GEELY SWEDEN HOLDINGS AB

ANNUAL REPORT 2021

With strong focus on mobility, technology development and new business models

Geely Sweden Holdings' formal Annual Report is presented on pages 20-91, and has been audited by the Group's auditors.

This is Geely Sweden Holdings

Geely Sweden Holdings AB is a holding company that owns shares in a portfolio of companies and oversees these investments on behalf of its shareholders. The companies in Geely Sweden Holdings AB's portfolio are primarily based in Europe and focus on mobility technology and the financial sectors.

Geely Sweden Holdings' ultimate owner is Zhejiang Geely Holdings (Geely Group), one of China's leading privately owned industrial conglomerates and is headquartered in Hangzhou, China.

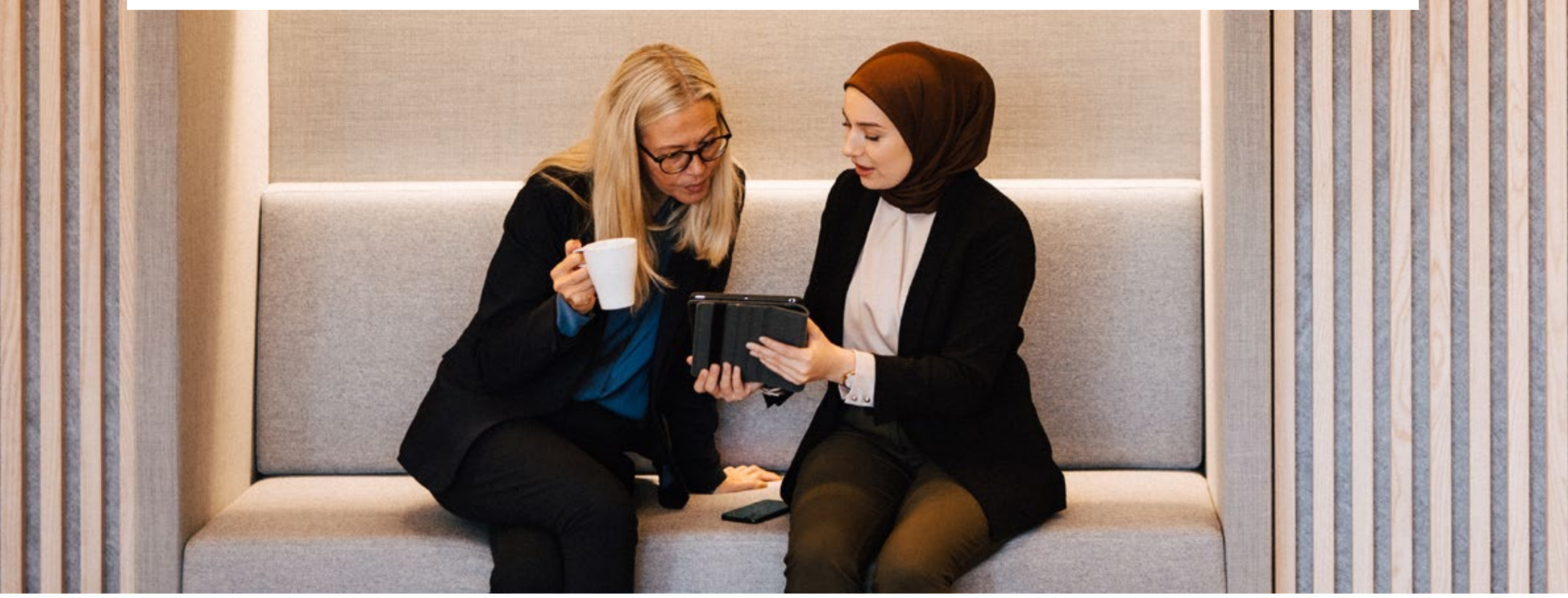
Geely Group was founded in 1986 by the Chair of the Board Eric Li. In 1997, Geely Group entered the automotive industry and has since focused on the development and manufacture of vehicles, predominantly passenger and commercial vehicles. Geely Group continues to grow through technological innovation and talent development, and by strengthening its core competitiveness, with a strong commitment to sustainable development. Right now Geely Group is also involved in the mobility services, digital technology, financial services and education sectors.

Geely Group's vision is to become a smart electric mobility technology and energy service provider that is influential and competitive in the global arena. The Group will achieve this by focusing on developing cutting-edge technologies in new energy, shared mobility, vehicle networks, autonomous driving, onboard chips, low-orbit satellites and laser communication, to embrace the multidimensional mobility ecosystem.

Geely Group has established R&D and design centres in Shanghai, Hangzhou, Ningbo, Gothenburg, Coventry, Barcelona, California, Frankfurt and Kuala Lumpur, with more than 20,000 R&D and design personnel and nearly 20,000 innovation patents. Geely Group operates world-class vehicle and powertrain manufacturing plants in China, the US, the UK, Sweden, Belgium and Malaysia. It has a worldwide sales and service network of more than 4,000 branches.

Since 2012 Geely Group has ranked among the Fortune Global 500 for 10 consecutive years (ranked 239th in 2021) with total assets in excess of USD 75 billion and more than 120,000 global employees. Geely ranked 9th in Brand Finance's Auto Portfolio Brand Value 2021 – the only Chinese auto group on the list.

Geely Sweden Holdings AB's operating model focuses on being an active and supportive owner that facilitates the vision of one Geely ecosystem across geographies to create synergies and build portfolio value by providing, (i) access to Geely Group's leading network of industry and sector expertise; (ii) access to Geely Group's global portfolio of brands, technologies, customers and suppliers; (iii) inroads into strategic development projects within Geely Group; (iv) propelled market entry/growth in Asia; and (v) stability from an owner with a long-term perspective.



Strategic ambition

Mission

- Create an ecosystem for mobility focused companies where Geely can support and propel growth through active ownership
- Establish European Geely platform to meet the increasing expectations from a growing number of stakeholders
- Ensure succession planning and ability to attract competence
- Enable companies to realize synergies by being part of the global Geely network

Vision

- Contribute, with a sustainability focused mindset, to the development of Geely into one of the world leading players in the mobility and technology-based industries

Strategic priorities

1. Be an active and supportive owner.
2. Realize the vision of a Geely Mobility Focused Ecosystem.
3. Create synergies between Geely Group companies.
4. Strive to continuously improve performance within Geely Group and our companies.

2021 in Brief

- Volvo Cars made its historic debut on Nasdaq Stockholm after achieving record sales growth and committing itself to an all-electric future. The ongoing transformation of Volvo Cars will enable the iconic Swedish company to lead the industry in luxury sustainable mobility, carving a path for others to follow.
- In September the high-performance EV brand Polestar announced its intention to enter into a merger with Gores Guggenheim and go public. This transaction, which was completed in 2022, will enable Polestar to continue its ambitious expansion plan, building on its presence in 14 markets where it is already recognised for design excellence and full commitment to sustainability.
- Volvo Group performed well despite component availability challenges and supply chain disruptions, with growth in both net sales and operating margin compared to 2020. The electric truck segment is gaining speed and the world's first fossil-free steel truck was produced in 2021.
- The main building at the Uni3 by Geely campus in Gothenburg was completed and tenants started moving in during the year.
- Saxo Bank reached a new record of more than 810,000 clients worldwide and over USD 80 billion in client assets.
- Geely Group Motorsports International had yet another remarkable year, making 2021 the most successful ever gaining a total of 6 titles, 20 race wins and 50 podium positions, including the FIA World Touring Car Cup title for the second year in a row.
- Geely Sweden Holdings continued to develop its organisation to further support the growth of Geely Group and its companies.

