–20	–7,052	–7,524
Reclassifications	3	65	23	2	93
Effect of foreign currency exchange differences	—	–6	—	38	32
Balance at December 31, 2019	**46,043**	**4,063**	**3,758**	**5,513**	**59,377**
Additions	7,517	600	—	1,256	9,373
Acquired through business combinations	—	3	447	22	472
Divestments and disposals	–377	–178	—	–2	–557
Reclassifications[4)]	—	–117	—	–71	–188
Effect of foreign currency exchange differences	—	3	—	–101	–98
Balance at December 31, 2020	**53,183**	**4,374**	**4,205**	**6,617**	**68,379**
Accumulated amortisation and impairment					
Balance at January 1, 2019	–16,837	–2,027	—	–9,499	–28,363
Amortisation expense	–4,872	–287	—	–472	–5,631
Divestments and disposals	—	414	17	7,048	7,479
Reclassifications	–1	–15	–21	–4	–41
Effect of foreign currency exchange differences	—	6	—	–21	–15
Balance at December 31, 2019	**–21,710**	**–1,909**	**–4**	**–2,948**	**–26,571**
Amortisation expense[5)]	–4,051	–287	—	–508	–4,846
Acquired through business combinations	—	–1	—	–6	–7
Divestments and disposals	—	61	—	2	63
Reclassifications[4)]	—	104	—	43	147
Effect of foreign currency exchange differences	—	–16	—	85	69
Balance at December 31, 2020	**–25,761**	**–2,048**	**–4**	**–3,332**	**–31,145**
Net balance at December 31, 2019	**24,333**	**2,154**	**3,754**	**2,565**	**32,806**
Net balance at December 31, 2020	**27,422**	**2,326**	**4,201**	**3,285**	**37,234**

1) The Group has capitalised borrowing costs related to product development of MSEK 142 (133). A capitalisation rate of 2.4 (2.6) per cent was used to determine the amount of borrowing costs eligible for capitalisation.
2) Of the total net balance at December 31, 2020, Goodwill amounted to MSEK 603 (156).
3) Other intangible assets are licences, dealer networks and patents.
4) Gross intangible assets of MSEK –297 (—) and depreciation of MSEK 147 (—) with a net value of MSEK –150 (—) have been reclassified to assets held for sale. For more information, see Note 33 – Assets and liabilities held for sale.
5) The amortisation expenses has decreased by MSEK 666 (—), due to adjustments of the useful life period to reflect updated assumptions and cycle plans changes.

Since the majority of the intangible assets with indefinite useful lives in Geely Sweden Holdings (99.5 per cent) are derived from Volvo Car Group, impairment tests have been carried out at Volvo Car Group level. When performing impairment tests by calculating the asset or assets recoverable amount based on discounted cash-flows Volvo Car Group constitutes one single cash generating unit. Assumption of future market share, market growth and Volvo Car Group expected performance in this environment are the basis for the valuation.

Management's business plan for 2021–2023 is used as a basis for the calculation. In this model, the Group is expected to maintain stable efficiency over time and the estimates of the cash flows after the end of the planning period are based on the same growth rate and cash flow as for the last year in the calculation onwards in perpetuity. The business plan is an integral part of the Group's financial planning process and represents management's best estimate of the economic conditions that will exist during the asset's remaining lifetime. The business plan process is based on historic and current financial performance and the financial position of the company, i.e. assumptions on margin development, fixed cost and new investments are based on current year financials balanced against what is containable given the projection of exogenous factors. Exogenous factors as industry and segment volumes, exchange rates, raw materials etc. are based on external assessments from analyst companies and banks. In 2020, the discounted cash flow exceeded the carrying amount and no impairment loss was recognised. A sensitivity test was performed whether a negative adjustment of one percentage point to the margin or in the discount rate would result in impairment. The discount rate before tax was 11.5 (11.5) per cent. No impairment loss was recognised as a result of performed test.

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING PRINCIPLES

A tangible asset is recognised when it is controlled by the Group, it is expected to generate future economic benefits and is measurable. Tangible assets are recognised at acquisition cost, less accumulated depreciation and potential impairment loss. The cost of the asset includes expenditures that can be directly attributed to the acquisition and bringing the asset in place for its intended use. Borrowing costs are sometimes included in the acquisition cost of an asset if it takes more than 12 months to get it ready for its intended use or sale.

Repair and maintenance expenditures are recognised in the income statement during the period in which they incur.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Tangible assets are depreciated on a straight-line basis over their estimated useful lives. Management regularly reassesses the useful life of all significant assets. If circumstances change such that the estimated useful life has to be revised, it could mean additional depreciation in future periods.

The carrying amounts of non-current tangible assets are tested for impairment if there are indicators of a decline in value with regards to future economic benefits related to the asset. Impairment is recognised if the carrying value of the asset exceeds the recoverable amount. The recoverable amount is the higher of the net selling price and its value in use. For these calculations, certain estimations must be made with regards to future cash flows, required return on investments and other adequate assumptions. The estimated future cash flows are based on assumptions that represent management's best estimate of the economic conditions that will exist during the asset's remaining useful life and are based on internal business plans or forecasts. Future cash flows are determined on the basis of long-term planning, which is approved by Management and which is valid at the date of preparation of the impairment test. This planning is based on expectations regarding future market share, the market growth as well as the products' profitability.

	Buildings and land[1) 2) 3) 4)]	Machinery and equipment[1) 2) 3) 4)]	Construction in progress[1)]	Assets under operating leases	Total
Aquisition cost					
Balance at January 1, 2019	**21,753**	**103,769**	**5,977**	**2,973**	**134,472**
Adjustment on transition to IFRS 16	6,330	648	—	—	6,978
Additions	749	4,861	6,982	2,301	14,893
Divestments and disposals	–169	–3,086	–1	–1,535	–4,791
Reclassification[5)]	2,608	4,781	–7,944	—	–555
Effect of foreign currency exchange differences	321	728	98	—	1,147
Balance at December 31, 2019	**31,592**	**111,701**	**5,112**	**3,739**	**152,144**
Additions	992	3,832	4,045	2,885	11,754
Acquired through business combinations	2	211	6	—	219
Divestments and disposals	–305	–3,022	–36	–1,690	–5,053
Reclassification[5)]	459	–8,060	–4,726	—	-12,327
Effect of foreign currency exchange differences	–1,295	–2,234	–191	–43	–3,763
Balance at December 31, 2020	**31,445**	**102,428**	**4,210**	**4,891**	**142,974**
Accumulated depreciation and impairment					
Balance at January 1, 2019	**-9,531**	**-60,191**	**–**	**-450**	**-70,172**
Depreciation expense[6)]	–1,839	–7,673	—	–405	–9,917
Divestments and disposals	137	2,163	—	359	2,659
Reclassification[5)]	–90	–110	—	—	–200
Effect of foreign currency exchange differences	–88	–220	—	—	–308
Balance at December 31, 2019	**-11,411**	**-66,031**	**–**	**-496**	**-77,938**
Depreciation expense[6)]	–1,871	–7,396	—	–344	–9,611
Acquired through business combinations	–1	–92	—	—	–93
Divestments and disposals	266	1,913	—	436	2,615
Reclassification[5)]	135	4,832	—	—	4,967
Effect of foreign currency exchange differences	315	933	—	3	1,251
Balance at December 31, 2020	**-12,567**	**-65,841**	**–**	**-401**	**-78,809**
Net balance at December 31, 2019	**20,181**	**45,670**	**5,112**	**3,243**	**74,206**
Net balance at December 31, 2020	**18,878**	**36,587**	**4,210**	**4,490**	**64,165**

1) Buildings and land include Right-of-use asset/finance leases of MSEK 5,152 (5,657), Machinery and equipment include Right-of-use asset/finance leases of MSEK 816 (558) and Construction in progress Right-of-use asset/include finance leases of MSEK – (23). For further information regarding lesase, see Note 7 – Leasing.
2) Depreciation expense includes an impairment loss of MSEK –22 (–10). For further information regarding depreciations, see Note 9 – Depreciation and amortisation.
3) The Group has no mortgages in property, plant and equipment. For further information regarding pledged assets, see Note 28 – Pledged assets.
4) The Group has capitalised borrowing costs related to Machinery and equipment of MSEK 2 (5) and Buildings of MSEK — (8).
5) The gross PPE of MSEK –11,618 (—) and depreciation of MSEK 5,024 (—) with a net value of MSEK –6,594 (—) has been reclassified to assets held for sale. For more information, please see Note 33 – Assets and liabilities held for sale.
6) Depreciation expense related to Buildings and Land include Right-of-use asset of MSEK –994 (–981) and Machinery and equipment Right-of-use-asset of MSEK –277 (–221).

NOTE 17 – OTHER NON-CURRENT ASSETS

	Dec 31, 2020	Dec 31, 2019
Restricted cash	274	287
Endowment insurance for pensions	379	381
Rental deposition	50	60
Derivative assets, non-current	1,277	290
Other receivables, non-current	607	654
Other non-current assets	2,312	1,800
Total	**4,899**	**3,472**

NOTE 18 – INVENTORIES

ACCOUNTING PRINCIPLES

Inventories consist of raw material, consumables and supplies, semi-manufactured goods, work in progress, finished goods and goods for resale. Assets held under operating lease, with a maturity less or equal to 12 months, are also recognised as inventory. Inventories are measured at the lower of cost and net realisable value. Cost of inventories comprise all costs of purchase, production charges and other expenditures incurred in bringing the inventories to their present location and condition.

The cost of inventories of similar assets is established using the first-in, first-out method (FIFO). Net realisable value is calculated as the selling price in the ordinary course of business less estimated costs of completion and selling costs. For groups of similar products a group valuation method is applied. Physical stock counts are carried out annually or more often where appropriate in order to verify the records.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Inventories are measured at the lower of cost and their net realisable value. Net realisable value is based on the most reliable evidence of the amount the Group expects to realise from vehicles and components on future sales trends or needs (for components) and also takes into account items that are wholly or partially obsolete. A future unexpected decline in market conditions could result in an adjustment in future expected sales, requirements and in estimated selling prices assumptions, which may require an adjustment to the carrying amount of inventories.

	Dec 31, 2020	Dec 31, 2019
Raw materials and consumables	106	112
Work in progress	7,565	8,359
Current assets held under operating lease	8,186	8,735
Finished goods and goods for resale	19,658	21,705
Total	**35,515**	**38,911**
Of which value adjustment reserve:	–858	–693

1) MSEK 968 (—) of recognised inventories have been reclassified to asset held for sale. For more information, see Note 33 – Assets and liabilities held for sale.

The cost of inventories recognised as an expense and included in cost of sales amounted to MSEK 208,132 (212,945). Current assets held under operating lease consists of a sale of vehicles combined with a repurchase commitment with a maturity less or equal to 12 months.

NOTE 19 – ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

ACCOUNTING PRINCIPLES

Accounts receivables are recognised at amortised cost. An expected credit loss reserve is recognised when the receivable is initially recognised. The recognised credit loss reserve consists of incurred as well as of expected credit losses. A credit loss has been incurred when there has been an event that has triggered the customers inability to pay. The expected credit loss reserve includes a general provision for credit losses based, among other forward looking factors, on, for instance, macroeconomic trends in different countries. In these cases there has not yet been any events incurred showing any inability to pay.

	Dec 31, 2020	Dec 31, 2019
Accounts receivable, non-group companies	6,192	7,818
Accounts receivable, related companies	8,690	5,460
VAT receivables	1,884	2,243
Prepaid expenses and accrued income	2,311	2,141
Other financial receivables	992	281
Restricted cash	103	185
Other receivables	8,220	5,766
Total[1)]	**28,392**	**23,894**

1) 23 MSEK (—) of recognised other current assets have been reclassified to assets held for sale. For more information, see Note 33 – Assets and liabilities held for sale.

Accounts receivable amounted to MSEK 14,882 (13,278) including a general credit reserve of MSEK 113 (128) as well as provision for expected credit losses of MSEK 16 (18). As of December 31, 2020 the general and expected credit loss reserve amounted to 0.86 (1.09) per cent of the total accounts receivable.

The size and geographical spread of the accounts receivable are closely linked to the distribution of the Group's sales and do not contain any significant concentration of credit risk to individual customers or markets.

Change in provision for doubtful accounts receivable is as follows:	2020	2019
Balance at January 1	128	86
Additions	57	57
Reversals	–22	–5
Write-offs	–46	–12
Translation difference	–4	2
Balance at December 31	**113**	**128**

Aging analysis of accounts receivable and accounts receivables from related companies	Not due	1–30 days overdue	30–90 days overdue	>90 days overdue	Total
2020					
Accounts receivable gross	**13,848**	**314**	**84**	**749**	**14,995**
Provision doubtful accounts receivable	–87	—	–1	–25	–113
Accounts receivable net	**13,761**	**314**	**83**	**724**	**14,882**
2019					
Accounts receivable gross	11,767	454	356	829	13,406
Provision doubtful accounts receivable	–66	–4	–34	–24	–128
Accounts receivable net	**11,701**	**450**	**322**	**805**	**13,278**

NOTE 20 – FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

ACCOUNTING PRINCIPLES

Financial assets and liabilities

Financial instruments are any form of contract that gives rise to a financial asset in one company and a financial liability or equity instrument in another company. Financial assets are initially recognised at fair value plus transaction costs, except for those financial assets carried at fair value through the income statement. Financial assets carried at fair value through the income statement are initially recognised at fair value. In this case transaction costs are expensed.

Financial liabilities are initially recognised at fair value less transaction costs, except for those financial liabilities carried at fair value through the income statement. Financial liabilities carried at fair value through the income statement are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets in the consolidated balance sheet consist of interest-bearing investments, accounts receivable, other current and non-current financial assets, derivative assets and cash and cash equivalents. Derivatives include forwards, options, warrants and swaps.

Financial liabilities in the consolidated balance sheet consist of liabilities to credit institutions, issued bonds, accounts payable, other current and non-current financial liabilities and derivative liabilities, including issued warrants related to share-based incentive programmes, see Note 8 – Employees and remuneration.

Financial assets and liabilities are measured at amortised cost or fair value depending on their initial classification. Fair value is defined as the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Amortised cost is calculated using the effective interest method, where any premiums or discounts and directly attributable costs and revenue are capitalised over the contract period using the effective interest rate. Valuation of financial instruments at fair value is based on prevailing market data and on a discounting of estimated cash flows using the deposit/swap curve of the cash flow currency and include risk assumptions. For currency option instruments, the valuation is based on the Black-Scholes model. This is the case also for unlisted warrants.

The fair value of a financial asset or liability reflects non-performance risk including the counterparty's credit risk for an asset and an entity's own credit risk for a liability. The Group has chosen to use Default Probability derived from the credit default (CDS) swap curve per counterparty to adjust the positive fair value on derivatives and commercial papers. The same adjustment for the Group´s own credit risk is made using the default probability of Volvo Car AB credit default swaps.