Revenue

MSEK 281,974

Operating income

MSEK 20,853

CEO's Statement

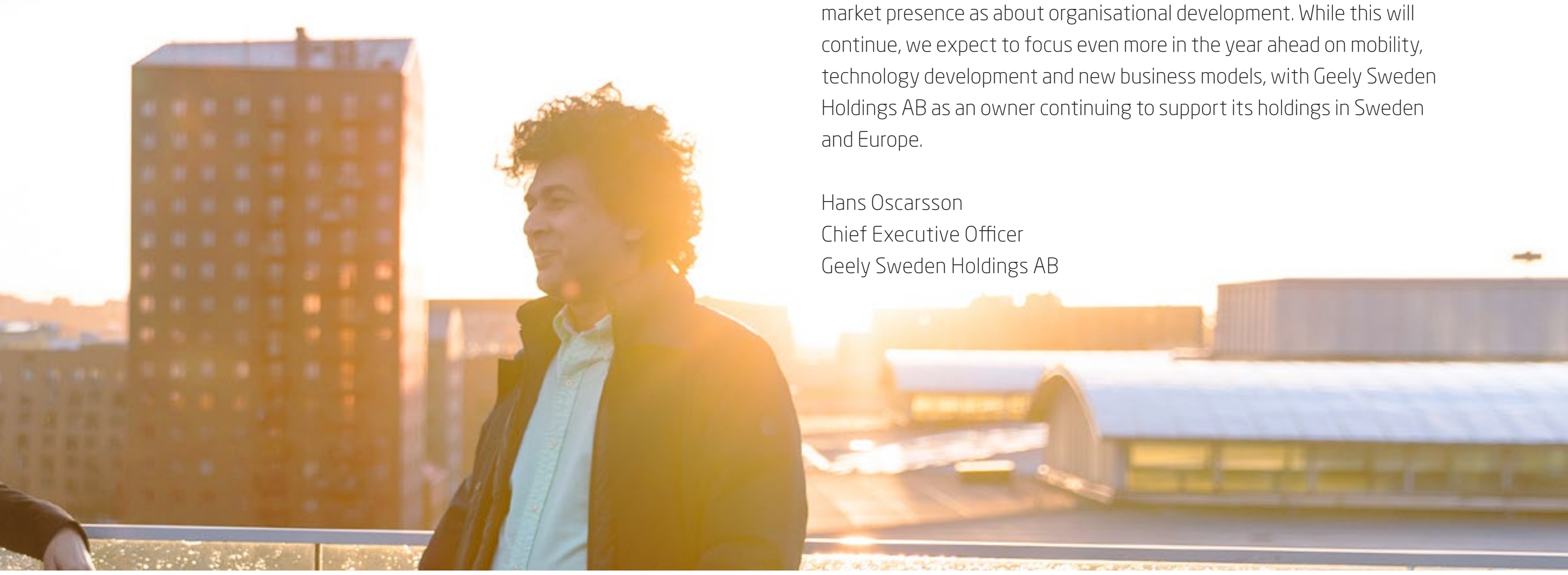
Geely Sweden Holdings' position is strong and our companies have during 2021 been performing well despite the continued Covid-19 situation and the subsequent component shortage and logistical challenges. .

The focus in 2021 was on the equity market and, in particular, the initial public offering of Volvo Cars on Nasdaq Stockholm and the announced Nasdaq New York listing of Polestar. October saw the first day of trading in Stockholm for Volvo Cars, reintroducing the iconic Volvo Car brand to a wider group of investors. This is in line with the Geely Group's strategy of ensuring that each company is self-reliant while also seeking synergies where this is beneficial. Operationally, Geely Sweden Holdings has continued to develop and the integration of corporate functions across the global organisation has been one of several development areas during the year. One example is a shared competence centre located in the newly established Uni3 office building.

Geely Sweden Holdings AB is an integrated part of Zheijang Geely Holding and contributes with experience to the global organisation, adds a local presence and supports the Group's overall governance. During the year we have further strengthened our relationships with investors – institutional as well as private – to ensure a firmly rooted, credible and professional local presence, particularly in the Nordics. We aim to create a governance structure that can support our strategy to truly develop into an organisation geared towards the future of mobility, technology and investments that go beyond the purely financial with ESG being an area of increasing emphasis in all aspects of our business.

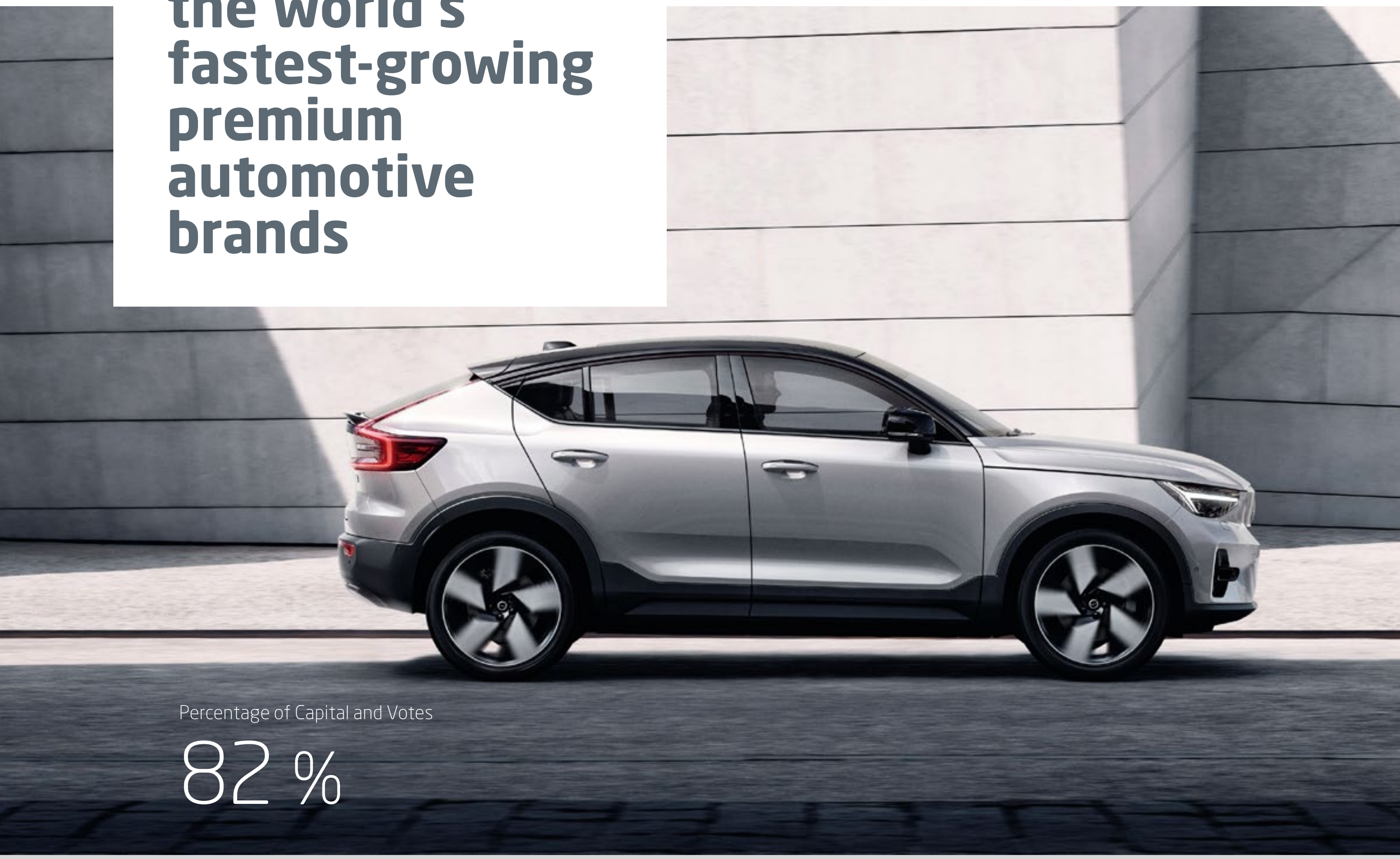
All in all, this past year has been as much about increased capital market presence as about organisational development. While this will continue, we expect to focus even more in the year ahead on mobility, technology development and new business models, with Geely Sweden Holdings AB as an owner continuing to support its holdings in Sweden and Europe.

Hans Oscarsson
Chief Executive Officer
Geely Sweden Holdings AB



Volvo Car Group

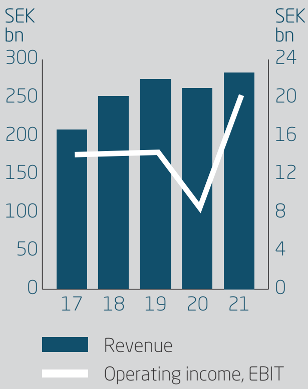
One of the world's fastest-growing premium automotive brands



Percentage of Capital and Votes

82 %

Revenue and operating income



Key ratios, MSEK	2021	2020	2019	2018	2017[1]
Revenue	282,045	262,833	274,117	252,653	208,646
Operating income, EBIT	20,275	8,516	14,303	14,185	14,061
Net income	14,177	7,788	9,603	9,781	10,225
Equity ratio %	33.5	26.8	26.2	29.0	28.7
Operating and investing cash flow	−4,885	13,282	11,573	4,705	–3,800

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

Volvo Cars is one of the world's fastest-growing premium automotive brands, providing its customers with the freedom to move in a personal, sustainable and safe way. Its unique structure and focused strategy make it one of the fastest transformers in the global automotive industry, with mid-decade ambitions dedicated to electrification, sustainability and digitisation.

Founded and headquartered in Gothenburg, Sweden in 1927, over the course of its history, Volvo Cars has been a global force for automotive safety and innovation. Volvo Cars has been credited with a number of industry-leading innovations that are now standard in cars across the world, such as the three-point safety belt, the side impact protection system, side impact airbags and autonomous emergency braking.

Volvo Cars is focused on the design, engineering, manufacturing, distribution and sale of premium passenger cars, with a particular emphasis on sustainability, fully electric cars and direct consumer relations, including subscription and other new mobility services.

Volvo Cars offers a focused range of premium car models that are recognised for their design, safety and technological innovation. In 2021 Volvo Cars sold 699,000 cars in over 100 countries, of which around 75% consists of XC Series models (SUVs), around 14% of S Series models (sedans) and around 11% of V Series models (estates).

Volvo cars are marketed and sold online in selected markets through the Volvo Cars online store and in physical stores through around 2,300 retail partners. With its global headquarters in Gothenburg (Sweden) and regional headquarters in Shanghai (China) and Mahwah (New Jersey, United States), the Volvo Cars' core markets are Europe, China and the United States.

Volvo Cars has been listed on Nasdaq Stockholm since October 2021.

Mid-decade Ambitions

- Sales of 1.2 million cars a year
- Profit margin of 8–10%
- 40% reduction of Co_2 full life cycle footprint per car
- 50% of sales will be fully electric cars
- 50% in-house software
- 50% of sales online
- To be the employer of choice and preferred development partner

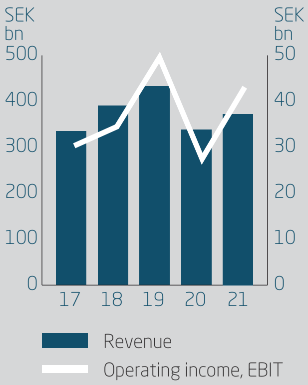
Volvo Group

A global group with strong market positions

Percentage of Capital **8.2%**

Percentage of votes **15.9%**

Revenue and operating income



Key ratios, MSEK	**2021**	2020	2019	2018	2017
Revenue	372,216	338,446	431,980	390,834	334,748
Operating income, EBIT	43,074	27,484	49,531	34,478	30,327
Net income	33,243	20,074	36,495	25,363	21,283
Equity ratio %	27.9	29.0	27.0	26.5	26.4
Operating and investing cash flow (bn)	32.2	20.7	24.9	17.4	28.5

Volvo Group offers transport- and infrastructure solutions for trucks, buses, construction equipment, power solutions for marine and industrial applications, financing and services that increase customers' uptime and productivity. Founded in 1927, Volvo Group is committed to shaping the future landscape of sustainable transport and infrastructure solutions. Volvo Group is headquartered in Gothenburg, Sweden, employs almost 100,000 people and serves customers in more than 190 markets. The shares are listed on Nasdaq Stockholm.

Volvo Group's products contribute to efficient transport and infrastructure solutions and maximise customer uptime. Volvo Group drives the development of electrified vehicles and machines, as well as automated solutions for the benefit of customers, society and the environment. The sale of vehicles and machines creates a population of products, thereby driving spare parts sales and service revenue.

In addition to vehicles and machines, Volvo Group's offering includes various types of services, such as financing, insurance, rental, spare parts, repairs, preventive maintenance, service agreements and assistance. The range and flexibility of the offering enables solutions to be tailor-made to maximise customer uptime and productivity. The service business helps to balance the fluctuation in new product sales and improve profitability over the business cycle. Growing the service business is a prioritised area.

Thanks to competitive product programmes, strong dealers with extensive service networks and increasingly complete offerings, Volvo Group has established leading positions globally. Volvo Group is one of the world's largest manufacturers of heavy commercial vehicles, construction equipment, buses and heavy-duty combustion engines, and is a leading supplier of marine and industrial engines. These positions enable economies of scale to be achieved in product development, production, purchasing and financial services.

Volvo Group's brand portfolio consists of Volvo, Volvo Penta, Rokbak, Renault Trucks, Prevost, Nova Bus, Mack and Arquus. Volvo Group has alliances and joint ventures with the SDLG, Eicher and Dongfeng brands. By offering products and services under various brands, Volvo Group addresses many different customer and market segments in mature as well as growth markets.

Saxo Bank

A leading fintech specialist that helps companies and investors connect to global capital markets

Percentage of Capital and Votes

25%

Saxo Bank (Saxo) is a leading Fintech specialist that connects people to investment opportunities in global capital markets. As a provider of multi-asset trading and investment, Saxo's vision is to enable people to fulfil their financial aspirations and make an impact. Saxo's user-friendly and personalised platform experience gives investors exactly what they need, when they need it – whether they want to actively trade on global markets or invest in their future.

Founded in 1992, Saxo was one of the first financial institutions to develop an online trading platform to provide private investors with the same tools and market access as professional traders, large institutions and fund managers. Saxo combines an agile fintech mindset with close to 30 years of experience and a track record in global capital markets to deliver a state-of-the-art experience to clients. The Saxo Bank Group holds four banking licences and is well regulated globally. Saxo offers clients around the world broad access to global capital markets across asset classes, where they can trade more than 40,000 instruments in over 25 languages from one single margin account. The Saxo Bank Group also partners with more than 135 financial institutions to boost the investment experience they can offer their clients via its open banking technology.

Headquartered in Copenhagen, Saxo's client assets total more than USD 80 billion and the company has more than 2,000 financial and technology professionals in financial centres around the world including London, Singapore, Amsterdam, Shanghai, Hong Kong, Paris, Zurich, Dubai and Tokyo.

Key ratios, MDKK	**2021**	2020	2019	2018	2017
Operating income, EBIT	4,492	4,316	2,611	2,786	3,027
Profit before tax	1,031	1,080	109	1,029	554
Net income	755	750	40	963	401
Equity ratio %	7.9	9.4	9.5	16.1	11.6
Operating and investing cash flow	4,630	5,122	23,941	–2,086	–990

810,000
Clients worldwide

80+ billion
USD client assets

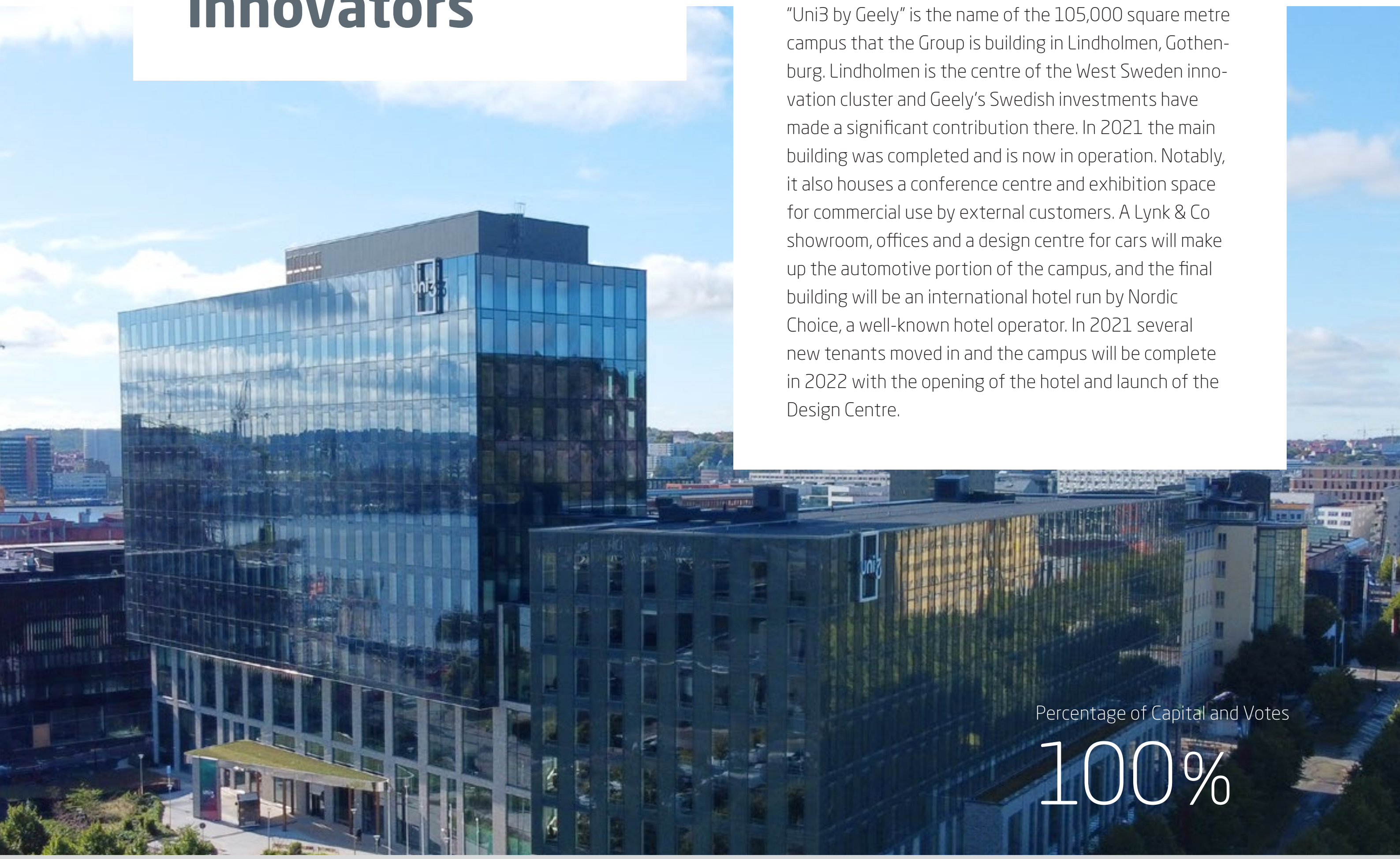
188,000
Daily executed trades

25+ years
Experience in the industry

Uni3 by Geely

A home for innovators

"Uni3 by Geely" is the name of the 105,000 square metre campus that the Group is building in Lindholmen, Gothenburg. Lindholmen is the centre of the West Sweden innovation cluster and Geely's Swedish investments have made a significant contribution there. In 2021 the main building was completed and is now in operation. Notably, it also houses a conference centre and exhibition space for commercial use by external customers. A Lynk & Co showroom, offices and a design centre for cars will make up the automotive portion of the campus, and the final building will be an international hotel run by Nordic Choice, a well-known hotel operator. In 2021 several new tenants moved in and the campus will be complete in 2022 with the opening of the hotel and launch of the Design Centre.