Initial recognition and final derecognition of financial assets and liabilities

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a party to the contractual terms and conditions, i.e. at the transaction date.

A financial asset or a portion of a financial asset is derecognised when all significant risks and benefits linked to the asset have been transferred to a third party. Where the Group concludes that all significant risks and benefits have not been transferred, the portion of the financial assets corresponding to the Group's continuous involvement continues to be recognised.

A financial liability or a portion of a financial liability is derecognised when the obligation in the contract has been fulfilled, cancelled or has expired.

Classification of financial assets and liabilities

Derivatives as well as some equity instruments are carried at fair value through the income statement. A few holdings of equity instruments are recognised at fair values through other comprehensive income.

Financial assets in the form of interest-bearing instruments are categorised as either:

- an asset carried at fair value through the income statement,
- an asset carried at amortised cost, or
- an asset carried at fair value through consolidated other comprehensive income

The classification depends on the entity's applied business model and the contractual cash flow characteristics of the financial asset. Classification takes place at initial recognition. The Group applies different business models for interest-bearing instruments. Financial assets that are held for trading are carried at fair value through the income statement. Within the Group, this consists of interest-bearing investments such as commercial papers recognised as marketable securities and cash and cash equivalents. All remaining interest-bearing instruments are held to collect contractual cash flows and are carried at amortised cost.

The Group classifies its financial liabilities as either:

- financial liabilities carried at fair value through the income statement, or
- other financial liabilities

Financial assets and liabilities carried at fair value through the income statement

Financial instruments carried at fair value through the income statement consist of derivatives, warrants on equity instruments, including issued warrants related to share-based incentive programmes (see Note 8 – Employees and remuneration), equity investments as well as commercial papers and cash and cash equivalents.

Changes in fair value of these instruments are recognised in the income statement. Changes in fair value are reported as financial income/expense. Derivatives with positive fair values (unrealised gains) are recognised as other current or non- current assets. Derivatives with negative fair values (unrealised losses) are recognised as other current or non-current liabilities.

Financial assets carried at amortised cost

Financial assets, other than those carried at fair value through the income statement (described in the paragraph above), are carried at amortised cost. These assets include accounts receivables, other financial assets as well as time deposits recognised in marketable securities and cash and cash equivalents. The business model and the contractual cash flow characteristics for accounts receivables and other financial assets is to collect the payment for these financial assets once they are due. Initially, these financial assets are recognised at fair value plus transaction costs and subsequently measured at amortised cost. Amortised cost is calculated using the effective interest method, where any premiums or discounts and directly attributable transaction costs are capitalised over the contract period using the effective interest rate. Accounts receivables are recognised at the amount expected to be received, i.e. after deduction of bad debts allowance. A bad debt allowance is incurred when there has been a triggering event for the customer's inability to pay. The bad debts on accounts receivable are recognised as a revenue deduction. In addition to the bad debts allowance, an allowance for expected credit losses is recorded. The expected credit loss allowance is based on a multiplier consisting of average historical write-offs and forward-looking macroeconomic data.

Other financial liabilities

Financial liabilities to credit institutions, issued bonds, accounts payables and other financial liabilities are assigned to this category. Amortised cost is calculated using the effective interest method, where any premiums or discounts and directly attributable transaction costs are capitalised over the contract period using the effective interest rate.

Other financial liabilities are recognised in the balance sheet at fair value less transaction costs and are subsequently measured at amortised cost.

In 2019 the Group issued a zero-interest rate exchangeable bond of MEUR 400 with a contract to 2024. The bond contract includes embedded derivatives that have been separated from the host contract as the cash flow from the derivatives is not closely related to the cash flow from the host contract (the bond). The bond was initially measured at fair value and subsequently at amortised cost. The embedded derivatives (options held by both the holder and issuer) are recognised at fair value through the income statement. The bond's initial fair value consists of the difference between the bond's par value and the fair values of the derivatives.

Hedge accounting

Hedge accounting is applied when derivative instruments are included in a documented hedge relationship. For hedge accounting to be applied, a direct connection between the hedging instrument and the hedged item is required. At the inception of the hedge, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management strategy and objectives for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Group designates certain derivatives and financial liabilities as either a:

a) Fair value hedge
b) Net investment hedge, or
c) Cash flow hedge

A hedge instrument is classified as a non-current asset or liability when the maturity of the hedged item is more than 12 months, and as a current asset or liability when the maturity is less than 12 months.

a) Fair value hedge

The purpose of a fair value hedge is to hedge the variability in the fair value of a fixed-rate debt (issued bond) from changes in the relevant benchmark yield curve for its entire term by converting a fixed interest rate to a floating rate (e.g. STIBOR or LIBOR) by using interest rate swaps (IRS). The credit risk is not hedged. The fixed leg of the IRS is matched against the cash flows of the hedged loan/bond. Hereby, the fixed-rate bond is converted into a floating-rate debt. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value adjustment related to the interest component of the hedged liability (issued bond) that is attributable to the hedged risk. Gains and losses relating to interest rate swaps, hedging of fixed rate borrowings and the changes in fair value of the hedged fixed rate borrowings, attributable to interest rate risk are reflected in the net financial income/ expense.

If the hedge no longer meets the criteria for hedge accounting, the adjustment in the carrying amount of a hedged item for which the effective interest method is used is amortised in the income statement over the remaining period to maturity.

b) Net investment hedge

Hedging of net investments in foreign operations refers to hedges held to reduce the effect of changes in the value of a net investment in a foreign operation due to changes in foreign exchange rates. The fair value changes on the hedge instrument are recognised in other comprehensive income.

In the event of a divestment, the accumulated hedge effect is transferred from the hedge reserve in equity to the income statement.

No ineffectivness has effected net income for the period.

c) Cash flow hedge

Cash flow hedging refers to the hedging of expected future commercial cash flows in foreign currencies against currency rate risks, as well as for the purpose of hedging expected future commodity consumption against commodity price risk. In cash flow hedge accounting the changes in fair value of hedging instruments are recognised in other comprehensive income and accumulated in other reserves in equity. These reserves are recycled to the income statement in the same period as an underlying sales/cost of sales transaction is recognised in the income statement.

The hedging relationship is regularly tested up until its maturity date. If the identified relationships are no longer deemed effective, the fluctuation in fair value on the hedging instrument from the last period the instrument was considered effective is recognised in the income statement. If the hedged transaction is no longer expected to occur, the hedge's accumulated changes in value are immediately transferred from other comprehensive income to the income statement and are included in Operating income.

No ineffectivness has effected net income for the period.

IBOR transition

Where interest rate hedge accounting is applied, the Group, through its hedged instruments together with its hedging instruments, is exposed to EURIBOR. There will be a change in certain floating interest benchmark rates (IBORs) to alternative risk free (ARR) derived rates due to the forthcoming IBOR transition. Since EURIBOR is expected to continue (as it has been fully reformed), all hedges are expected to continue to be 100 per cent effective and no net interest impact is expected.

In terms of hedge accounting relationships, exposure is to the EURIBOR interest rate benchmark as mentioned above. There is a single EUR bond/swap fair-value hedge which expires in 2021 and accordingly no post-IBOR transition impact is envisaged.

The Group is however exposed (outside of fair value hedge accounting) to interest rate risk from both EURIBOR and STIBOR.

- EURIBOR: This benchmark has been fully reformed and not scheduled for discontinuation.
- STIBOR: Also expected to continue.

The Group understands that while there is an industry effort to formalise fallback risk-free versions of these benchmarks (e.g. E$TR for EURIBOR), the benchmarks are expected to continue in their current form for the foreseeable future.

In terms of floating debt, this has been issued in SEK only (FRNs - floating rate notes) and the relevant benchmark (STIBOR) is expected to continue and so no impact is expected. These FRNs, maturing after 2021, have not been hedged with interest rate derivatives.

For the Group's derivatives, there is only one EURIBOR based interest rate swap which is part of a fair-value hedge relationship with a corresponding fixed rate EUR bond. Both bond and swap mature in 2021 (as mentioned above) and there is therefore no impact. The group has, in addition, EURIBOR based interest rate swaps to hedge EUR fixed-rate bonds maturing after 2021. Neither of the sets of bonds/swaps are part of fair-value hedge relationships. However, the Group expects there to be no impact from any potential future change to the benchmark, as the fixed cash outflows from the bond are matched 1:1 by the fixed cash inflows from the swap receive leg, leaving exposure only in the pay floating leg of the swap.

The Group will monitor the development of the IBOR transition.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Accounting for financial instruments includes performing certain estimates and judgements, among others:

- **Applied business model with regards to the valuation of interest-bearing instruments:** The main purpose of holding interest-bearing assets is to collect contractual cash flows of interest and principal. Sales of receivables are not at a level that would challenge the business model. The majority of interest-bearing assets will therefore be valued at amortised cost.
- **Derecognition of accounts receivable:** Invoiced sales are in certain cases subject to contracts for factoring with a third party (bank or financial institution). If the right to payment no longer exists in accordance with the initial sale and the Group is no longer in any way involved in the relevant assets, they are derecognised.
- **Other long term securities holdings – recognition of fair value changes:** The Group has holdings of listed and unlisted equity instruments as well as unlisted warrants and earn out shares. The main investment in listed equity instruments is in AB Volvo shares. Geely Sweden Holdings initially choose to recognise fair value changes in other comprehensive income as the holdings in AB Volvo is a long-term strategic holding. Other holdings of listed shares recognised in the financial net. The valuation of the unlisted warrants are valued in accordance with the Black-Scholes model and the most relevant fact is whether the Group will fulfill the vesting criteria and when it would do so, the risk-free interest rate and volatility of the underlying share price. It is difficult to measure the fair value of holdings of unlisted equity instruments on a regularly basis as there is not available information. Therefore these holdings are revalued each time a transaction is performed and makes a present value available to the Group. The earn-out shares are valued based on the probability that the Group will fulfill the vesting criteria.
- **Identification and recognition of embedded derivates:** An assessment is made of whether an embedded derivative is closely related to the host contract. Derivatives that are not embedded need to be separated and recognised on their own merits if the whole financial instrument (bond) is recognised at fair value through the income statement. The embedded derivates constitute level 3 instruments and Geely Sweden Holdings uses an external appraiser to measure the fair value of embedded derivatives.

Financial risks

In its operations, the Group is exposed to various types of financial risks such as currency risk, funding and liquidity risk, interest rate risk, commodity price risk and credit risk.

The Group's treasury is responsible for management and control of these financial risks, it ensures that appropriate financing is in place through capital market transactions, loans and committed credit facilities and manages the Group's liquidity. The management of financial risks is governed by the Group's Financial Policy Framework, which is approved by the Board of Directors and is subject to review every other year or when required. The policy is focused on minimising the effects of fluctuating financial markets on the Group's financial earnings. Policy compliance is reported to the CFO on a monthly basis; policy compliance is also a part of the general treasury reporting to the Bord of Directors. There is an alert function in place safeguarding mandate limits on a daily basis.

Currency risk

The currency exposure arises from production in various countries, procurement and the mix of sales currencies. Relative changes in the currency rates have a direct impact on the Group's operating income, net financial income/expense, balance sheet and cash flow statement.

Currency risk is related to:

- Expected future cash flows from sales and purchase in foreign currencies (transaction risk)
- Changes in value of assets and liabilities denominated in foreign currencies (translation risk)
- Net investments in foreign operations (translation risk)

Transaction exposure risk

The Group´s Financial Policy Framework

The policy for management of currency transaction risk states that up to 80 per cent of the future expected cash flows in the coming 24 months and up to 60 per cent of the future expected cash flows in the coming 25 to 48 months can be hedged with adequate financial instruments: options, forwards or combined instruments with maturities matching expected timing of cash flows. Hedging strategies using financial instruments for long-term exposure (over 48 months) require a Board of Directors decision.

For currency risk management, transaction exposure is expressed in terms of cash flow at risk (CFaR), which is the maximum loss at a 95 per cent confidence level in one year. The CFaR is based on the cash flow forecast, FX rates, market volatility and correlations.

The model guiding hedging of transaction risk is stipulated in the Group's Financial Policy Framework. The hedging strategy is proposed by Group Treasury and approved by the CFO, and is expressed as a strategic hedge level of CFaR with a mandate to deviate from the strategic hedge level. The deviation mandate is given as a tactical mandate in terms of timing. The hedging strategy is revised at least quarterly.

Status at year-end

The majority of the sales within the Group are invoiced to the national sales companies in their local currencies. The total currency inflow and outflow was distributed according to the table below:

	Inflow		Outflow	
	2020	2019	**2020**	2019
CNY	27%	24%	27%	25%
EUR	25%	28%	48%	50%
GBP	7%	7%	1%	1%
JPY	3%	3%	8%	7%
USD	19%	19%	11%	12%
Other	19%	19%	5%	5%

Forward contracts, currency options and foreign exchange swaps are used to hedge the currency risk in expected future cash flows from sales and purchases in foreign currencies. The CFaR at year-end for the Group's cash flows in one year excluding hedges was approximately SEK 4 (4) bn. The table below shows the percentage of the forecasted cash flows that were hedged expressed both in nominal terms and in CFaR.

	0-12 months		13-24 months		25-48 months	
	2020	2019	**2020**	2019	**2020**	2019
Nominal hedge, %	50	44	19	19	1	6
CFaR hedge %	41	49	13	22	1	11

Maturities of cash flow hedges (forwards and options), nominal amounts in millions, local currency

Maturity	AUD	CAD	CHF	CNH	DKK	EUR	GBP	JPY	KRW	NOK	TWD	RUB	USD
1–12 months	–340	–378	–240	300	–480	2,291	–819	58,550	–398,639	–1,734	–6,174	–2,000	–1,427
13–24 months	–94	–101	–148	—	–280	514	–539	21,800	–81,102	–50	–1,597	—	–870
25–36 months	—	—	–48	—	—	11	–110	—	—	—	—	—	–80
37–48 months	—	—	—	—	—	—	—	—	—	—	—	—	—

The average duration of the portfolio was 10 (13) months. The fair value of the outstanding currency derivatives as of December 31, 2020 amounted to MSEK 578 (–5,458).

Hedge accounting – cash flow hedge

The highly probable forecast transactions in foreign currencies that are hedged are expected to occur at various dates during the coming 48 months. Gains and losses recognised in other comprehensive income and accumulated in other reserves in equity on foreign exchange forward contracts as of December 31, 2020 are recognised in the income statement in the periods when the hedged forecast transaction affects the income statement, which are shown in the maturity table above.