Percentage of Capital and Votes

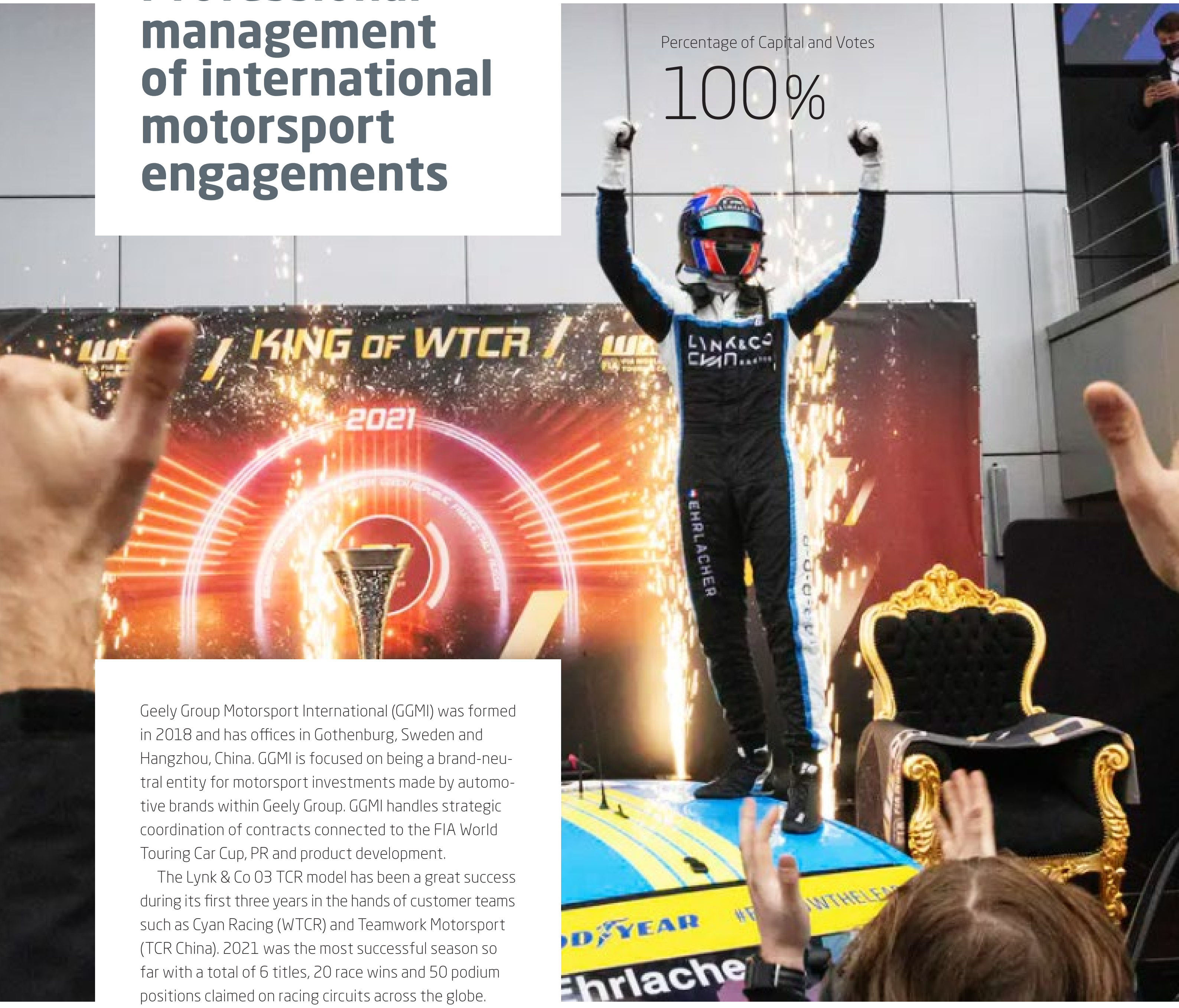
100%

Geely Group Motorsports International

Professional management of international motorsport engagements

Percentage of Capital and Votes

100%



Geely Group Motorsport International (GGMI) was formed in 2018 and has offices in Gothenburg, Sweden and Hangzhou, China. GGMI is focused on being a brand-neutral entity for motorsport investments made by automotive brands within Geely Group. GGMI handles strategic coordination of contracts connected to the FIA World Touring Car Cup, PR and product development.

The Lynk & Co 03 TCR model has been a great success during its first three years in the hands of customer teams such as Cyan Racing (WTCR) and Teamwork Motorsport (TCR China). 2021 was the most successful season so far with a total of 6 titles, 20 race wins and 50 podium positions claimed on racing circuits across the globe.

Geely Business Center

A shared competence and service center

Percentage of Capital and Votes

100%

Geely Business Center (GBC) was created in 2021 as a shared competence and service unit to create synergies between Geely Group companies. The aim is for GBC to offer capacity and capability to provide high-level business services and expertise to Geely Group companies as well as external customers. GBC will enable customers to focus on their core capabilities in order to grow faster by outsourcing staff functions to GBC. The company is already delivering services within key areas, such as finance, legal and HR.

GBC is located in the main building of Uni3 by Geely in Gothenburg.

The company is expanding in 2022 by also offering IT services and will have around 100 employees.

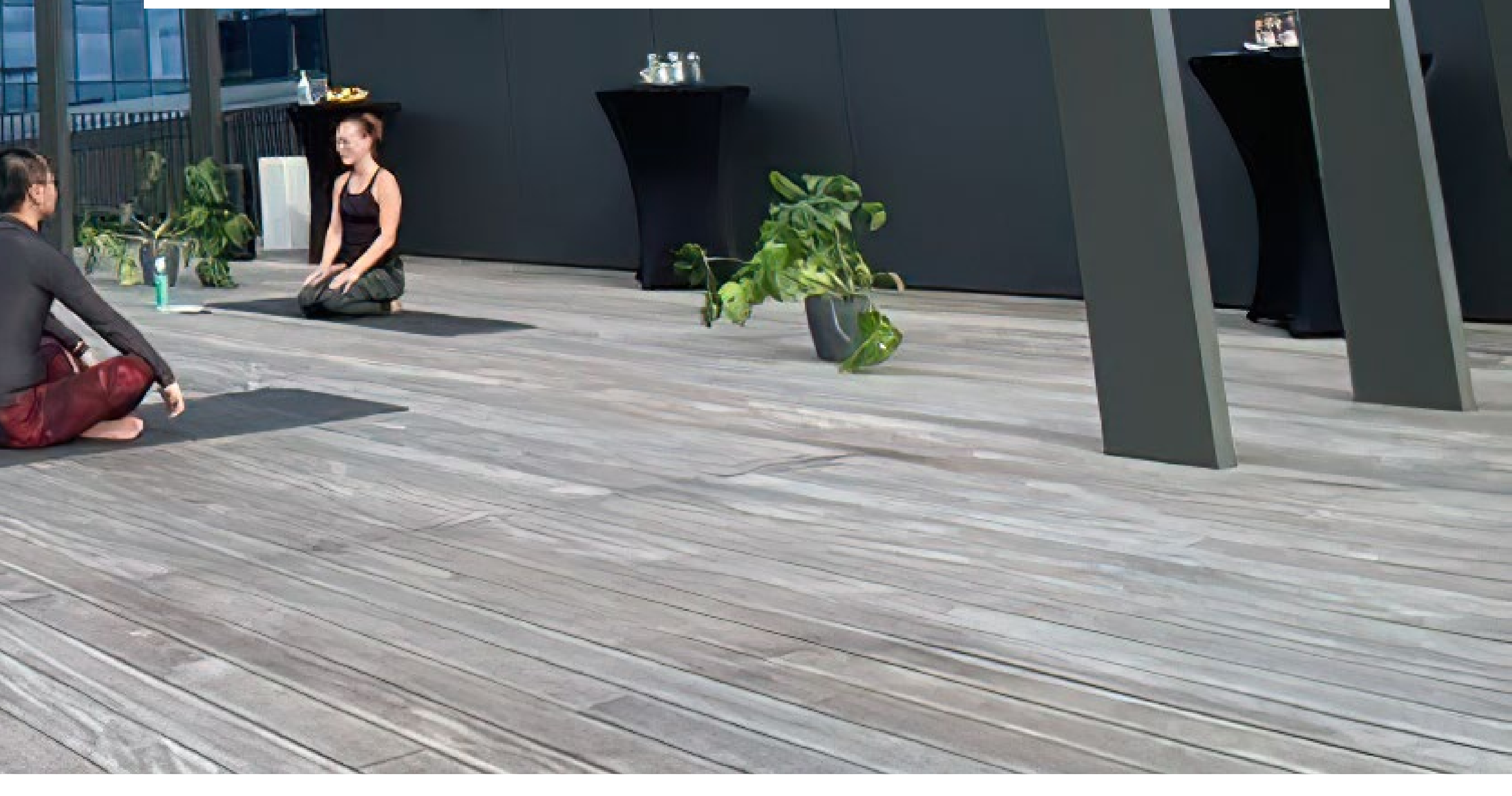
Sustainability

Geely Sweden Holdings works actively to contribute to the development of a resource-saving and environmentally sound society. We acknowledge that we, as a world, need to reduce emissions and practice energy conservation while taking action to ensure sustainable development.

Geely Sweden Holdings AB's ambition is to create long-term value through active ownership in its portfolio companies with a sustainability focused mindset at the very core. In order to prosper and succeed in the long term, it will be important for Geely Sweden Holdings AB and our portfolio companies to adhere to and actively participate in driving the global ESG agenda, and set high ambitions to benefit the communities in which we live and operate.

For Geely Sweden Holdings AB, part of being an active owner is having a continuous dialogue with our key stakeholders – not only with portfolio company management teams, but also with fellow shareholders, employees, customers, government agencies, legislative bodies and non-governmental organisations. Our model involves encouraging stakeholders to set ambitious sustainability targets and push Geely Group companies to align their strategic development with important international standards to future-proof competitive business models. Examples of these standards include the UN Sustainable Development Goals, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. We also work actively to ensure that portfolio companies adhere to our corporate values and ethical guidelines. In January 2022 Zhejiang Geely Holding Group joined the United Nations Global Compact, giving Geely Sweden Holdings a firm vision and targets to work towards.

Geely Sweden Holdings places great emphasis on sustainability within our own operations as well. We firmly believe in leading by example and the primary focus within our organisation is being a responsible employer that rejects all forms of discrimination and believes that diversity enhances knowledge, dynamism and the quality of the work we do.



Board of Directors

Li Shufu

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

Other assignments
Founder and Chair of the Board Zhejiang Geely Holding Group; Member of the Board of other entities within the Zhejiang Geely Holding Group; Chair, 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
Chair of the Board Lotus Advance Technologies Sdn. Bhd., Group Lotus Plc., Saxo Bank; Vice Chair 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 Chair and Chair of the Audit Committee, Volvo Car AB (publ.); Vice Chair of the Board and Chair 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 of 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 Chair of the Board Geely Business Center AB, Chair of the Board Geely Europe Innovation Centre AB, Member of the Board Geely Group Motorsports International AB.

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

Executive Management Team

Hans Oscarsson
CEO

Lise-Lotte Hallbäck
Finance

Peter Wikström
Business Development and Strategy

Stefan Lundin
Public Relations and Communications

Peter Lundin
Legal

Björn Sällström
Human Resources

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 motorsport company, a competence centre providing the Group with financial and HR services and seven entities with the main purpose of financing and holding investments for the Group.

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

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

Revenue of Volvo Car Group increased by 7.3 per cent to MSEK 282,045 (262,833). Operating income increased to MSEK 20,275 (8,516).

Real estate

"Uni3 by Geely" is the name of the 105,000 square metre campus that the Group is building in Lindholmen Gothenburg. In 2021 the main building was completed and is now in operation. A Lynk & Co showroom, offices and a design centre for cars will make up the automotive portion of the campus, and the final building will be an international hotel. The campus will be complete in 2022 with the opening of the hotel and launch of the design centre.

Individual holdings

Saxo Bank

2021 saw an accelerated growth in clients, client assets and Trading related revenue compared to 2020, which was a year characterized by high volatility and market activity caused by the outbreak of Covid-19 and its impact on markets, economies and behaviours.

Operating income amounted to MDKK 4,492 (4,316), corresponding to a 4.1 per cent increase.

Volvo Group

For the Volvo Group, 2021 was a year with a strong increase in net sales and improved operating income despite the challenges created by shortages in the supply chain. Both vehicle and service volumes grew significantly compared with the preceding year.

Net sales increased by 10 per cent to MSEK 372,216 (338,446). The operating income amounted to MSEK 43,074 (27,484).

Net income and financial position

Income before tax for the Group amounted to MSEK 22,129 (8,936). Net income amounted to MSEK 17,634 (7,247). Cash and cash equivalents for the Group amounted to MSEK 63,277 (62,003). Interest-bearing liabilities not including provisions for employee benefits amounted to MSEK 6,971 (5,975). The total borrowings amounted to MSEK 54,685 (75,459) and include liabilities to credit institutions and bond liabilities. Equity share of total assets amounted to 34 (24) per cent.

Investments

During 2021 the Group made investments in intangible assets amounting to MSEK 11,814 (8,620). Investments in tangible assets amounted to MSEK 12,148 (10,998).

Financing

In October 2021, Volvo Cars was listed on Nasdaq Stockholm. The IPO raised proceeds of MSEK 20,807 (—). Dividend paid to shareholders amounted to MSEK –9,887 (–4). Repayment of loans amounted to MSEK –13,811 (–5,439) and repayment of bonds amounted to MSEK –10,199 (—).

Geely Sweden Holdings Group

Key ratios, MSEK	**Full year 2021**	Full year 2020	Full year 2019	Full year 2018	Full year 2017[1)]
Revenue	281,974	262,890	274,149	252,653	208,646
Operating income, EBIT	20,853	8,719	13,371	14,679	14,058
Net Income	17,634	7,247	9,244	10,731	10,252
EBITDA	35,895	23,183	28,919	27,892	26,159
Operating and investing cash flow	8,003	8,658	9,615	–34,276	–3,803
EBIT margin, %	7.4	3.3	4.9	5.8	6.7
EBITDA margin, %	12.7	8.8	10.5	11.0	12.5
Equity ratio, %	34.0	24.0	21.6	21.4	29.3
Net cash	16,588	–5,446	–12,665	–18,608	14,052

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

See definitions of Key Ratios in page 81.

Employees
In 2021, the Group employed 42,811 (38,382) full-time employees (FTEs). The FTEs number in 2020 and 2021 reflect temporary layoffs. Information on salaries and other remuneration is presented in Note 8 – Employees and remuneration.

Significant events during the year
Covid-19
The Covid-19 pandemic continued to have an impact on people's lives. Restrictions were tightened again around the world due to the spread of Omicron, a new Covid variant. The quick spread of this new variant has led to high infection rates in Europe and therefore increased work absenteeism. Despite this situation, the Group's factories have remained operational. However, the risk of this new variant impacting supply chain and production remains.

Global shortage of semi-conductors
The global shortage of semiconductors led to temporary production halts in some of the Group's manufacturing plants, all different in duration and extent. The production halts resulted in loss of production volumes. However, high demand, global shortage with extremely low inventory levels and the ability to adjust production plans had positive effects on revenue and profitability.

Polestar – listing intention
In September, Polestar announced its intention to be listed on Nasdaq New York, through the special purpose acquisition company (SPAC), Gores Guggenheim.

Volvo Cars listed on Nasdaq Stockholm
On 29 October, the subsidiary Volvo Cars welcomed over 200,000 new shareholders who subscribed to its Initial Public Offering. The IPO raised gross proceeds of SEK 20.0 bn, supporting Volvo Cars' fast transformation.

MEUR 1,300 sustainability-linked revolving credit facility signed
A MEUR 1,300 sustainability-linked revolving credit facility was signed, replacing an undrawn MEUR 1,300 credit facility signed in 2017.

Separation of the ICE powertrain operations
The Group continued to deliver on its plan to separate the combustion engine operations into a stand-alone business. An agreement was entered into to sell Powertrain Engineering Sweden AB and Powertrain Engineering Sweden Real Estate AB to Zhejiang Aurobay Powertrain Co., Ltd.

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 2021, Eric Li (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 14 meetings 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:

Market shift and consumer behaviour in Electrification transformation
As the customers move towards electric vehicles, there is uncertainty on the pace of consumer acceptance, market by market. The move from internal combustion engine vehicles to electric vehicles is dependent on factors like range, charging experience and pricing.