As of December 31, 2020, the cash flow hedge reserve related to currency hedges, amounted to MSEK 578 (–5,458) before tax. The fluctuation from December 31, 2019 to December 31, 2020 within the hedge reserve that has had an impact on other comprehensive income in 2020 is MSEK 6,036 (–3,140) before tax. The balance of MSEK 578 (–5,458) represents the fair value of derivatives used for cash flow hedging as at December 31, 2020. Combined with cross currency options recorded in the income statement, this amounts to a total fair value of MSEK 577 (–5,458).

Prospective effectiveness testing is performed at inception of the hedge and on an aggregated level on a monthly basis. The test is performed by comparing the critical terms (nominal amount, timing, and foreign currency) of the hedging instrument and the hedged item. If critical terms match and the credit risk of the counterparty has not changed significantly, the hedge relationship is highly effective.

Fair value of currency derivatives for cash flow hedging	**2020**	2019
Hedge reserve	578	–5,458
Recognised in other comprehensive income	**578**	–5,458
Time value in options and cross currency options	–1	—
Recognised in other operating income and expenses	–1	—
Total fair value	**577**	–5,458

Status at year-end

The table below shows the translation exposure of net investments in foreign operations as of December 31, 2020.

	CNY	EUR	USD	JPY	MYR	Other	Total
Investments in foreign operations (MSEK)	30,815	9,114	1,026	936	698	2,137	44,726
Translation exposure	**30,815**	**9,114**	**1,026**	**936**	**698**	**2,137**	**44,726**

Translation exposure risk

The Group's Financial Policy Framework

Translation risk within the Group relates to the translation of net investments in foreign operations and translation risk of asset and liabilities in foreign currencies related to operations. The translation of net investments in foreign operations can generate a positive or negative impact on other comprehensive income. Translation risk assoicated with assets and liabilities in foreign currencies relating to operations, in accounts receivable, accounts payable and warranty provisions, impacts operating income. All translation of assets and liabilities to credit institutions and intercompany loans and deposits are reflected in net financial income/expense.

The translation risk is hedged either by matching the currency composition of debt with the composition of assets or via financial derivatives. A one percentage point change in the Swedish krona against major currencies will have a net impact on other comprehensive income of around MSEK 447 (419). Portions of the investments in operations in the Eurozone and Americas are hedged. This is further explained in more detail below. The residual translation risk is part of strategic risk management and is not hedged with financial instruments. The translation effect is recognised in other comprehensive income.

Total translation effect of net investments in foreign operations was MSEK –3,376 (982). This effect is recognised in other comprehensive income.

Hedge accounting – hedging of net investments in foreign operations

The Group allocates MEUR 320 of the EUR debt and MUSD 200 of the USD debt to reduce translation exposure in net investments in EUR and USD. The exchange rate from the translation of net investments in operations in EUR and USD is recognised in other comprehensive income. The hedge reserve for net investment in foreign operations, included in equity in the currency translation reserve as of December 31, 2020, amounts to MSEK –252 (–620) before tax. No ineffectiveness has affected net income for 2020 or 2019.

Fair value of financial instruments for hedging of net investment in foreign operations	**2020**	2019
Hedge reserve	–252	–620
Recognised in other comprehensive income	**-252**	**-620**
Total fair value	**-252**	**-620**

Funding and liquidity risk management

Capital Structure

The Group's Financial Policy Framework stipulates that the capital structure is to reflect a reasonable balance between risks and rewards/cost of capital. The medium-to-long-term capital structure target for the Group is to be optimised among cost of capital, rating considerations/peer group comparison and company-specific risk factors. The capital structure is analysed on a regular basis as part of the overall financial reporting process. The longer-term objective is to have a capital structure that enables investment grade rating; the Group's current external rating by Moody's is Ba1 and by Standard & Poor BB+. The equity ratio as at December 31, 2020 was 24.0 (21.6) per cent, of which shareholders' equity amounted to MSEK 74,106 (61,654).

Funding risk management

The Group's Financial Policy Framework

Funding risk is the risk that the Group will not have access to adequate financing on acceptable terms at any given point in time.

All drawdown on new loans is evaluated against future liquidity needs and investment plans. The Group should for the coming 12 months at any given time have available committed financing for investments and maturing loans. To limit the risk of refinancing, debt maturing over the next 12 months should not exceed 25 per cent of total debt. Less than 50 per cent of the long-term debt should be refinanceable within three years.

Status at year-end

In October 2020, the Group issued its first green bond on the capital market amounting to MEUR 500 nominally. In May and September, the Group made drawdowns of MSEK 4,000 and MSEK 520, respectively.

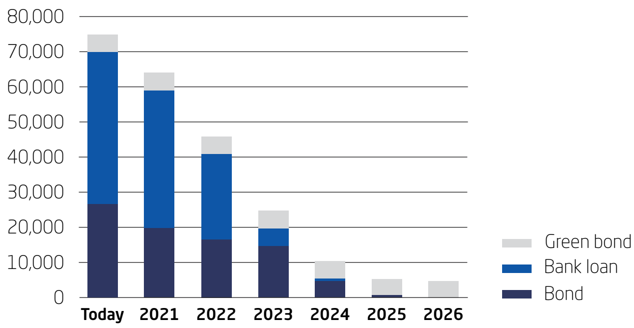
As of December 31, 2020, the outstanding amount of bonds and liabilities to credit institutions, excluding finance lease contracts and capitalised transaction costs, within the Group as of year-end 2020 was MSEK 75,239 (73,920). The remaining credit term of the outstanding facilities was 2.5 (3.1) years. Debt maturing over the next 12 months was 14 per cent at year-end. 67 per cent of the Group's long term debt is refinanceable within three years and mitigating activities are ongoing.

The outstanding debt is shown below.

Funding	Currency	Nominal amount in respective currency (million)	MSEK
Bank loan	EUR	3,438	34,455
Bank loan	USD	443	3,620
Bank loan	SEK	4,720	4,720
Bond	EUR	1,976	19,806
Bond	USD	250	2,043
Bond	SEK	5,000	5,000
Green bond	EUR	500	5,012
Other	SEK	583	583
Total			**75,239**

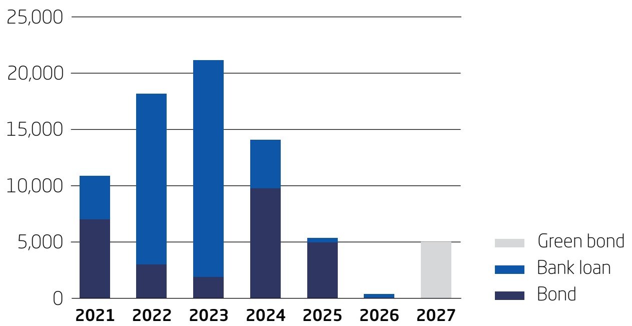
Outstanding bonds and liabilities to credit institutions (at successive year-end)

MSEK



Loan and bond amortisation schedule

MSEK



In relation to all external financing there are information undertakings and covenants in place according to Loan Market Association (LMA) and capital market standards. These are monitored and calculated quarterly to fulfil the terms and conditions stated in the financial agreements. Covenants are based on standard measurements such as EBITDA and net debt. As of December 31, 2020, all covenants are fulfilled.

Liquidity risk management

The Group's Financial Policy Framework

Liquidity risk is the risk that the Group is unable to meet ongoing financial obligations on time. In order to handle seasonal volatility in cash requirements, the Group must always have committed credit facilities or cash and marketable securities available equivalent to 15 per cent or more of revenue. The rolling 12-month cash-flow forecasts are the basis for risk assessment in liquidity risk management.

The Group has the following undrawn committed credit facilities:	Dec 31, 2020	Dec 31, 2019
– Expiring after one year but within five years	23,698	13,593
– Expiring after five years	1,002	—
Total	**24,700**	**13,593**

Status at year-end

As of December 31, 2020, the Group had committed credit facilities and cash and marketable securities available of MSEK 94,790 (74,462) around 36 (27) per cent of revenue. The Group's liquidity is strong taking into account the maturity profile of the external borrowings, the balance of cash and cash equivalents, marketable securities and available credit facilities from banks.

The following table presents the maturity structure of the Group's financial assets and liabilities. The figures shown are contractual undiscounted cash flows based on the contract date, when the Group is liable to pay or eligible to receive, and include both interest and nominal amounts.

	2020				2019			
	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years
Assets								
Derivative assets	—	—	1,261	16	—	—	290	—
Other non-current assets[1)]	—	—	2,950	483	—	—	2,427	558
Total non-current financial assets	—	—	**4,211**	**499**	**–**	**–**	**2,717**	**558**
Accounts receivable	14,062	820	—	—	12,134	1,144	—	—
Derivative assets	210	508	—	—	51	70	—	—
Other current assets[1)]	1,989	6,344	—	—	995	4,832	—	—
Marketable securities	2,639	5,448	—	—	1,134	2,384	—	—
Cash and cash equivalents	62,003	—	—	—	57,351	—	—	—
Total current financial assets	**80,903**	**13,120**	—	—	71,665	8,430	—	—
Total financial assets	**80,903**	**13,120**	**4,211**	**499**	**71,665**	**8,430**	**2,717**	**558**
Liabilities								
Bonds[2)]	143	372	16,156	10,228	134	516	24,014	5,318
Liabilities to credit institutions[2)]	—	—	39,836	223	—	—	39,775	642
Derivative liabilities	—	—	1,199	—	—	—	2,860	—
Other non-current interest-bearing liabilities[3)]	—	—	2,975	1,756	—	—	3,050	1,942
Other non-current liabilities[1)]	—	—	4,658	5	—	—	2,535	6
Total non-current financial liabilities	**143**	**372**	**64,824**	**12,212**	**134**	**516**	**72,234**	**7,908**
Bonds[2)]	—	7,123	—	—	—	—	—	—
Liabilities to credit institutions[2)]	487	4,475	—	—	622	5,679	—	—
Accounts payable	45,706	1,184	—	—	43,501	1,507	—	—
Derivative liabilities	1,076	744	—	—	1,143	2,311	—	—
Other current interest-bearing liabilities[3)]	281	879	—	—	258	815	—	—
Other current liabilities[1)]	4,693	7,541	—	—	5,489	8,480	—	—
Total current financial liabilities	**52,243**	**21,946**	—	—	**51,013**	**18,792**	**–**	**–**
Total financial liabilities	**52,386**	**22,318**	**64,824**	**12,212**	**51,147**	**19,308**	**72,234**	**7,908**

1) Pre-payments as well as statutory receivables and liabilities are excluded.
2) Including interest.
3) As of 2019 maturity of lease liabilities under IFRS 16 are included in the table.

Interest rate risk management

Changes in interest rates will impact the Group's net financial income/expense and the value of financial assets and liabilities. The return on cash and cash equivalents, short-term investments and credit facilities are impacted by changes in interest rates. The exposure can be either direct from interest-bearing debt or indirect through leases or other financing arrangements.

The Group´s Financial Policy Framework

According to the policy, the interest rate risk in the Group's net debt position has a benchmark duration of 12 months. The policy allows a deviation of –9/+12 months from the benchmark. The interest rate strategy is proposed by Group Treasury and approved by the CFO. The hedging strategy is revised at least quarterly.

Status at year-end

As of December 31, 2020, the Group's interest-bearing assets consisted of cash in the form of cash in banks, short-term deposits, and commercial papers. The average fixed interest term on these assets was less than one month. The average fixed interest term on debt was around 24 months. At year-end the duration of the net debt position was 24 (24) months. The average cost of borrowing was 2.0 (2.2) per cent.

To manage interest rate risk, the Group uses interest rate swaps.

The table below shows the estimated effect in MSEK of a parallel shift of the interest curves up or down by one percentage point (100 basis points) on all external loans and interest rate swaps.

Interest rate sensitivity, effect on net financial income/expense	2020	2019
Market rate +1%	262	–14
Market rate –1%	–275	–1

Hedge accounting – fair value hedge

Hedge accounting can be applied for hedging of changes in the fair value of fixed rate loans (bank loans or issued bonds) due to changes in market interest rates. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged loan attributable to the hedged risk. The carrying amount of the hedged loan is adjusted for the gain or loss attributable to the hedged risk, i.e. the loan is recognised at amortised cost with a fair value adjustment. Both gains and losses relating to interest rate swaps and changes in the fair value of hedged fixed rate loans attributable to interest rate risk are recognised in the income statement within financial expenses.

The Group hedges the fair value risk of the MEUR 500 bond issued in May 2016 by using interest rate swaps, the bond with fixed interest payments has been swapped into floating interest. Changes in fair value of the interest component of the bond is hedged through a fair value hedge by means of interest rate swaps. The carrying amount of the bond is MSEK 5,017 (5,229). A fair value adjustment related to the interest component of the bond is included in the carrying amount of the bond. The fair value component of the carrying amount is MSEK 7 (20).

Commodity price risk management

Commodity price risk is the risk that the cost of materials could increase as commodity prices rise in global markets. Changes in commodity prices impact the Group's cash flow and earnings.

Strategic commodity price risk arises from the procurement mix of commodities and is primarily managed through contracts with the suppliers using clauses or similar constructions and fixed prices with suppliers.

The Group's Financial Policy Framework

Forecasted cash flows in commodities for the coming forty-eight months can be hedged up to 70 per cent with adequate financial instruments. The hedging strategy is proposed by Group Treasury and approved by the CFO. The hedging strategy is revised at least quarterly.

Status at year-end

Raw materials

In 2020, the Group had raw material costs of approximately MSEK 17,369 (15,699). A one percentage point change in the prices of raw materials will impact operating income in the amount of around MSEK 105 (157).

The Group manages the risk of changes in copper prices in the forecasted copper consumption using forward and futures contracts.

Electricity

The Group manages the changes in prices for electricity by using forward contracts. Hedging is performed for electricity usage in the European factories and is managed under an advisory contract. The highly probable forecast transactions relating to electricity consumption that are hedged are expected to occur in any chosen calendar quarter during the next 48 months.

The hedging instruments used are bilateral OTC contracts.

A one percentage point change in the electricity spot price has an impact on other comprehensive income of MSEK 2 (3).

Hedge accounting – cash flow hedging of commodity price risk

Hedge accounting is applied for cash flow hedging of commodity price risk. Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting, i.e. the value of the hedging instrument that correspond to the value of forecasted commodity consumption, are recognised in other comprehensive income and accumulated in other reserves in equity. The gains and losses are then recognised in the income statement in the periods in which the hedged forecasted transaction effects the income statement. Any ineffectiveness in a hedge relationship is recognised in the income statement.

As of December 31, 2020, the cash flow hedge reserve related to commodity hedges, included in other reserves in shareholders' equity, amounted to MSEK 12 (31) before tax. Ineffectiveness affected net income for 2020 and amounts to –1 (—).