Ensuring a sustainable transformation
The global risk of climate change generates public expectation on accelerating speed of sustainability transformation. This is a risk if the Group is not able to proactively adapt business plans and transition of its business, including the complex value chain, potentially risking negative brand reputation and loss of sales.

Battery supply chain
The battery technology shift and the increased capacity requirement in combination with a volatile supply chain and potential raw material limitations is a risk to the electrification strategy.

Cyber security
With the automotive industries continued shift toward connected cars, autonomous drive, vehicle electrification, and smart mobility, cyber security has risen in importance.

Compliance risks
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.

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 8,526 (–154). The equity ratio amounted to 92 (89) per cent.

Significant events after the reporting period

The war in Ukraine

The Group is deeply concerned for people directly affected by the war in Ukraine, and the impact it will have on people and societies across Europe and beyond. There will undoubtedly be effects for Europe and the global economy. The Group does not have any employees in Ukraine. However, we do have sales operations in Russia and an importer in Ukraine. The Group has very limited direct relationships with suppliers in Ukraine. However, the war in Ukraine has resulted in increasing costs for raw material, energy and freights in the auto industry.

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

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

Sale of the Chines ICE operations

In January 2022, the Group finalized the separation of its ICE operations and sold the 50 per cent owned subsidiary Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. to its associate company Zhejiang Aurobay Powertrain Co., Ltd.

Dividend AB Volvo

On April 6, 2022, The Annual General Meeting for AB Volvo, in accordance with the Board of Directors' proposal, resolved that a dividend of SEK 13 per share should be paid to the shareholders, resulting in a total dividend for the Group of MSEK 2,174.

Signing of new syndicated loan, MEUR 2,700

In May 2022, a MEUR 2,700 credit facility was signed, replacing facilities that was signed in 2018 and 2019 and now have been repaid in advance.

Listing of Polestar

On 24 June 2022 Polestar was listed on Nasdaq New York through the special purpose acquisition company (SPAC) Gores Guggenheim.

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.

Proposed distribution of non-restricted equity:

Share premium reserve	SEK	6,509,200,000
Other contributed capital	SEK	3,693,131,899
Retained earnings carried forward	SEK	14,119,067,021
Net income for the year	SEK	8,525,782,084
At the disposal of the AGM	**SEK**	**32,847,181,004**

The Board proposes the following allocation of funds:

Carried forward	SEK	32,847,181,004
Total	**SEK**	**32,847,181,004**

Contents Financial Report

Consolidated Income Statements

MSEK	Note	2021	2020
Revenue	2	281,974	262,890
Cost of sales	3	–220,715	–216,825
Gross income		**61,259**	**46,065**
Research and development expenses	3, 15	–13,187	–11,374
Selling expenses	3	–19,259	–15,733
Administrative expenses	3	–9,046	–8,694
Other operating income	6	4,113	2,442
Other operating expenses	6	–2,507	–3,926
Share of income in joint ventures and associates	13	–520	–61
Operating income	4, 5, 7, 8, 9, 10	**20,853**	**8,719**
Financial income	11	4,920	3,091
Financial expenses	12	–3,644	–2,874
Income before tax		**22,129**	**8,936**
Income tax	14	–4,495	–1,689
Net income		**17,634**	**7,247**
Net income attributable to			
Owners of the parent company		15,805	5,294
Non-controlling interests		1,829	1,953
		17,634	**7,247**

INCOME AND RESULT

The Group's revenue increased by 7.3 per cent to MSEK 281,974 (262,890). Wholesale volumes remained in line with the previous year and amounted to 654.4 (662.6) thousand cars, while revenue increased by 7 per cent supported by mix effects, with a continously increasing share of XC-models.

Gross income increased by 33.0 per cent to MSEK 61,259 (46,065), resulting in a gross margin of 21.7 (17.5) per cent. The increase in gross margin was mainly supported by positive carline mix effects and strong price realisation.

Operating Income (EBIT) increased to MSEK 20,853 (8,719), resulting in an EBIT margin of 7.4 (3.3) per cent. The increase in EBIT was mainly a result of the positive mix effect, strong price realisation, increased volumes and repayment of import duties. Further, the year-over-year increase is also affected by larger costs related to recalls and restructuring costs in prior year. The net effect of foreign exchange rates including hedges was positive and amounted to SEK 0.4 bn. EBIT excluding share of income in joint ventures and associates amounted to MSEK 21,373 (8,780), corresponding to a margin of 7.6 (3.3) per cent. The negative result from share of income in JV and associates was mainly driven by Polestar, due to costs incurred in their early development phase, as well as their change in accounting treatment related to deferred tax assets. The negative effects were partly offset by valuation effects of the private placement in Polestar as well as the dividend from Zenuity.

Net financial items increased to MSEK 1,276 (217), mainly driven by net effect of dividends received and market revaluation of investments. The effective tax rate increased to 20.3 (18.9) per cent, mainly due to higher taxable income. Net income was MSEK 17,634 (7,247). Net income in relation to revenue was 6.3 (2.8) per cent.

Research and development spending, SEKbn	2021	2020
Research and development spending	–19,4	–14,8
Capitalised development costs	10,8	7,5
Amortisation and depreciation of research and development[1]	–4,6	–4,1
Research and development expenses	**-13,2**	**-11,4**

1) The amortisation expenses for 2020 were affected by adjustments of the useful life period to reflect updated assumptions and cycle plan changes.

Consolidated Comprehensive Income

MSEK	2021	2020
Net income	17,634	7,247
Other comprehensive income		
Items that will not be reclassified subsequently to income statement:		
Change in fair value of other long-term securities holdings	2,770	6,198
Remeasurements of provisions for post-employment benefits[1)]	3,123	–992
Tax on items that will not be reclassified to income statement	–669	212
Items that may be reclassified subsequently to income statement:		
Translation difference on foreign operations	4,531	–3,376
Translation difference of hedge instruments of net investments in foreign operations	–265	368
Change in fair value of cash flow hedge related to currency and commodity price risks	–2,640	2,862
Currency and commodity risk hedge contracts recycled to income statement	326	3,156
Tax on items that may be reclassified to income statement	526	–1,318
Other comprehensive income, net of income tax	**7,702**	**7,110**
Total comprehensive income	**25,336**	**14,357**
Total comprehensive income attributable to		
Owners of the parent company	22,202	13,113
Non-controlling interests	3,134	1,244
	25,336	**14,357**

1) Included in the change of provisions for post-employment benefits for 2020 is an adjustment due to changes in actuarial calculation method related to the Swedish ITP2 plan amounting to MSEK –473.

NET FINANCIAL POSITION AND LIQUIDITY

Cash flow from operating and investing activities amounted to MSEK 8,003 (8,658).

Cash flow from operating activities amounted to MSEK 33,188 (31,541). The positive operating cash flow is mainly due to the operating income of MSEK 20,853 (8,719), adjusted for depreciation and amortisation of MSEK 15,042 (14,464), items not affecting cash flow of MSEK –836 (3,699) related to items negatively affecting EBIT that have not yet generated cash flow, combined with tax paid of MSEK –3,670 (–2,857) and a working capital movement of MSEK 2,379 (8,979).

The Group continued to invest in the transformation of Volvo becoming a fully electric car brand and cash flow from investing activities amounted to MSEK –25,185 (–22,883).

Cash flow from financing activities amounted to MSEK –11,235 (–1,190). Proceeds from new share issue contributed MSEK 20,807 (—), offset by reapayment of loans of MSEK –13,811 (–5,439), repayment of bonds amounting to MSEK –10,199 (—) and paid dividend to shareholders of MSEK –9,887 (–4).

Total cash and cash equivalents including marketable securities increased to MSEK 71,273 (70,090). Net cash amounted to MSEK 16,588 (5,446). Including undrawn credit facilities of MSEK 13,377 (24,700), liquidity was at MSEK 84,650 (94,790).

EQUITY

Total equity increased to MSEK 113,564 (74.106), resulting in an equity ratio of 34,0 (24,0) per cent. The change is mainly attributable to the issue of new shares in Volvo Car AB of MSEK 19,741, divestment of shares in Volvo Car AB of MSEK 2,985, positive net income of MSEK 17,634, positive effect in other comprehensive income of MSEK 7,702 and capital contribution from non-controlling interests of MSEK 1,267 offset by dividends to shareholders of MSEK –9,887, including MSEK 179 to preference shareholders and MSEK 9,708 to non-controlling interests. The change in other comprehensive income is related to a positive foreign exchange translation effect, including hedges of net investments in foreign operations of SEK 4.2 bn (net of tax) and remeasurements of provisions for post-employment benefits of SEK 2.4 bn (net of tax), mainly due to higher interest rates. This was partly offset by a negative change in cash flow hedge reserve from unrealised hedge contracts of SEK –1.8 bn (net of tax), whereof hedge contracts recycled to the income statement amounted to SEK 0.3 bn. The change in value of cash flow hedges is mainly due to a weakened SEK against most major currencies.