Fair value of derivatives for commodity hedging	2020	2019
Hedge reserve	12	31
Recognised in other comprehensive income	**12**	**31**
Non hedge accounting	—	—
Recognised in other operating income and expenses	—	**–**
Total fair value	**12**	**31**

Market risk

The value of the shares in AB Volvo is continuously affected by market risk. As a consequence of its strategic value fair value, changes are recognised in other comprehensive income.

Credit risk management

The Group's credit risk can be divided in financial credit risk and operational credit risk. These risks are described in the following sections.

Financial counterparty credit risk

The Group's Financial Policy Framework

Credit risk on financial transactions is the risk that the Group will incur losses as a result of non-payment by counterparties related to the Group's bank accounts, investments of cash surplus, bank deposits or derivative transactions. All investments must meet the requirements of low credit risk, high liquidity and exposure to any single counterparty is limited. All counterparties in investments and derivative transactions must have a credit rating of A- or higherfrom one of the well-established credit rating institutions. ISDA agreements are required for counterparties with which derivative contracts are entered into. Limits are established according to the counterparty's credit rating and the extent to which limits are reached is monitored for the Group's treasury counterparties. Deposits are diversified among banks. Subsidiaries' bank balances are diversified in order to limit credit risk.

Status at year-end

As of December 31, 2020, the maximum amount exposed to financial credit risk amounts to 72 085 (61 280) this encompass cash and cash equivalents of MSEK 62,003 (57,351), investments in marketable securities of MSEK 8,087 (3,518) and fair value of outstanding derivative assets of MSEK 1,995 (411). The maximum amount exposed to credit risk for financial instruments is best represented by their fair values. See the table "Financial assets and liabilities by category" in this note.

No financial assets and liabilities are offset in the balance sheet. Derivative contracts are subject to master netting agreements (ISDA). No collateral has been received or posted. The table below shows derivatives covered by master netting agreements (ISDA).

Outstanding net position for derivative instruments	Gross	Offset in balance sheet	Net in balance sheet	Master netting agree-ments	Net position
December 31, 2020					
Derivative assets	1,995	—	1,995	–1,384	611
Derivative liabilities	3,019	—	3,019	–1,384	1,635
December 31, 2019					
Derivative assets	411	—	411	–250	161
Derivative liabilities	6,314	—	6,314	–250	6,064

Operational credit risk

The operational credit risk arises from accounts receivable. For the risk associated with customer and dealer financing, the objective is to have a sound and balanced credit portfolio and to engage in credit monitoring by means of detailed procedures, which include follow-up and repossession. In cases where the credit risk is considered unsatisfactory, a letter of credit or other instruments are required. The maximum amount exposed to credit risk is the carrying amount of accounts receivable, see the table "Financial assets and liabilities by category" in this note. For quantification of credit risk in accounts receivable, see Note 19 – Accounts receivable and other current assets.

Financial Instruments – Classification and measurement

Financial instruments are divided into three levels depending on the market information available.

- Level 1: Instruments are measured 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 measured based on quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3: Instruments are measured based on unobservable inputs for the assets or liabilities.

Most derivative, financial instruments and commercial papers that the Group held as of December 31, 2020 belong to level 2. Amounts invested in other long-term securities amounts to MSEK 35,003 (26,652), of which MSEK 33,762 (26,356) was holdings categorised as level 1 financial instruments and MSEK 1,241 (296) as level 3 financial instruments. The most substantial level 3 investment is in the form of unlisted share warrants in the listed company Luminar and so-called earn-out share rights in the same company, a financial investment received as part of the listing of the company. The valuation of these instruments is based on:

- The probability of whether the Group will fulfill contractual terms and when it would do this
- The risk-free interest rate
- Volatility of the underlying share price

Other long-term securities holdings are included in the form of equity instruments in level 1, the amounts refer to the shares in AB Volvo and Luminar. The Luminar stock became listed in December 2020. Before the listing, the equity holdings in Luminar were categorised as a level 3 instrument but have now become a level 1 instrument. No other transfers between the levels of the fair value hierarchy have occurred during the period. The fair value of share warrants and earn-out share rights in the level 3 category of financial instruments as per December 31, 2020 amounts to MSEK 874 (—) and the financial income of the same instruments recognised in the income statement is MSEK 874 (—). The share warrants as of December 31, 2020 were deep in the money with a strike price well under the current list price. The total fair value change amounted to the recognised value. There are also other holdings of non-listed equity instruments that are categorised as level 3 and they are valued at fair value. They are revalued when there is information available indicating that the value has changed, for example when and if there has been a transaction in the instrument during the period. Geely also recognizes embedded derivatives as level 3 financial liabilitites. These are recognized at fair value through profit and loss and the valuation has been performed by an external party. These embedded derivatives were valued at 81,6 MEUR per December 31, 2020 and the change in 2020 was 62,5 MEUR.

Sensitivity analysis for warrants (MSEK)

	Likelihood of triggering event				
Volatility	**-10%**	**–5%**	**0%**	**5%**	**10%**
70%	605	654	703	752	801
75%	607	656	705	754	803
80%	608	658	707	757	806
85%	611	660	710	759	809
90%	613	662	712	762	811

Fair value estimation

The table below presents the Group's financial assets and liabilities that are measured at fair value.

December 31, 2020	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows	—	1,907	—	1,907
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	4	—	4
Derivative instruments for hedging of interest rate risk	—	42	—	42
Commodity derivatives	—	42	—	42
Commercial papers[1)]	—	1,526	—	1,526
Other long-term securities holdings	33,762	—	1,241	35,003
Total assets	**33,762**	**3,521**	**1,241**	**38,524**
Derivative instruments for hedging of currency risk in future commercial cash flows	—	1,341	—	1,341
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	1,486	—	1,486
Derivative instruments for hedging of interest rate risk	—	162	—	162
Commodity derivatives	—	30	—	30
Total liabilities	—	**3,019**	—	**3,019**

December 31, 2019	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows	—	224	—	224
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	114	—	114
Derivative instruments for hedging of interest rate risk	—	31	—	31
Commodity derivatives	—	42	—	42
Commercial papers[1]	—	7,321	—	7,321
Other long-term securities holdings	26,356	—	296	26,652
Total assets	**26,356**	**7,732**	**296**	**34,384**
Derivative instruments for hedging of currency risk in future commercial cash flows	—	5,687	—	5,687
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	554	—	554
Derivative instruments for hedging of interest rate risk	—	62	—	62
Commodity derivatives	—	11	—	11
Total liabilities	**–**	**6,314**	**–**	**6,314**

1) Of which MSEK 750 (1,101) is reported as marketable securities in the balance sheet and MSEK 776 (6,220) as cash and cash equivalents.

	Financial instruments measured at fair value through the income statement							
Financial assets and liabilities by category	Instruments held for trading	Derivatives used in hedge accounting	Financial liabilities	Financial assets carried at fair value	Financial assets carried at amortised cost	Other liabilities	**Total**	Fair value
December 31, 2020								
Other long-term securities holdings	2,449	—	—	32,554	—	—	35,003	35,003
Other non-current assets[1]	—	—	—	—	3,433	—	3,433	3,433
Accounts receivable	—		—	—	14,882	—	14,882	14,882
Derivative assets	181	1,814	—	—	—	—	1,995	1,995
Other current assets[1]	—	—	—	—	8,334	—	8,334	8,334
Marketable securities	750	—	—	—	7,337	—	8,087	8,087
Cash and cash equivalents	776	—	—	—	61,227	—	62,003	62,003
Total financial assets	**4,156**	**1,814**	—	**32,554**	**95,213**	—	**133,737**	**133,737**
Bonds and liabilities to credit institutions[2]	—	—	—	—	—	75,459	75,459	76,876
Other non-current liabilities[1]	—	—	154	—	—	4,509	4,663	4,663
Accounts payable	—	—	—	—	—	46,890	46,890	46,890
Derivative liabilities	1,796	1,223	—	—	—	—	3,019	3,019
Other current liabilities[1]	—	—	—	—	—	12,234	12,234	12,234
Total financial liabilities	**1,796**	**1,223**	**154**	—	—	**139,092**	**142,265**	**143,682**
December 31, 2019								
Other long-term securities holdings	—	—	—	26,652	—	—	26,652	26,652
Other non-current assets[1]	—	—	—	—	2,985	—	2,985	2,985
Accounts receivable	—	—	—	—	13,278	—	13,278	13,278
Derivative assets	147	264	—	—	—	—	411	411
Other current assets[1]	—	—	—	—	5,827	—	5,827	5,827
Marketable securities	1,101	—	—	—	2,417	—	3,518	3,518
Cash and cash equivalents	6,219	—	—	—	51,132	—	57,351	57,351
Total financial assets	**7,467**	**264**	—	**26,652**	**75,639**	—	**110,022**	**110,022**
Bonds and liabilities to credit institutions[2]	—	—	—	—	—	73,470	73,470	74,930
Other non-current liabilities[1]	—	—	122	—	—	2,420	2,542	2,542
Accounts payable	—	—	—	—	—	45,008	45,008	45,008
Derivative liabilities	624	5,690	—	—	—	—	6,314	6,314
Other current liabilities[1]	—	—	—	—	—	13,945	13,945	13,945
Total financial liabilities	**624**	**5,690**	**122**	—	—	**134,843**	**141,279**	**142,739**

1) Pre-payments as well as statutory receivables and liabilities are excluded.
2) The carrying amount of the bonds is presented above including a fair value adjustment amounting to MSEK 7 (20), which relates to the fair value hedge, see Accounting principles. The fair value of the bonds is estimated based on level 1 inputs.

The carrying amount essentially equals the fair value for all current items.

For an aging analysis of accounts receivable, see Note 19 – Accounts receivable and other current assets. For an aging analysis regarding liabilities to credit institutions, see the section on funding and liquidity risk management in this note. Accounts payables are for the most part due within 60 days. Geely also recognizes embedded derivatives as level 3 financial liabilities. These are recognized at fair value through profit and loss and the valution has been performed by an external party. The fair value change amounted to MEUR 62,5 and as of 31 Dec 2020 the fair value of these derivatives were MEUR 81,6. The valuation of these embedded derivative is almost only due to the underlying change of market value of Volvo AB shares.

Nominal amounts and fair values of derivative instruments	**Dec 31, 2020** Nominal amount	**Dec 31, 2020** Fair value	Dec 31, 2019 Nominal amount	Dec 31, 2019 Fair value
Derivative instruments for hedging of currency risk related to financial assets and liabilities				
Foreign exchange swaps, forward contracts and currency options				
– receivable position[1]	1,152	5	8,237	114
– payable position[2]	30,513	–1,486	17,250	–554
Subtotal	**31,665**	**–1,481**	**25,487**	**–440**
Derivative instruments for hedging of currency risk in future commercial cash flows				
Foreign exchange swaps and forward contracts				
– receivable position[1]	39,660	1,785	14,409	221
– payable position[2]	32,094	–1,194	64,763	–5,679
Currency options				
– receivable position[1]	4,297	121	732	3
– payable position[2]	6,220	–147	1,465	–8
Subtotal	**82,271**	**565**	**81,369**	**–5,463**
Derivative instruments for hedging of interest rate risk				
Interest rate swaps				
– receivable position[1]	7,518	42	7,774	31
– payable position[2]	7,033	–162	5,228	–62
Subtotal	**14,551**	**-120**	**13,002**	–31
Derivative instruments for hedging of commodity price risk				
Forward contracts				
– receivable position[1]	157	42	494	42
– payable position[2]	184	–30	127	–11
Subtotal	**341**	**12**	**621**	**31**
Total	**128,828**	**-1,024**	**120,479**	**–5,903**

1) Financial instruments included in the balance sheet under other non-current assets and other current assets.
2) Financial instruments included in the balance sheet under other non-current liabilities and other current liabilities.

The table below shows how gains and losses as well as interest income and expenses have affected the income statement broken down by category of financial instruments.

Net gains/losses, interest income and expenses related to financial instruments	**2020**			2019		
Recognised in operating income	Gains/ losses	Interest income	Interest expenses	Gains/ losses	Interest income	Interest expenses
Financial assets and liabilities at fair value through the income statement						
Derivative instruments for hedging of currency and commodity risk in future commercial cash flows rerouted from the hedge reserve, including time value in options and cross currency options	–3,335	—	—	–3,537	—	—
Electricity derivatives	—	—	—	—	—	—
Financial assets carried at amortised cost, other financial liabilities						
Accounts receivable/accounts payable[1),2)]	–1,001	—	—	540	—	—
Effect on operating income	**–4,336**	—	—	**–2,997**	**–**	**–**
Recognised in financial items						
Financial assets and liabilities at fair value through the income statement						
Derivative instruments for hedging of currency risk related to financial assets and liabilities	–1,073	—	—	156	—	—
Derivative instruments for hedging of interest rate risk	–500	17	—	–107	15	—
Financial liabilities at fair value through profit and loss	–32	—	—	17	—	—
Financial assets at fair value through profit and loss	1,948	—	—	—	—	—
Marketable securities	–133	37	—	24	41	—
Financial assets carried at amortised cost, other financial liabilities						
Financial assets carried at amortised cost	–384	—	—	241	—	—
Cash and cash equivalents[1]	–1,094	378	—	393	474	—
Other financial liabilities including currency effects[1]	3,086	—	–1,475	–1,261	—	–1,708
Effect on financial items	**1,818**	**432**	**–1,475**	**-537**	**530**	**–1,708**

1) The total income and expense from items that are not measured at fair value through income statement amounts to MSEK 3,464 (1,648) and MSEK –3,954 (–2,969) respectively.
2) Unrealised and realised foreign exchange effect on accounts receivable and accounts payable.

NOTE 21 – MARKETABLE SECURITIES AND CASH AND CASH EQUIVALENTS

ACCOUNTING PRINCIPLES

Marketable securities

Marketable securities are financial instruments that can be quickly converted into cash. The maturities tend to be less than one year. In the Group, marketable securities comprise of interest-bearing investments with a term of more than three months from the acquisition date.

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances as well as short-term investments in the form of commercial papers with a maturity of up to 90 days from the date of acquisition, which are subject to an insignificant risk of fluctuations in value.

Marketable securities	Dec 31, 2020	Dec 31, 2019
Commercial papers	750	1,101
Time deposits in banks	7,337	2,417
Total	**8,087**	**3,518**

Cash and cash equivalents	Dec 31, 2020	Dec 31, 2019
Cash in banks	41,579	35,212
Time deposits in banks	19,648	15,919
Commercial papers	776	6,220
Total[1]	**62,003**	**57,351**

1) MSEK 96 (—) have been reclassified to asset held for sale. For more information, see Note 33 – Assets and liabilities held for sale.

Cash and Cash equivalents includes MSEK 2,458 (2,537) where limitations exist, mainly liquid funds in certain countries where exchange controls or other legal restrictions apply. It is not possible to immediately use the liquid funds in other parts of the Group, however there is normally no limitation on use in the Group's operation in the respective country.

NOTE 22 – EQUITY

ACCOUNTING PRINCIPLES

Equity

An equity instrument is any contract that constitutes a residual interest in the net assets of an entity. The subsidiary Volvo Car AB (publ.) has issued preference shares recognised as equity instruments. Preference shares are equity instruments as long as fundamental criteria for classification as equity are met. Preference shares have a preferential status compared to common shares, in terms of priority in receiving dividends and prioritising to net assets in case of liquidation. However, preference shares are subordinated to financial liabilities.

Group contributions and unconditional shareholders' contributions

Distributed Group contributions to the main owner are recognised in equity, along with the tax effect. Group contributions received from the main owner and the tax effect on these contributions are recognised in equity in accordance with the principles for shareholders' contributions.

Unconditional shareholder' contributions received from the main owner are recognised in equity.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The subsidiary Volvo Car AB (publ.) has issued convertible preference shares. Based on the fact that there is no unconditional obligation for Volvo Car AB (publ.) to make any payments to the investors during the contract period, the instruments are classified as equity instruments.

The preference shares constitute equity instruments, since payment of dividends is subject to a decision by a general meeting of the shareholders and a possible redemption (exercising of an embedded call option) of preference shares is on Volvo Car AB's (publ.) initiative. Thus, it is discretionary for the company whether payment of dividends or redemption of these preference shares occurs and consequently no contractual obligation exists to pay out funds. In addition, in the event of conversion of preference shares into ordinary shares, the conversion ratio is fixed at 1:1. A conversion of preference shares to ordinary shares is subject to a decision by the Annual General Meeting.

The share capital consists of 100,000 common shares with a par value of SEK 1. Each share carries one vote, and entitles the holder to a dividend that is determined in due course. All issued shares are fully paid for.

The share premium relates to issue in kind attributable to Zhejiang Geely Holding Group Co., Ltd's acquisition in year 2010.

The share premium also includes capital received (reduced by transaction costs) in excess of par value of issued capital in the subsidiary Volvo Car AB (publ.). In 2016, a directed issue of 500,000 preference shares was made in the subsidiary, whereby MSEK 5,000 was added to the equity of Volvo Car Group (and to Geely Sweden Holdings) and classified as equity instruments. The issue was directed to external investors, whereby a 1 per cent non-controlling interest, in terms of number of shares, was created in Geely Sweden Holdings (for more detailed information, see Note 23 – Equity in the Annual report 2016). In 2019 the shares were redeemed.

In 2019, a directed new issue of 1,138,794 convertible preference shares were issued in the subsidiary Volvo Car AB (publ.), whereby MSEK 5,011 (less transaction costs) was added to the equity of Volvo Car Group (and to Geely Sweden Holdings). The issue was directed to external investors, whereby a 2.2 per cent non-controlling interest, in terms of number of shares, was created in Geely Sweden Holdings.

Other contributed capital consists of an unconditional shareholders' contribution from Shanghai Geely Zhaoyuan International Investment Co., Ltd.

The currency translation reserve comprises exchange rate differences of hedge instruments from net investments in foreign operations and exchange rate differences resulting from the translation of financial statements of foreign operations that prepared their financial statements in a currency other than the Group's reporting currency. The parent company and the Group present their financial statements in SEK.

The other reserve consists of the change in fair value of cash flow hedging instruments in cases where hedge accounting is applied and the change in fair value of other long-term securities holdings (holdings in AB Volvo shares). See Note 20 – Financial risks and financial instruments for further information.

Retained earnings comprises net income for the year and preceding years as well as remeasurements of post-employment benefits. Retained earnings include the effects of business combinations under common control within Geely Group, transactions with non-controlling interests and dividend to shareholders.

Non-controlling interests mainly refers to the share of equity that belongs to Zhejiang Geely Holding Group Co., Ltd. without a controlling influence. The Group holds 50 per cent of the equity in the following companies; Daqing Volvo Car Manufacturing Co., Ltd, Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd, Shanghai Volvo Car Research and Development Co., Ltd. and has the decision-making power over the operation. In the consolidated financial statements, these companies are classified as subsidiaries and fully consolidated with a non-controlling interest of 50 per cent. The non-controlling interests increased during the year by MSEK 122 (657) due to the directed issue of preference shares in the subsidiary Volvo Car AB (publ.) at a group of Swedish institutional investors. In 2019, the non-controlling interest decreased due to a dividend paid of MSEK — (1,381) from Daqing Volvo Car Manufacturing Co., Ltd. to its shareholder Zhejiang Geely Holding Group Co., Ltd.

At year end 2020, non-controlling interests amounted to MSEK 12,309 (10,950).

Total equity consists of the equity attributable to the owners of the parent company and non-controlling interests. At year-end 2020, the Group's total equity amounted to MSEK 74,106 (61,654).

NOTE 23 – POST-EMPLOYMENT BENEFITS

ACCOUNTING PRINCIPLES

Pension benefits

The Group has various schemes for post-employment benefits, mainly relating to pension plans. Other benefits may in some locations include disability, life insurance and health benefits. Pension plans are classified either as defined contribution plans or defined benefit plans. The Group has both defined contribution plans and defined benefit plans for qualifying employees in some subsidiaries and the largest plans are in Sweden and Belgium.

Under a defined contribution plan, the Group pays fixed contributions into a separate external legal entity and has no legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. The contributions are recognised as employee benefit expenses in the income statement when earned by the employee. Some defined contribution plans combine the promise of periodic payments with a guaranteed minimum return on investments. These plans are accounted for as defined benefit plans.

A defined benefit plan is a pension plan that defines the amount of post-employment benefits an employee will receive upon retirement, usually depending on one or more factors such as age, years of service and compensation. For funded defined benefits plans, plan assets have been separated, with the majority invested in pension funds. The net pension provision or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets.

The calculation of the present value of defined benefit pension obligations is performed according to the projected unit credit method. The calculation is performed by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, or when these are not available, government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The discount rate for the Swedish pension obligation is determined by reference to mortgage bonds. The most important actuarial assumptions are stated below.

Actuarial gains and losses arising from changes in actuarial assumptions and adjustments based on experience are charged or credited to other consolidated comprehensive income in the period in which they arise. Past service costs are recognised immediately in the income statement when the settlement occurs.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits and (b) when the entity recognises costs for a restructuring that involves payment of termination benefits.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The value of defined benefit obligations is determined through actuarial calculations performed by independent actuaries. The calculations are based on various assumptions and estimates, for instance with regards to the discount rate, future salary increases, inflation, mortality rates and demographic conditions. Changes in these assumptions affect the calculated value of the post-employee benefits obligations. The discount rate, which is the most critical assumption, is based on market return on high-quality corporate or government bonds that are denominated in the currency in which the benefits will be paid and with maturities corresponding to the related pension liability. The discount rate for the Swedish pension obligation is determined by reference to mortgage bonds. A decrease in the discount rate increases the present value of post-employee benefits obligations while an increase in the discount rate has the opposite effect.

A description of the substantial pension schemes within the Group is presented below.

Sweden

In Sweden, the Group has six retirement plans of which three are funded. The largest plan overall is the Swedish ITP 2 plan which is a collectively agreed pension plan for white collar employees. ITP 2 is a final salary-based plan. The Group's defined benefit plans are secured in three ways: as a provision in the balance sheet, assets held in separate pension funds or funded through insurance payments. The "funded through insurance payments" plans are defined benefit plans accounted for as defined contribution plans. In Sweden, these plans are secured with the mutual insurance company Alecta.

The portion secured through insurance with Alecta is a defined benefit plan for several employers and is reported according to a pronouncement by the Swedish Financial Reporting Board, UFR 10. For 2020, the Group did not have access to the information to report its proportionate share of the plan's obligations, assets under management and cost, that would make it possible to report this plan as a defined benefit plan. The Group estimates it will pay premiums of around MSEK 150 to Alecta in 2021. The Group's share of the total saving premiums for ITP2 in Alecta as at December 31, 2020 amounted to 0.14 (0.28) per cent and the Group's share of the total number of active policy holders amounted to 1.46 (1.47) per cent.

The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance obligations calculated in accordance with Alecta's actuarial methods and assumptions, which do not conform to IAS 19. The collective funding ratio is normally allowed to vary between 125 and 175 per cent. If the consolidation level falls short or exceeds the normal interval one measure may be to increase the contract price for new subscriptions and expand existing benefits or introduce premium reductions. At year end 2020, the consolidation level amounted to 148 (148) per cent.

In case local legal requirements exist, funded or unfunded plans are credit insured with an external party.

Belgium

In Belgium, the Group has three retirement – indemnity plans that are all funded. All three are based on the collective labour agreement applicable to the company. The pension plan for white collar employees and the closed plan for blue collar employees who were in service before 2009 are defined benefit plans. The benefits are based on the final salary and seniority within the company. The pension plan for blue collars who are in service as from 2009 is a defined contribution plan. The pension obligations are secured through a transfer of the required funds to a separate pension fund. The funding of the obligations under these defined benefit and defined contribution pension plans is done externally through a number of pension funds and insurance contracts.

In Belgium, the Group also has early retirement arrangements (termination benefits – bridge plans) as well as seniority premiums (other long-term benefits). The early retirement arrangements are unfunded and the seniority premiums are funded.

Summary of provision for post-employment benefits

The provisions for post-employment benefits are recognised in the balance sheet as follows:

	Dec 31, 2020	**Dec 31, 2019**
Post-employment benefits	14,187	12,583
Other provisions (Note 24)	379	381
Closing balance	**14,566**	**12,964**

The tables below show the Group's provision for post-employment benefits, the assumptions used to calculate the value of these provisions and the plan assets related to these provisions, as well as the amounts recognised in the income statement. The Group's reported pension provision amounts to MSEK 14,566 (12,964) in total, which includes endowment insurances and similar undertakings amounting to MSEK 379 (381) in respect of defined premium pension plans in Sweden.

Financial year ending on	Total Dec 31, 2020	of which Sweden Dec 31, 2020	of which Belgium Dec 31, 2020	Total Dec 31, 2019	of which Sweden Dec 31, 2019	of which Belgium Dec 31, 2019
Amounts recognised in the statement of financial position						
Defined benefit obligation	29,093	20,912	4,297	27,345	19,145	4,227
Fair value of plan assets	14,906	9,239	3,116	14,762	8,873	3,046
Funded status	**14,187**	**11,673**	**1,181**	**12,583**	**10,272**	**1,181**
Net provision (asset) as recognised in the balance sheets	**14,187**	**11,673**	**1,181**	**12,583**	**10,272**	**1,181**
Principal actuarial assumptions						
Weighted average assumptions to determine benefit obligations						
Discount rate, %	1.34	1.45	0.73	1.60	1.70	0.85
Rate of salary increase, %	2.98	3.00	2.91	2.97	3.00	2.91
Rate of price inflation, %	1.72	1.60	1.75	1.73	1.60	1.75
Rate of pension indexation, %	1.73	1.60	N/A	1.73	1.60	N/A

The actuarial assumptions are the most significant assumptions applied when calculating the value of a defined benefit pension plan. The Group determines the discount rate based on AA-rated corporate bonds and mortage bonds that match the duration of the obligations. If no such corporate bonds and mortgage bonds are available, government bonds are used.

Inflation assumptions are based on a combination of central banks targets, implicit market expectations and long-term analyst forecasts.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. Mortality assumptions for Sweden are based on the DUS14 (white collar) mortality study, and the DUS14 (white collar) mortality table is generational. Mortality assumptions in Belgium is not significant, since there are lump sum payments .

The actuarial assumptions are reviewed annually by the Group and modified when deemed appropriate to do so.

Financial year ending on	Total Dec 31, 2020	of which Sweden Dec 31, 2020	of which Belgium Dec 31, 2020	Total Dec 31, 2019	of which Sweden Dec 31, 2019	of which Belgium Dec 31, 2019
Change in defined benefit obligation						
Defined benefit obligation at end of prior year	27,345	19,145	4,227	22,146	15,064	3,784
Service cost	1,030	793	183	670	688	–58
Interest expense	430	323	35	542	373	70
Cash flows	–626	–310	–119	–571	–291	–129
Remeasurements	1,469	961	158	4,284	3,311	490
Effect of changes in foreign exchange rates	–555	—	–187	274	—	70
Defined benefit obligation at end of year	**29,093**	**20,912**	**4,297**	**27,345**	**19,145**	**4,227**
Change in fair value of plan assets						
Fair value of plan assets at end of prior year	14,762	8,873	3,046	13,721	8,455	2,749
Interest income	236	151	27	346	211	53
Cash flows	–57	—	67	–21	—	61
Remeasurements	383	215	112	477	207	132
Effect of changes in foreign exchange rates	–418	—	–136	239	—	51
Fair value of plan assets at end of year	**14,906**	**9,239**	**3,116**	**14,762**	**8,873**	**3,046**
Components of defined pension cost						
Service cost	1,030	793	183	670	688	–58
Net interest cost	194	172	8	196	162	17
Remeasurements of Other long term benefits	95	—	94	28	—	25
Administrative expenses and taxes	25	—	21	24	—	21
Total pension cost for defined benefit plans	**1,344**	**965**	**306**	**918**	**850**	**5**
Pension cost for defined contribution plans	3,306	2,790	272	3,317	2,748	271
Total pension cost recognised in P&L	**4,650**	**3,755**	**578**	**4,235**	**3,598**	**276**
Remeasurements (recognised in other comprehensive income)	992	745	–47	3,780	3,105	333
Effect of changes in demographic assumptions	–12	—	—	13	—	—
Effect of changes in financial assumptions	1,422	1,009	40	3,617	2,756	388
Effect of experience adjustments	–36	–49	24	625	555	76
Return on plan assets (excluding interest income)	–382	–215	–111	–475	–206	–131
Total defined benefit cost recognised in P&L and OCI	**2,336**	**1,710**	**259**	**4,698**	**3,955**	**338**

	Total	of which Sweden	of which Belgium	Total	of which Sweden	of which Belgium
Financial year ending on	**Dec 31, 2020**	**Dec 31, 2020**	**Dec 31, 2020**	Dec 31, 2019	Dec 31, 2019	Dec 31, 2019
Net defined benefit provision (asset) reconciliation						
Net defined benefit provision (asset)	12,583	10,272	1,181	8,425	6,609	1,035
Defined benefit cost included in the income statement	1,344	965	306	918	850	5
Total remeasurements included in OCI	992	745[1)]	–47	3,780	3,105	333
Cash flows	–595	–309	–208	–576	–292	–211
Employer contributions	–227	—	–187	–225	—	–180
Employer direct benefit payments	–368	–309	–21	–331	–292	–31
Effect of changes in foreign exchange rates	–137	—	–51	36	—	19
Net defined benefit provision (asset) as of end of year	**14,187**	**11,673**	**1,181**	**12,583**	**10,272**	**1,181**
Defined benefit obligation by participant status						
Actives	16,124	11,684	3,586	16,982	11,807	3,589
Vested deferreds	6,793	4,756	502	4,854	3,391	458
Retirees	6,176	4,472	209	5,509	3,947	180
Total	**29,093**	**20,912**	**4,297**	**27,345**	**19,145**	**4,227**

1) Whereof MSEK 596 is an adjustment due to changes in the actuarial calculation method related to the Swedish ITP2 plan.