Consolidated Balance Sheets

MSEK	Note	Dec 31, 2021	Dec 31, 2020
ASSETS			
Non-current assets			
Intangible assets	15	43,748	37,234
Tangible assets[1]	7, 16	73,882	64,165
Investments in joint ventures and associates	13	11,865	17,055
Other long-term securities holdings	20	37,089	35,003
Deferred tax assets	14	7,367	7,476
Other non-current interest-bearing receivables		5,046	—
Derivative assets, non-current[2]	20	169	1,277
Other non-current assets	17	4,997	3,622
Total non-current assets		**184,163**	**165,832**
Current assets			
Inventories	18	36,562	35,515
Accounts receivable	4, 19	18,438	14,882
Current tax assets		879	784
Derivative assets, current[2]	20	824	718
Other current assets	19	12,154	12,792
Marketable securities	21	7,996	8,087
Cash and cash equivalents	21	63,277	62,003
Assets held for sale	33	9,936	7,849
Total current assets		**150,066**	**142,630**
TOTAL ASSETS		**334,229**	**308,462**
EQUITY & LIABILITIES			
Equity	22		
Equity attributable to owners of the parent company		92,731	61,797
Non-controlling interests		20,833	12,309
Total equity		**113,564**	**74,106**
Non-current liabilities			
Provisions for post-employment benefits	23	11,961	14,187
Deferred tax liabilities	14	1,947	1,044
Other non-current provisions	24	8,647	8,179
Liabilities to credit institutions	20	18,581	39,331
Bonds, non-current	20	22,378	24,768
Non-current contract liabilities to customers	25	6,967	5,630
Other non-current interest-bearing liabilities	7	5,509	4,815
Derivative liabilities, non-current[2]	20	1,609	1,199
Other non-current liabilities	4, 26	6,039	4,579
Total non-current liabilities		**83,638**	**103,732**
Current liabilities			
Current provisions	24	8,607	8,530
Liabilities to credit institutions	20	13,726	4,306
Bonds, current	20	—	7,054
Current contract liabilities to customers	25	22,929	21,842
Accounts payable	4	48,191	46,890
Current tax liabilities		1,404	1,486
Other current interest-bearing liabilities	7	1,462	1,160
Derivative liabilities, current[2]	20	2,312	1,820
Other current liabilities	27	34,087	35,787
Liabilities held for sale	33	4,309	1,749
Total current liabilities		**137,027**	**130,624**
TOTAL EQUITY & LIABILITIES		**334,229**	**308,462**

1) Assets held under operating leases are from 2021 reported as a part of Tangible assets. Comparative figures have been adjusted accordingly.
2) Derivative assets and liabilities were previously reported as a part of Other assets/liabilities. Comparative figures have been adjusted accordingly.

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, 2020	**–**	**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	–	–	–	–	–	–992	–992	–	–992
Translation difference on foreign operations	–	–	–	–2,666	–	–	–2,666	–710	–3,376
Translation difference of hedge instruments, 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									
Transactions with non-controlling interests[3]	–	–	–	–	–	–119	–119	119	–
Capital injection into joint venture under common control[4]	–	–	–	–	–	–1,901	–1,901	–	–1,901
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**
Net income	**–**	**–**	**–**	**–**	**–**	**15,805**	**15,805**	**1,829**	**17,634**
Other comprehensive income									
Change in fair value of other long-term securities holdings[2]	–	–	–	–	2,770	–	2,770	–	2,770
Remeasurements of provisions for post-employment benefits	–	–	–	–	–	3,022	3,022	101	3,123
Translation difference on foreign operations	–	–	–	3,030	–	–	3,030	1,501	4,531
Translation difference of hedge instruments of net investments in foreign operations	–	–	–	–225	–	–	–225	–40	–265
Change in fair value of cash flow hedge related to currency and commodity price risks	–	–	–	–	–2,343	–	–2,343	–297	–2,640
Currency and commodity risk hedge contracts recycled to income statement	–	–	–	–	328	–	328	–2	326
Tax attributable to items recognised in other comprehensive income	–	–	–	46	414	–645	–185	42	–143
Other comprehensive income	**–**	**–**	**–**	**2,851**	**1,169**	**2,377**	**6,397**	**1,305**	**7,702**
Total comprehensive income	**–**	**–**	**–**	**2,851**	**1,169**	**18,182**	**22,202**	**3,134**	**25,336**
Transactions with owners									
New share issue in Volvo Car AB	–	–	–	–	–	4,279	4,279	15,462	19,741
Divestment of shares in Volvo Car AB	–	–	–	–	–	2,686	2,686	299	2,985
Divestment of non-controlling interests	–	–	–	–	–	163	163	–229	–66
Transactions with non-controlling interests	–	–	–	–	–	1,716	1,716	–1,716	–
Business combination under common control[4]	–	–	–	–	–	67	67	15	82
Capital contribution from non-controlling interests[3]	–	–	–	–	–	–	–	1,267	1,267
Dividend to shareholders[5]	–	–	–	–	–	–179	–179	–9,708	–9,887
Transactions with owners	**–**	**–**	**–**	**–**	**–**	**8,732**	**8,732**	**5,390**	**14,122**
Balance at December 31, 2021	**–**	**11,497**	**7,993**	**1,532**	**2,765**	**68,944**	**92,731**	**20,833**	**113,564**

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.

Consolidated Statement of Cash Flows

MSEK	Note	2021	2020
OPERATING ACTIVITIES			
Operating income		20,853	8,719
Depreciation and amortisation of non-current assets	9	15,043	14,464
Dividends received from joint ventures and associates[1)]	13	1,991	333
Interest and similar items received		655	591
Interest and similar items paid		–1,762	–1,876
Other financial items		–1,465	–511
Income tax paid		–3,670	–2,857
Adjustments for items not affecting cash flow	30	–836	3,699
		30,809	**22,562**
Movements in working capital			
Change in inventories		3,687	–456
Change in accounts receivable		2,893	–2,186
Change in accounts payable		–3,460	5,306
Change in provisions		–1,127	–303
Change in contract liabilities to customers		2,239	3,872
Change in other working capital assets/liabilities		–1,853	2,746
Cash flow from movements in working capital		**2,379**	**8,979**
Cash flow from operating activities		**33,188**	**31,541**
INVESTING ACTIVITIES			
Investments in shares and participations	13, 31	–11,670	–5,411
Capital repayments from shares and participations		132	464
Repayment of loans from affiliated companies		—	1,251
Disposals of shares and participations		6,243	—
Dividends received from investments in other long-term securities holdings		4,098	—
Investments in intangible assets		–11,814	–8,620
Investments in tangible assets		–12,148	–10,998
Disposal of tangible assets		123	431
Other		–149	—
Cash flow from investing activities		**-25,185**	**-22,883**
Cash flow from operating and investing activities		**8,003**	**8,658**
FINANCING ACTIVITIES			
Proceeds from credit institutions		1,579	5,482
Proceeds from bond issuance	20	—	5,209
New share issue		20,807	—
Capital contribution from Non-controlling interest		360	—
Repayment of bond		–10,199	—
Repayment of liabilities to credit institutions		–13,811	–5,439
Repayment of interest-bearing liabilities		–1,450	–1,350
Dividend paid to shareholders and/or Non-controlling interest[2)]	4	–9,887	–4
Investments in marketable securities	21	–15,015	–8,805
Matured marketable securities		15,475	4,113
Other[3)]		906	–396
Cash flow from financing activities		**-11,235**	**-1,190**
Cash flow for the year		**-3,232**	**7,468**
Cash and cash equivalents at beginning of year		**62,003**	**57,351**
Exchange difference on cash and cash equivalents		4,506	–2,816
Cash and cash equivalents at end of year	21	**63,277**	**62,003**

1) During 2021, Dividends received from joint ventures and associates was reclassified from Investing to Operating activities and the comparative figures have been adjusted accordingly.
2) For further information, see Changes in Consolidated Equity on page 27.
3) Other is attributable to realised result from financial instruments MSEK 947 (–424) and change in other non-current liabilitities of MSEK – 42 (28).

Notes to the Consolidated Financial Statements

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

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.

New accounting principles

New accounting principles 2021

IASB has published amendments to standards that were endorsed by EU, effective after 1 January 2021. These additions have not had any significant impact on the financial statements.

New accounting principles 2022

IASB has published amendments to standards that were endorsed by EU, effective after 1 January 2022. None of these are expected to have a material effect on the financial statements.

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	**2021**	2020	**2021**	2020
China	CNY	1.32	1.34	1.43	1.25
Euro zone	EUR	10.13	10.51	10.29	10.02
Great Britain	GBP	11.74	11.90	12.26	11.16
United States	USD	8.53	9.26	9.07	8.17
Japan	JPY	0.08	0.09	0.08	0.08

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.