Plan assets

			Of which with a quoted market price	
Fair value of plan assets	**2020**	2019	**2020**	2019
Cash and cash equivalents	2,481	479	2,481	479
Equity instruments	2,114	1,949	2,011	1,949
Debt instruments	5,423	2,793	4,780	2,793
Real estate	9	138	9	9
Investment funds	3,077	7,824	3,072	7,343
Other	1,802	1,579	1,622	1,562
Total	**14,906**	**14,762**	**13,975**	**14,135**

Responsibility for the management of several pension plans rest with the Group and pension trusts have been set up in different countries. The assets are held by long-term employee benefit trusts that are legally separated from the Group.

The assets are available to fund employee benefits only. Sweden, Belgium and United Kingdom have the largest pension trusts. The pension trusts are managed in accordance with a capital preservation strategy where the risk exposure is adjusted accordingly. The investment strategies are long term and the distribution of assets ensures that investment portfolios are well diversified. The capital is managed in accordance with the investment policies of each pension trust. Continuous monitoring is performed by the trustees monthly to ensure that capital is allocated and managed according to the investment policies. In Sweden the minimum funding level is determined by PRI Pensionsgaranti.

The Group has a wholly-owned subsidiary, Volvo Car Pension Management AB ("VCPM") to monitor and review the Group's pension fund assets.

The actual return on plan assets amounts to MSEK 619 (824).

Risks

There are mainly three categories of risks related to defined benefit obligations and pension plans. The first category relates to risks affecting the actual pension payments. Increased longevity and inflation of salary and pensions are the main risks that may increase future pension payments thereby, increase the pension obligations. The second category relates to investment return. Pension plan assets are invested in a variety of financial instruments and are exposed to market fluctuations. A poor investment return may reduce the value of investments and render them insufficient to cover future pension payments. The final category relates to the discount rate used to measure the obligation and the plan assets. The discount rate used for measuring the present value of the obligation may fluctuate impand this impacts the valuation of the defined benefit obligation. The discount rate also impacts the value of the interest income and expense that is reported in financial items and service cost. The risk related to pension obligations, i.e. mortality exposure, discount rate and inflation, are monitored on an ongoing basis.

Sensitivity analysis on defined benefit obligation	Sweden	Belgium
Discount rate +0,5%	–2,200	–233
Discount rate –0,5%	2,521	262
Inflation rate +0,5 %	2,522	149
Inflation rate –0,5%	–2,200	–140

The weighted average duration of the obligation is 22.5 years for Sweden and 11.5 years for Belgium.

NOTE 24 – CURRENT AND OTHER NON-CURRENT PROVISIONS

ACCOUNTING PRINCIPLES

Provisions

Provisions are recognised in the balance sheet when a legal or constructive obligation exists as a result of a past event and it is deemed more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Warranties

Warranty provisions include the Group's cost of satisfying the customers with specific contractual warranties, as well as other costs not covered by standard contractual commitments. All warranty provisions are recognised at the sale of the vehicles or spare parts. The initial calculations of the reserves are based on historical warranty statistics considering known quality improvements, costs for remedy of defaults etc. The warranty provision recognised on the sale date is adjusted as campaign decisions for specific quality issues are made. On a quarterly basis the provisions are adjusted to reflect the latest available data such as actual amounts spend, exchange rates, discounting rates etc. The provisions are reduced by virtually certain warranty reimbursements from suppliers

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Provisions

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation on the balance sheet date. Provisions are regularly reviewed and adjusted as further information becomes available or circumstances change. If the effect of the time value of money is material, non-current provisions are recognised at present value by discounting the expected future cash flows at a pre-tax rate reflecting current market assessments of the time value of money. The discount rate does not reflect risks that are taken into consideration in the estimated future cash flow. Revisions to estimated cash flows (both amount and likelihood) are allocated as an operating expense. Changes to present value due to the passage of time and revisions of discount rates to reflect prevailing market conditions are recognised as a financial expense.

Warranties

The recognition and measurement of provisions for product warranties is generally connected with estimates. Estimated costs for product warranties are charged to cost of sales when the products are sold. Estimated warranty costs include contractual warranty, warranty campaigns (recalls and buy-backs) and warranty cover in excess of contractual warranty or campaigns, which is accepted as a matter of policy or normal practice in order to maintain a good business relations with the customer. Warranty provisions are estimated based on historical claims statistics and the warranty period. Quality index improvements based on historical patterns have been reflected in all categories of warranty. Refunds from suppliers that decrease the Group's warranty costs are recognised to the extent these are considered to be virtually certain, based on historical experience.

	Warranties	Other provisions	**Total**
Balance at 1 January 2019	**10,125**	**3,025**	**13,150**
Provided for during the year	9,039	4,992	**14,031**
Utilised during the year	–7,283	–3,265	**–10,548**
Reversal of unutilised amounts	–752	–511	**–1,263**
Translation differences and other	264	39	**303**
Balance at December 31, 2019	**11,393**	**4,280**	**15,673**
Of which current[1)]	4,972	3,385	**8,357**
Of which non-current[1)]	6,421	895	**7,316**

	Warranties	Other provisions	**Total**
Balance at 1 January 2020	**11,393**	**4,280**	**15,673**
Provided for during the year	9,335	4,003	**13,338**
Utilised during the year	–7,035	–3,157	**–10,192**
Reversal of unutilised amounts	–962	–288	**–1,250**
Translation differences and other	–710	–150	**–860**
Balance at December 31, 2020	**12,021**	**4,688**	**16,709**
Of which current[1)]	4,721	3,809	**8,530**
Of which non-current[1)]	7,300	879	**8,179**

1) MSEK 117 (—) of recognised current provisions and MSEK 2 (—) of recognised non-current provisions have been reclassified to liabilities held for sale. For more information, see Note 33 – Assets and liabilities held for sale.

NOTE 25 – CURRENT AND NON-CURRENT CONTRACT LIABILITIES TO CUSTOMERS

ACCOUNTING PRINCIPLES

Contract liabilities to customers are obligations related to contracts with customers. Changes in the income statement to those obligations are recorded in Revenue. The amounts include transactions where the Group either:

- has an obligation to transfer goods or services to the customer for which the Group has received consideration (or an amount of consideration is due). This is the case of Deferred revenue – extended service business, Deferred revenue – sales with repurchase commitment (recorded as an operating lease) as well as of Advance payments from customers;
- has transferred goods or services to the customer but a sales generated obligation is yet to be paid out or settled by the Group.

	Sales generated obligations	Deferred revenue – extended service business	Deferred revenue – sale with repurchase commitment	Advance payments from customers	Total
Balance at 1 January 2019	**14,723**	**3,952**	**1,414**	**1,606**	**21,695**
Provided for during the year[1)]	37,742	3,924	2,833	87,436	**131,935**
Utilised during the year[1)]	–34,860	–3,155	–3,336	–87,332	**–128,683**
Translation differences and other	509	195	12	25	**741**
Balance at 31 December 2019	**18,114**	**4,916**	**923**	**1,735**	**25,688**
Of which current	17,264	1,765	737	712	**20,478**
Of which non-current	850	3,151	186	1,023	**5,210**
Balance at 1 January 2020	**18,114**	**4,916**	**923**	**1,735**	**25,688**
Provided for during the year	48,559	2,788	2,700	85,383	**139,430**
Utilised during the year	–47,045	–2,544	–1,867	–84,454	**-135,910**
Translation differences and other	–1,268	–380	–36	–52	**–1,736**
Balance at 31 December 2020	**18,360**	**4,780**	**1,720**	**2,612**	**27,472**
Of which current	17,195	1,675	1,434	1,538	**21,842**
Of which non-current	1,165	3,105	286	1,074	**5,630**

1) Gross values have been updated for the comparative year, without any effect on the balance sheet line item.

Sales generated obligations
Sales generated obligations refer to all variable marketing programmes not effectuated on the balance sheet date, including discounts and residual value guarantees.

Deferred revenue – extended service business
The Group is on some markets offering service contracts to customers, normally referred to as Extended Service Business where the customer signs up for regular services paid for upfront.

Deferred revenue – sale with repurchase commitment
Deferred revenue – sale with repurchase commitment, is recognised as an operating lease contract, where the revenue is recognised over the contract period.

Advance payments from customers
Advance payments from customers are payments related to customer contracts where the Group has received a payment in advance of transfer of control over the product or service.

NOTE 26 – OTHER NON-CURRENT LIABILITIES

	Dec 31, 2020	Dec 31, 2019
Liabilities related to repurchase commitments	1,537	977
Derivative liabilities	1,199	2,860
Participation in joint venture company[1]	—	210
Other liabilities[2)3)]	3,042	2,829
Total	**5,778**	**6,876**

1) For further information, see Note 13 – Investments in joint ventures and associates.
2) In 2020, the internal profit elimination related to sale of licences and technology to the Polestar Shanghai Group was reclassified and the comparative figures have been adjusted accordingly. The effect in 2019 was MSEK 1,558 on other non-current liabilities.
3) MSEK 6 (—) of recognised other non-current liabilities have been reclassified to liabilities held for sale. For more information, see Note 33 – Assets and liabilities held for sale.

NOTE 27 – OTHER CURRENT LIABILITIES

	Dec 31, 2020	Dec 31, 2019
Accrued expenses and prepaid income[2]	10,815	10,313
Liabilities related to repurchase commitments	8,843	10,552
Personnel related liabilities[2]	8,061	5,653
VAT liabilities	4,993	2,591
Derivative liabilities	1,820	3,454
Other liabilities[1)2)]	3,075	3,319
Total	**37,607**	**35,882**

1) In 2020, the internal profit elimination related to sale of licences and technology to the Polestar Shanghai Group was reclassified and the comparative figures have been adjusted accordingly. The effect in 2019 was MSEK 245 on other current liabilities.
2) MSEK 406 (—) of recognised other current liabilities have been reclassified to liabilities held for sale. For more information, see Note 33 – Assets and liabilities held for sale.

NOTE 28 – PLEDGED ASSETS

	Dec 31, 2020	Dec 31, 2019
Shares in subsidiaries[1]	2,273	—
Restricted cash	236	330
Inventory	304	374
Real estate mortgages	175	168
Floating charges	251	205
Other pledged assets	632	679
Total	**3,871**	**1,756**

1) Geely Sweden Holdings AB has pledged the shares in the subsidiaries Geely Sweden Industry Investment AB and Geely Sweden Financials AB for external bank loans. The value of the share pledge on consolidated group level has been assessed at MSEK 2,273 (—).

NOTE 29 – CONTINGENT LIABILITIES

ACCOUNTING PRINCIPLES

When a possible obligation does not meet the criteria for recognition as a liability it may be disclosed as a contingent liability. These possible obligations derive from past events and their existence will be confirmed only when one or several uncertain future events, which are not entirely within the Group's control, take place or fail to take place. A contingent liability could also exist for a present obligation, due to a past event, where an outflow of resources is less likely (<50 per cent) or when the amount of the obligation cannot be reliably measured.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Legal proceedings

Companies within the Group may at times be involved in legal proceedings. Such proceedings may cover a range of issues in various jurisdictions. These include, but are not limited to, commercial disputes such as alleged breach of contract, insufficient supplies of goods or services, product liability, patent infringement or infringement of other intangible rights. Issues raised are often of a difficult and complex nature and often legally complicated. It is therefore difficult to predict the final outcome of such matters. Companies within the Group work closely with legal advisors and other experts in the various matters in each jurisdiction. A provision is made when it is determined that an adverse outcome is more likely than not and the amount of the loss can be reliably estimated. In instances where these criteria are not met, a contingent liability has been disclosed provided the risk qualifies as a contingent liability.

Other processes

The Group is as well, like other global companies, from time to time involved in processes that vary in scope and are at various stages with regards to, for instance, import duties and transfer prices. These processes are evaluated regularly and provisions are made when it is more likely than not that additional fees must be paid and the outcome can be reliably estimated. If it is not probable that the additional fees will be paid but the risk is more than remote, such amounts are disclosed as contingent liabilities.

	Dec 31, 2020	Dec 31, 2019
Guarantees to insurance company FPG	173	164
Legal claims	61	48
Other claims	410	423
Guarantee commitments[1]	507	666
Other contingent liabilities[2]	314	162
Total	**1,465**	**1,463**

1) Change for 2019, from MSEK 573 to MSEK 666.
2) Apart from the above contingent liabilities, there are other commitments and guarantees that are not recognised since the likelihood of an outflow of resources is very low.

NOTE 30 – CASH FLOW STATEMENTS

	2020	2019
Adjustments for items not affecting cash flow consist of:		
Capital gains/losses on sale of property, plant and equipment and intangible assets	1,249	388
Share of income in joint ventures and associates	61	1,051
Interest effect from measurement of repurchase obligations	–175	–187
Provision for variable pay	1,025	1,035
Provision for repurchase commitments	20	–23
Other provisions	2,704	—
Deferred income	–1,246	–3,011
Inventory impairment	169	171
Elimination of intra-group profit	1,132	891
IFRS 16 adjustments	–1,416	–1,354
Other non-cash items [1]	176	–494
Total	**3,699**	**–1,533**

1) Including CO_2 credits and changes in non-current assets and liabilities.

		Cash flows	Non-cash changes					
Change in net cash	**Jan 1, 2019**		Acquisition	Reclassi-fications	Foreign exchange movement	Fair value changes	Other non-cash changes	**Dec 31, 2019**
Cash and cash equivalents	41,053	15,327	—	—	971	—	—	57,351
Marketable securities	1,577	1,985	—	—	–47	3	—	3,518
Liabilities to credit institutions (non-current)	–29,734	–14,255	—	4,402	–485	—	–53	–40,125
Bonds[2]	–15,404	–12,483	—	—	45	–6	5	–27,843
Other non-current interest-bearing liabilities	–84	—	—	—	—	—	—	–84
Liabilities to credit institutions (current)	–16,016	15,553	—	–4,402	–628	—	11	–5,482
Net cash	**–18,608**	**6,127**	**–**	**–**	**–144**	**–3**	**–37**	**–12,665**
Change in net cash	**Jan 1, 2020**							**Dec 31, 2020**
Cash and cash equivalents[3]	57,351	7,564	—	–96	–2,816	—	—	62,003
Marketable securities	3,518	4,692	—		–94	–5	–24	8,087
Liabilities to credit institutions (non-current)	–40,125	115	–4,124	2,843	2,060	—	–100	–39,331
Bonds (non-current)[2][4]	–27,843	—	–5,209	7,419	946	—	–81	–24,768
Bonds (current)[2]	—	—	—	–7,470	420	13	–10	–7,047
Other non-current interest-bearing liabilities	–84	—	—			—	—	–84
Liabilities to credit institutions (current)	–5,482	5,416	–1,450	–2,843	46	—	7	–4,306
Net cash	**–12,665**	**17,787**	**–10,783**	**–147**	**562**	**8**	**–208**	**–5,446**

2) The bonds are presented above at amortised cost. The MEUR 500 fixed interest rate bond issued in May 2016, is hedged into a variable interest rate bond, hence a part of the bond is valued at fair value through the income statement, amounting to MSEK 7 (20) and the remaining part is valued at amortised cost.
3) MSEK 96 (—) of cash and cash equivalents have been reclassified to assets held for sale. For more information, see Note 33 – Assets and liabilities held for sale.
4) MSEK –51 of bonds have been reclassified from derivatives.

NOTE 31 – BUSINESS COMBINATIONS

ACCOUNTING PRINCIPLES

In a business combination the Group measures all acquired identifiable assets and liabilities at fair value. Any surplus amount from the purchase price, possible non-controlling interest and fair value of previously held equity interests at the acquisition date compared to the Group's share of acquired net assets is recognised as goodwill. Any deficit amount (bargain purchase), so called negative goodwill, is directly recognised as income in the income statement. In step acquisitions, a business combination occurs only on the date control is achieved. Transactions with the non-controlling interest are recognised within equity as long as control of the subsidiary is retained.

All acquisition-related transaction costs are expensed. Companies acquired are consolidated as of the date of acquisition. Companies that have been divested are included in the consolidated financial statements up to and including the date of the divestment. All business combinations are recognised in accordance with the acquisition method.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

One area of critical judgement, relevant to the Group is the one of common control, a situation where there is an acquisition between parties under common control. This means the acquired company has the same ultimate parent as the acquiring company. The standard is silent on the subject and the Group has therefore made a policy choice when it comes to how to handle common control transactions. The Group has elected to apply predecessor accounting, whereby the acquirer consolidates the predecessors respective carrying amounts of assets and liabilities. These are the carrying values that are related to the acquired entity from the consolidated financial statements of the highest entity that has common control and for which consolidated financial statements are prepared. When applying predecessor accounting, the Group has chosen to include acquired entities under common control for the entire period and not just from the transaction date. Adjustment is also made for the comparative period. Hence, the consolidated financial statements include the acquired entity's results as if both entities (acquirer and acquiree) have always been combined. These consolidated financial statements will reflect both entities' full-year results. The corresponding amounts for the previous years also reflect the combined results of both entities, even though the transaction did not occur until the current year. The effect in the opening balance of the comparative period is accounted for directly in equity.

Zenuity AB, the 50/50 joint venture company focused on the development of assisted and autonomous driving software, was in April 2020 divided into two parts in order for the owners Volvo Car Corporation and Veoneer Sweden AB, to focus more effectively on their respective strategies. On July 1, 2020 the two shareholder companies signed and implemented the final agreement whereby the Group acquired, through a wholly-owned stand-alone subsidiary, Zenseact AB, certain assets and liabilities from the joint venture company Zenuity AB. The initial focus of Zenseact AB will be to develop technology for Volvo Cars' next generation Scalable Platform Architecture, the SPA 2, which over time will fundamentally improve road safety around the world.

Purchase price	**2020**
Purchase consideration	536
Total cost of the combination	**536**
Acquired assets and liabilities at fair value	
Intangible assets	18
Property, plant and equipment	126
Current assets	36
Current liabilities	–82
Total fair value of net assets	**98**
Goodwill	**438**
Cash effect on business combination	
Purchase consideration	–536
Change in cash and cash equivalents due to acquisitions	**–536**

Goodwill attributed to the acquisition is explained by the know-how developed by the workforce that were transferred to Zenseact AB in the acquisition and the future value to the Group for which this know-how will generate.

Acquisition-related cost on the date of publication of this report amounted to MSEK 4 and have been recognised as administration costs in the income statement. There were no contingent liabilities assumed or collateral pledges arising from the acquisition.

The acquired business contributed revenue of MSEK 4 and net loss of MSEK –141 to the Group for the period from July 1 to December 31, 2020. The total cost of combination and fair values have been determined provisionally. The acquisition analysis may therefore be subject to adjustment over a 12-month period.

On July 1st 2020, Zenseact AB also acquired Zenuity AB's wholly-owned subsidiary Zenuity Software Technology (Shanghai) Co., Ltd. Purchase consideration amounted MSEK 12 of which MSEK 9 relates to goodwill and MSEK 3 to net assets.

Acquisition after the balance sheet date

Upplands Motor

On January 13, 2021, after approval from competition authorities, the Group, through one of its wholly owned subsidiaries, Volvo Personvagnar Norden AB finalised the acquisition of Upplands Motor.

The acquisition consists of 100 per cent of the shares in Upplands Motor AB, Upplands Motor Kronåsen AB, Bilpark i Hufvudstaden AB, Upplands Motor Hyrbilar AB, Upplands Motor Personvagnar AB and 10 per cent of the shares in Upplands Motor Mark KB and Upplands Motor Fastigheter i Märsta KB. The acquisition of Upplands Motor, a Stockholm-based dealership, is a vital part of Volvo Cars aim to transform its retail business into a modern customer experience with a seamless interaction between online and offline sales.

The purchase consideration amounted to MSEK 493, including repayment of debt amounting to MSEK 290, and the acquired net assets amounted to MSEK 365, resulting in goodwill of MSEK 128.

Goodwill attributable to the acquisition is explained by estimated synergies with Volvo Cars, current retail operation in the Swedish market and increased income over time from the acquired business.

Acquisition-related cost amounts to MSEK 12 and have been recognised as administration costs in the income statement.

The total cost of combination and fair values have been determined provisionally. The acquisition analysis may therefore be subject to adjustment over a 12-month period.

NOTE 32 – SEGMENT REPORTING

ACCOUNTING PRINCIPLES

An operating segment is defined as a part of the Group for which separate financial information is available and is evaluated regularly by the chief operating decision-maker or decision-making body. A majority of the Group's revenue comes from industrial operations; more specifically the revenue generated by Volvo Car Group. Industrial operations include all activities related to the development, design, manufacturing, assembly and sale of vehicles, as well as the sale of related parts and accessories. In relation to all other operation, industrial operations is the absolute dominant one. As a consequence that the other operations still is under construction (startup) and there is no developed evaluation process based on financial reporting in the sense of the standard the Group is presented as one reporting segment.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

As stated in the Board of Directors Report, the business is divided into three segments. The majority of the business is carried out in the industrial operations segment and therefore the Group, align with IFRS 8.13, has not prepared any segment reporting.

For further information on the geographic spread of revenue, see Note 2 – Revenue. The geographic spread of non-current assets is presented below.

	Sweden	China	Rest of the World
Dec 31, 2020			
Non-current assets	77%	8%	15%
Dec 31, 2019			
Non-current assets	69%	12%	19%

NOTE 33 – ASSET AND LIABILITIES HELD FOR SALE

ACCOUNTING PRINCIPLES

For a non-current asset or disposal group to be classified as held for sale it needs to be available for immediate sale in its present condition and the sale needs to be highly probable. For the sale to be highly probable, management needs to be committed to a plan to locate a buyer and sell the non-current asset or disposal group. The sales price has to be reasonable in relation to its current fair value and the sale should be completed within one year from the date of classification.

When the criteria for being classified as a non-current asset or a disposal group held for sale are fulfilled, the asset or disposal group is presented separately in the balance sheet. The related liabilities of a non-current asset or disposal group are also recognised separately in the balance sheet. The asset or disposal group is recognised at the lower end of its carrying amount and fair value after deduction of selling expenses.

On October 7th 2019, the Group announced the plan to separate the existing combustion engine operations into a stand-alone business, with the intention, in a second step, to merge these activities with those of Geely, in order to establish a new global supplier to develop the next generation of combustion and hybrid powertrains. The proposed new business would enable Volvo Cars to focus on the development of its all-electric range of premium cars.

As of December 31, 2020, assets and liabilities related to the combustion engine operations were classified as held for sale with a net value of MSEK 6,100. The proceeds from the sale are expected to exceed the carrying amount of the net assets. No translation difference was recognised in other comprehensive income related to the reclassified assets and liabilities held for sale.

The major categories of assets and liabilities classified as held for sale are:

	2020
Intangible assets	150
Property, plant and equipment	6,594
Deferred tax assets	17
Inventories	968
Other current assets	24
Cash and cash equivalents	96
Total assets	**7,849**
Other non-current provisions	2
Other non-current liabilities	6
Current provisions	117
Accounts payable	1,198
Current tax liabilities	20
Other current liabilities	406
Total liabilities	**1,749**

Definitions of Performance Measures

Performance measures disclosed in the Annual Report are those that are deemed to provide the most true and fair as well as relevant view of the Group's financial performance for a reader of the Annual Report.

Gross margin
Gross margin is gross income as a percentage of revenue and represents the percentage of total revenue that the Group retains after deducting direct costs associated with producing the goods and services sold.

EBIT
EBIT refers to earnings before interest and taxes. EBIT is synonymous with operating income, which measures the profit the Group generates from its operations.

EBIT margin
EBIT margin is EBIT as a percentage of revenue and measures the Group's operating efficiency.

EBITDA
EBITDA represents earnings before interest, taxes, depreciations and amortisation, and is another measure of operating performance. It measures the profit the Group generates from its operations excluding the effect of previous periods capitalisation levels.

EBITDA margin
EBITDA margin is EBITDA as a percentage of revenue.

Equity ratio
Total equity divided by total assets, as a measurement of the Group's long-term solvency and financial leverage.

Net cash
Net cash is an indicator of the Group's ability to meet its financial obligations. It is represented by liabilities to credit institutions, bonds and other interest-bearing non-current liabilities.

Liquidity
Liquidity consists of cash and cash equivalents, undrawn credit facilities and marketable securities.

Revenue
Revenue is the sales price for goods or services net of discounts and certain variable marketing expenses.

RECONCILIATION TABLES OF PERFORMANCE MEASURES

Gross Margin	2020	2019
Gross income in % of revenue	**17.5**	**19.0**

EBIT Margin	2020	2019
Operating income (EBIT) in % of revenue	**3.3**	**4.9**

EBITDA/EBITDA Margin	2020	2019
Operating income	8,719	13,371
Depreciation and amortisation of non-current assets	14,464	15,548
EBITDA	**23,183**	**28,919**
EBITDA in % of revenue	**8.8**	**10.5**

Equity ratio	Dec 31, 2020	Dec 31, 2019
Total equity	74,106	61,654
Total assets	308,462	285,253
Equity in % total assets	**24.0**	**21.6**

Net cash	Dec 31, 2020	Dec 31, 2019
Cash and cash equivalents	62,003	57,351
Marketable securities	8,087	3,518
Liabilities to credit institutions (non-current)	–39,331	–40,125
Bonds (non-current)	–24,768	–27,843
Other non-current interest-bearing liabilities	–84	–84
Liabilities to credit institutions (current)	–4,306	–5,482
Bonds (current)[1]	–7,047	–
Net cash[2]	**–5,446**	**–12,665**

1) The bond loans are presented above at amortised cost. The MEUR 500 fixed interest rate bond issued in May 2016, is hedged into a variable interest rate bond, hence a part of the bond is valued at fair value through the income statement, amounting to MSEK 7 (20) and the remaining part is valued at amortised cost.
2) The net cash calculation excludes financial liabilities related to the new leasing standard IFRS 16 amounting to MSEK –5,891 (–6,065).

Liquidity	Dec 31, 2020	Dec 31, 2019
Cash and cash equivalents	62,003	57,351
Marketable securities	8,087	3,518
Undrawn credit facilities	24,700	13,593
Liquidity	**94,790**	**74,462**

Income Statements and Comprehensive Income – Parent Company

MSEK	Note	2020	2019
Revenue		17	7
Administrative expenses	4	–46	–19
Operating income	3, 5	**–29**	**–12**
Result from participation in subsidiary	6	—	1,388
Writedown of participation in subsidiaries	8	–187	—
Financial income	6	201	95
Financial expenses	6	–139	–58
Income before tax		**–154**	**1,413**
Income tax	7	—	1
Net income		**–154**	**1,414**

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

Balance Sheets – Parent Company

MSEK	Note	Dec 31, 2020	Dec 31, 2019
ASSETS			
Non-current assets			
Participation in subsidiaries	8	21,857	21,746
Investments in joint ventures[1)]		874	52
Deferred tax assets	7	1	1
Receivables from group companies	3	3,049	2,714
Total non-current assets		**25,781**	**24,513**
Current assets			
Receivables from group companies	3	1,467	1,710
Other current assets		4	2
Accrued income and prepaid expenses		1	1
Cash and cash equivalents		22	3,193
Total current assets		**1,494**	**4,906**
TOTAL ASSETS		**27,275**	**29,419**
EQUITY & LIABILITIES			
Equity			
Restricted equity			
Share capital (100,000 shares with par value of SEK 1)		—	—
		—	—
Non-restricted equity			
Share premium reserve		6,509	6,509
Other contributed capital		3,693	3,693
Retained earnings		14,273	12,859
Net income		–154	1,414
		24,321	**24,475**
Total equity		**24,321**	**24,475**
Non-current liabilities			
Non-current liabilities to group companies	3	2,695	4,802
Total non-current liabilities		**2,695**	**4,802**
Current liabilities			
Accounts payable		2	—
Liabilities to group companies	3	244	129
Other current liabilities		4	3
Accrued expenses and prepaid income		9	10
Total current liabilities		**259**	**142**
TOTAL EQUITY & LIABILITIES		**27,275**	**29,419**

1) For further information, see Note 13 – Investments in joint ventures and associates in the consolidated financial statements.

Changes in Equity – Parent Company

	Restricted equity	Non-restricted equity			
MSEK	Share capital[1)]	Share premium reserve	Other contributed capital	Retained earnings	**Total**
Balance at January 1, 2019	—	**6,509**	**3,693**	**12,859**	**23,061**
Net income for the year	—	—	—	**1,414**	**1,414**
Balance at December 31, 2019	**–**	**6,509**	**3,693**	**14,273**	**24,475**
Net income for the year	—	—	—	**-154**	**-154**
Balance at December 31, 2020	—	**6,509**	**3,693**	**14,307**	**24,321**

1) Share capital amounts to SEK 100,000 (100,000)

Statement of Cash Flows – Parent Company

MSEK	Note	**2020**	2019
OPERATING ACTIVITIES			
Operating income		–29	–12
Interest received		107	74
Interest paid		–73	–58
Other financial items		37	109
		42	**113**
Movements in working capital			
Change in receivables group companies	3	91	–1,402
Change in liabilities group companies	3	–178	85
Change in current receivables		–2	–3
Change in current liabilities		3	10
Cash flow from movements in working capital		**-86**	**-1,310**
Cash flow from operating activities		**-44**	**-1,197**
Cash flow from investing activities			
Investment in subsidiaries		–3	–114
Investment in joint ventures		–822	–52
Cash flow from investing activities		**-825**	**-166**
Cash flow from operating and investing activities		**-869**	**-1,363**
FINANCING ACTIVITIES			
Change of deferred tax asset	7	—	1
Change of long-term liabilities group companies	3	–1,990	2,573
Change of long-term receivables group companies		–402	—
Dividend received from subsidiaries		—	1,388
Cash flow from financing activities		**-2,392**	**3,962**
Cash flow for the year		**-3,261**	**2,599**
Cash and cash equivalents at beginning of year		**3,193**	**683**
Change in cash and cash equivalents due to change in exchange rates		90	–89
Cash and cash equivalents at end of year		**22**	**3,193**

Notes to The Parent Company Financial Statements

All amounts are in MSEK unless otherwise stated.
Amounts in brackets refer to the preceding year.

NOTE 1 – SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of preparation

The parent company has prepared its financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR 2, Accounting for Legal entities. According to RFR 2, the parent company shall apply all the international financial Reporting standards endorsed by the EU as far as this is possible within the framework of the Swedish Annual Accounts Act. Changes in RFR 2 applicable to the fiscal year beginning January 1, 2020, have had no material impact on the financial statements of the Parent company.

All specific accounting principles considered material to the Group is described in conjunction with each presented note in the consolidated financial statements. The main deviations between the accounting policies applied by the Group and the parent company are described below.

Shares and participations in Group companies

Shares and participations in Group companies are recognised at cost in the parent company's balance sheet and test for impairment is performed annually. Dividends are recognised in the income statement. All shares and participations are related to business operations and profit and loss from these are reported within operating income.

Transaction costs directly attributable to acquisitions of shares and participations in Group companies are accounted for as an increase in the carrying amount.

Group contributions made to subsidiaries are reported as an increase of investments in these subsidiaries. A review is at the same time made to conclude whether or not there is an impairment risk with regards to the same shares of the subsidiaries having received the group contribution. Tax effect of these group contributions are recognised in the income statement. Group contributions made to parent company are recognised in equity, along with the tax effect. Received group contributions from subsidiaries are recognised as financial income. Tax effect on received group contributions are recognised in the income statement. Received group contributions from parent company are recorded in equity, along with the tax effect.

Made shareholders' contributions are recognised in shares in subsidiaries and as such they are subject to impairment testing.

Financial guarantees

The parent company applies the exception in the application of IFRS 9 which concerns accounting and measurement of financial contracts of guarantee in favour of subsidiaries and associated companies. The parent company recognises the financial contracts of guarantee as contingent liabilities.

Income taxes

Deferred tax liability on untaxed reserves are included in untaxed reserves in the parent company.

Equity

In accordance with the Swedish Annual Accounts Act, equity is split between restricted and non-restricted equity.

NOTE 2 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of the financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR 2 requires the Company's Executive management and Board of Directors to make estimates and judgements as well as to make assumptions that affect application of the accounting policies and the reported assets, liabilities, income and expenses. Critical accounting estimates and judgements applied by the Group are described in conjunction with applicable note in the consolidated financial statements. None of these critical accounting estimates are applicable to the parent company. Shares and participations in Group companies recognised at cost in the parent company are being tested for impairment annually or if an indication of impairment exists.

NOTE 3 – RELATED PARTIES

During the year, the parent company entered into the following transactions with related parties:

	Sales of goods, services and other		Purchase of goods, services and other	
	2020	2019	**2020**	2019
Companies within the Geely Sweden Holdings	100%	*100%*	45%	*46%*

	Receivables		Payables	
	Dec 31, 2020	Dec 31, 2019	**Dec 31, 2020**	Dec 31, 2019
Companies within the Geely Sweden Holdings	4,516	*4,424*	2,939	*4,931*
whereof short-term	*1,467*	*1,710*	*244*	*129*

Business transactions between the parent company and related parties all arise in the normal course of business and are conducted on the basis of arm's length principles. During 2020, Geely Sweden Holdings has received dividend of MSEK — (1,388) from its subsidiary Volvo Cars AB (publ.).

There have not been any transactions with Board Members or senior executives except ordinary remunerations for services. For further information regarding remunerations, see Note 8 - Employees and remuneration in the consolidated financial statements.

NOTE 4 – AUDIT FEES

TSEK	2020	2019
Deloitte		
Audit fees	–345	–150
Audit-related fees	–350	–80
Other services	–50	–539
Total	**-745**	**-769**

Audit fees involve audit of the Annual Report, financial accounts and the administration by the Board of Directors and the Managing Directors. The audit also includes advice and assistance as a result of the observations made in connection with the audit.

Audit-related fees refer to other assignments to ensure quality in the financial statements including consultations on reporting requirements and internal control.

All other work performed by the auditor is defined as other services.

NOTE 5 – REMUNERATION TO THE BOARD OF DIRECTORS

Information on remuneration to Board members by gender is shown in Note 8 – Employees and remuneration, in the consolidated statements.

NOTE 6 – FINANCIAL INCOME AND EXPENSES

	2020	2019
Financial income		
Group contribution/dividend from subsidiaries	94	1,388
Foreign exchange gain	—	21
Interest income from subsidiaries	97	74
Interest income from related party	10	—
Total	**201**	**1,483**
Financial expenses		
Interest expenses to subsidiaries	–73	–58
Foreign exchange loss	–66	—
Total	**-139**	**-58**

During year 2020, Geely Sweden Holdings AB has received Group Contributions from subsidiaries of MSEK 94 (–).

NOTE 7 – TAXES

Income tax recognised in income statement	2020	2019
Tax for the year	—	1
Total	**–**	**1**
Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate		
Income before tax for the year	–154	1,413
Tax according to applicable Swedish tax rate, 21,4% (21.4%)	33	–302
Costs, non-deductable	–40	—
Tax effect of interest net	7	3
Non-taxable dividends	—	297
Tax effect of given group contributions reported in shares in subsidiares	—	3
Total	—	**1**

Total deferred tax assets MSEK 1 (1) relates to loss-carry forward. Deferred tax assets are only accounted for to the extent there are taxable temporary differences or other factors that convincingly indicate there will be sufficient future taxable profit. The tax loss-carry forward has an indefinite period of utilisation.

NOTE 8 – PARTICIPATION IN SUBSIDIARIES

	Dec 31, 2020	Dec 31, 2019
At beginning of the year/acquired acquisition value	**21,746**	**21,632**
Group contributions given	—	13
Write-down	–187	—
Shareholder contributions provided	298	91
Investments	—	10
Total	**21,857**	**21,746**

Directly owned subsidiaries at the end of the reporting period are presented in below table. Indirectly owned subsidiaries are included in each subsidiary's annual report.

Geely Sweden Holding AB's investments in subsidiaries:	Corp. ID no.	Registered office	No. of shares	% interest held	Book value Dec 31, 2020	Book value Dec 31, 2019
Volvo Car AB (publ.)[1]	556810-8988	Gothenburg/Sweden	50 000 000	98	21,560	21,560
Geely Business Center AB	559094-6454	Gothenburg/Sweden	500	100	4	—
Geely Europe Innovation Centre AB	559166-5699	Gothenburg/Sweden	100 000	100	61	61
Geely Financials International Ltd.	67898527-000-06-17-4	Hong Kong/China	1 000 000	100	9	9
Geely Group Motorsports International AB	559190-6895	Gothenburg/Sweden	10 000	100	31	31
Geely Sweden Financials Holding AB (publ.)	559179-7799	Gothenburg/Sweden	500	100	8	1
Geely Sweden Financials AB	559168-2157	Gothenburg/Sweden	500	100	—	—
Geely Sweden Finance AB (publ.)	559171-4950	Gothenburg/Sweden	501	100	1	11
Geely Sweden Investment AB	559150-4781	Gothenburg/Sweden	10 000	100	138	73
GSHAB 1 AB	559263-3035	Stockholm/Sweden	50 000	100	45	—
Total					**21,857**	**21,746**

1) For additional information on participation in the subsidiary Volvo Car AB (publ.) See Note 22 – Equity in the consolidated financial statements.

The share of voting power corresponds to holdings in per cent as per above. The countries where the subsidiaries are registered are also where their main operations are carried out.

Significant restrictions

For some subsidiaries there are restrictions on the Group's ability to access or use cash from these subsidiaries, for more information on cash that is not available or with other limitations, see Note 21 – Marketable securities and cash and cash equivalents in the consolidated financial statements.

Change in the Group's ownership interest in a subsidiary

Geely Financials Denmark A/S is a former wholly owned subsidiary in the Group. In September 2018, Geely Financials Denmark A/S acquired 52 per cent of the shares in the Saxo Bank Group. During the fourth quarter 2018, an agreement was signed with Geely Group Ltd., a related party outside the Group, in which 5 per cent of the shares in Geely Financials Denmark A/S was sold together with an option to acquire an additional 46 per cent. Based on the divestment, the option, and other contractual conditions, the Group deems that there is no controlling interest, which is why Geely Financials Denmark A/S, including Saxo Bank, is no longer consolidated within the Group as of September 12, 2018.

In August 2019 the ownership in Saxo Bank was reduced from 52 per cent to 51 per cent following a capital contribution.

Geely Group Ltd, a company outside Geely Sweden Holdings Group, has exercised its option to acquire an additional 46 per cent of the shares in Geely Financials Denmark A/S. After the transaction, Geely Group Ltd owns 51 per cent of Geely Financials Denmark A/S.

Details of non-wholly owned subsidiaries that have material non-controlling interests

On June 25, 2015 the Group has, through one of its wholly owned subsidiaries, Volvo Cars (China) Investment Co., Ltd, acquired an additional 20 per cent in the Group's Chinese joint venture companies. In the consolidated financial statements, these joint venture companies are classified as subsidiaries and fully consolidated with a non-controlling interest of 50 per cent since the Group has the decision-making power over the operations. Additionally, Daqing Volvo Car Manufacturing Co., Ltd has acquired 100 per cent of the shares in Volvo Car (Asia Pacific) Investment Holding Co., Ltd which holds 100 per cent of Zhongjia Automobile Manufacturing (Chengdu) Co., Ltd and Shanghai Zhawo Auto Sales Co., Ltd.

On September 28, 2020 the Group, through one of its wholly owned subsidiaries First Rent Invest AB, exercised a call option and entered into negotiations to acquire the remaining 50 per cent of the shares in the car retail company Bra Bil Sverige AB. The transaction is estimated to be finalised during 2021. The Group is assessed to have the power of control over Bra Bil Group, through its 50 per cent ownership in combination with a shareholder agreement. As a result, Bra Bil Group is classified as subsidiary and fully consolidated into the Group with a non-controlling interest of 50 per cent.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests.

	Registered office	% interest held		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
Legal entity:		**Dec 31, 2020**	Dec 31, 2019	**Dec 31, 2020**	Dec 31, 2019	**Dec 31, 2020**	Dec 31, 2019
Daqing Volvo Car Manufacturing Co., Ltd.[2]	China	50	50	1,844	2,318	9,441	8,218
Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd.[2]	China	50	50	74	142	1,207	1,214
Shanghai Volvo Car Research and Development Co., Ltd. [2]	China	50	50	1	–1	102	108
Bra Bil Sverige AB	Sweden	50	50	35	29	218	186
Total non-controlling interests				**1,954**	**2,488**	**10,968**	**9,726**

2) 50 per cent held by Zhejiang Geely Holding Group Co., Ltd, which is the ultimate parent company of the Group.

NOTE 9 – PLEDGED ASSETS

	Dec 31, 2020	Dec 31, 2019
Shares in subsidiaries[1]	138	73
Total	**138**	**73**

1) Share pledges in Geely Sweden Investment AB of MSEK 138 (73).

NOTE 10 – CONTINGENT LIABILITIES

	Dec 31, 2020	Dec 31, 2019
Guarantee commitments[1) 2)]	2,450	1,109
Total	**2,450**	**1,109**

1) In addition to above stated guarantee commitments, Geely Sweden Holdings AB have guarantee commitments related to the external loans in the subsidiaries Geely Sweden Industry Investment AB and Geely Sweden Financials AB. As a total, the loans amounts to MSEK 33,449 (35,636). The risk to fulfill any of these guarantee commitments is deemed as very low.
2) Changed for 2019, from MSEK 497 to MSEK 1,109.

Proposed Distribution of Non-Restricted Equity

The parent company

The following funds are at the disposal of Annual General Meeting (AGM):

Share premium reserve	SEK	6,509,200,000
Other contributed capital	SEK	3,693,131,899
Retained earnings brought forward	SEK	14,272,595,442
Net income for the year	SEK	–153,528,421
At the disposal of the AGM	**SEK**	**24,321,398,920**

The Board proposes the following allocations of funds:

Carried forward	SEK	24,321,398,920
Total	**SEK**	**24,321,398,920**

The Board of Directors and the CEO hereby affirm that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU and provide a true and fair view of the Group's financial position and earnings.

The Annual Report has been prepared in accordance with generally accepted accounting principles and provides a fair and true view of the parent company's financial position and earnings. The Board of Directors report for the Group and the parent company provides a true and fair overview of the development of the operations, financial position and earnings of the Group and parent company and describes material risks and uncertainty factors facing the parent company and the companies included in the Group.

Gothenburg, June 8, 2021

Li Shufu
Chairman of the Board

Hans Oscarsson
Board member and CEO

Lone Fønss Schrøder
Board member

Li Donghui
Board member

Our audit report was submitted on June 8, 2021
Deloitte AB

Jan Nilsson
Authorized Public Accountant

Auditor's Report

This auditor's report is a translation of the Swedish language original. In the events of any differences between this translation and the Swedish original the latter shall prevail.

To the general meeting of the shareholders of Geely Sweden Holdings AB corporate identity number 556810-9010

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Geely Sweden Holdings AB for the financial year 2020-01-01–2020-12-31. The annual accounts and consolidated accounts of the company are included on pages 14–71 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other Information than the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises pages 1–13 but does not include the annual accounts, consolidated accounts and our auditor's report thereon.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that

may cast significant doubt on the company's and the group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Geely Sweden Holdings AB for the financial year 2020-01-01–2020-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group´s financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:
- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Gothenburg, June 8, 2021
Deloitte AB

Signature on Swedish original

Jan Nilsson
Authorized Public Accountant

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