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 – Tangible assets. 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

In year 2020, the Group fulfilled and overachieved its emission targets, set by the EU. The Group entered 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 included CO_2 emission credits from Volvo Car's joint venture Polestar. The compensation received by Ford was 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:	**2021**	**2020**
China	63,575	61,286
US	52,019	40,581
Europe[1]	120,903	121,911
of which Sweden	*28,116*	*25,548*
of which Germany	*16,823*	*18,319*
of which United Kingdom	*15,610*	*15,866*
Other markets	45,477	39,112
of which Japan	*7,477*	*7,345*
of which South Korea	*5,893*	*5,059*
Total	**281,974**	**262,890**

The Revenue allocated to category:		
Sale of products and related goods and services	251,228	239,620
Sale of used cars	21,051	16,288
Revenue from subscription, leasing and rental business	3,497	2,706
Sale of licences and royalties	2,670	2,068
JV contract manufacturing	1,622	–
Other revenue[2]	1,906	2,208
Total	**281,974**	**262,890**

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

3 Expenses by nature

	2021	**2020**
Material cost incl. freight, distribution and warranty	–187,435	–185,277
Personnel	–37,884	–34,759
Amortisation/depreciation[1]	–15,043	–14,464
Other	–21,845	–18,126
Total	**-262,207**	**-252,626**

1) The amortisation expenses for 2020 were affected by adjustments of the useful life period to reflect updated assumptions and cycle plan changes.

The amounts presented as Personnel have been reduced by capitalised salary costs related to product development. Received government grants (see Note 10 - Government grants) have reduced the amounts presented as Personnel and Other.

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 being performed on commercial terms.

Significant transactions and agreements with Related parties during the year
- In January, Geely Holding divested Polestar Automotive (Shanghai) Co., Ltd. following an agreement signed in December 2020. The company was consequently converted into a wholly-owned subsidiary of Volvo Cars (China) Investment Co., Ltd. The transaction had no impact on the Group balance sheet, other than a reclassification of shares in joint ventures of MSEK 1,882 to Cash.
- Zenuity AB, the joint venture between Volvo Car Group and Veoneer Sweden AB, distributed a dividend to its shareholders of which Volvo Cars received MSEK 1,175 (326). Since the investment value of Zenuity AB was zero, the dividend was recognised as share of income in the Group.

- In March, Polestar Automotive Holding Ltd Group raised MUSD 550 in external capital from long-term financial investors. The private placement was conducted through newly issued shares and diluted Volvo Cars' ownership in Polestar. The valuation effects in connection with the transaction amounted to MSEK 2,039 and were recognised as income from shares in joint ventures and associates.
- Lynk & Co Investment Co., Ltd, the joint venture between Volvo Car Group, Zheijang Jirun Automobile Co., Ltd and Zheijang Haoqing Automobile Manufacturing Co., Ltd, paid dividend to its shareholders, including MSEK 703 (—) to Volvo Car Group. Furthermore, the joint venture Volvofinans Bank AB paid a dividend of MSEK 107 (—) to its shareholders Volvo Car Group and AB Volverkinvest.
- Volvo Car AB (publ.) distributed dividends of MSEK 179 (—) to the preference shareholders. Furthermore, a dividend of MSEK 9,691 (—) was distributed to the shareholder Zhejiang Geely Holding Group Co., Ltd, whereof MSEK 9,199 from the 50 per cent owned Chinese subsidiary Daqing Volvo Car Manufacturing Co., Ltd. and MSEK 492 from the 50 per cent owned Chinese subsidiary Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd.
- In July, Volvo Cars signed an agreement with PSD Investment Ltd to acquire a smaller part of their shares in Polestar Automotive Holding Ltd. Following the agreement, PSD Investment Ltd sold 7.3 per cent of its shares to Volvo Cars, which increased Volvo Cars share in Polestar from 46.1 per cent to 49.5 per cent. The transaction did not have any effect on Volvo Cars' share of voting power in Polestar Automotive Holding Ltd.
- In July, ECARX Technology Co., Ltd, a related company with the same ultimate shareholder as the Group, but outside the Geely sphere of companies, acquired 15 per cent of the shareholding in Zenseact AB through a directed share issue. The consideration amounted to MSEK 907.
- In July, Volvo Cars and Geely Holding entered into an agreement with the intention for Volvo Cars to acquire the remaining shareholding of the already fully consolidated "Chinese Operations", i.e. the non-controlling interest in the manufacturing plants in Daqing and Chengdu, as well as the R&D centre in Shanghai. The completion of these transactions is subject to regulatory approvals in China, and closing is expected during 2022–2023.
- In September, Volvo Cars and ECARX Technology Co., Ltd, jointly established the company HaleyTek AB, with the aim to further develop and commercialise the infotainment system used in Volvo and Polestar cars. Based on Volvo Cars' 60 per cent ownership HaleyTek is a consolidated subsidiary in the Group and ECARX Technology Co., Ltd has a non-controlling interest of 40 per cent in the company. The capital contribution from ECARX Technology Co., Ltd to HaleyTek AB amounted to MSEK 360.
- On 27 September 2021, Polestar announced its intentions to be listed on Nasdaq New York, through the special purpose acquisition company (SPAC), Gores Guggenheim. Polestar's implied enterprise value is approximately USD 20 bn. The business combination is expected to be finalised during the first half of 2022. In connection with, and subject to, completion of the de-SPAC, Polestar has entered into subscription agreements for a share issue, raising gross proceeds of approximately MUSD 250, whereof the Group has intended to subscribe for up to MUSD 100 worth of shares, with a current executed subscription agreement for a value of MUSD 11. In addition, immediately prior to completion of the de-SPAC, the Group intends to subscribe for convertible preference shares in Polestar up to a value of MUSD 600 with a current executed subscription agreement for a value of MUSD 589. The proceeds received by Polestar for the convertible preference shares shall be used to repay accounts payable to the Group. The final amounts to be invested in the share issue and in convertible preference shares may change, but the Group's total additional investment in Polestar shall not exceed MUSD 600. Upon completion of the de-SPAC, it is anticipated that the convertible preference shares will be converted into common shares of class A in Polestar, at a conversion price of USD 10 per share, subject to customary recalculation provisions, and provided, among other things, that the Group directly or indirectly holds less than 50 per cent of voting power in Polestar following the conversion. Following completion of the business combination and the listing on Nasdaq New York, the Group expects to indirectly hold 47.8 per cent of the shares and 49.4 per cent of the votes in Polestar, provided that no existing shareholders in Gores Guggenheim exercise their redemption rights.
- In December, Volvo Cars acquired 100 per cent of the shares in Asia Euro Automobile Manufacturing (Taizhou) Co., Ltd. (previously called Luqiao) from Geely Auto Group Co., Ltd. The investment in shares amounted to MSEK –10,551, including repayment of loans. The framework agreement also includes an option for Volvo Cars to acquire the leased land and building from Zhejiang Jingang Automobile Co., Ltd. The plant produces the new range of the smaller 40-series CMA-based car, the XC40 for Volvo Cars and the Polestar 2 model for Polestar.

Tables of transactions with Related Parties

The information presented below includes all assets and liabilities regarding related parties. All assets and liabilities are current except non-current assets of MSEK 5,196 (694)[3] . For further details refer to section Specification of transactions with Related Parties.

	Sales of goods, services and other		Purchases of goods, services and other	
	2021	2020	**2021**	2020
Related companies[1) 2) 4)]	7,007	5,308	–7,589	–7,091
Associated companies and joint ventures[1)]	1,448	1,303	–1,815	–2,363

	Receivables		Payables	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
Related companies[1) 2) 3) 4)]	18,630	12,652	3,881	5,504
Associated companies and joint ventures[1)]	991	518	499	1,202

1) Related companies are companies within the Geely sphere of companies. Joint ventures within the Geely sphere are presented as Related companies. For joint ventures and associated companies see Note 13 – Investments in joint ventures and associates.
2) Revenue from sale of licences and technology amounted to MSEK 1,471 (1,774).
3) The increase in receivables is primarily due to Polestar receivables which formed part of the Volvo Cars acquisition of the Taizhou plant from Geely.
4) The comparative number related to transactions with Polestar up until mid-September 2020 refers to the Polestar Shanghai Group and transactions thereafter refer to the Polestar Automotive Holding Ltd Group.

Specification of transactions with Related Parties

The Polestar Group
Volvo Car Group recognised revenue related to the sale of technology licences and development of technology of MSEK 1,281 (1,541) . Further, following the acquisition of Taizhou on 1 December 2021, revenue of MSEK 1,641 was recognised related to sale of Polestar cars. The sale of other services, recognised as other income, amounted to MSEK 529 (432). Volvo Car Group sold patents for MSEK 153 (—), which has been recognised as other income. Volvo Car Group's purchases of Polestar cars from Polestar amounted to MSEK –377 (–302). Volvo Car Group's purchases related to a performance enhancement product provided to the end customers amounted to MSEK –227 (–307) . The purchases have been recognised as cost of sales.

Taizhou (previously called Luqiao)
With effect from 1 December 2021, Taizhou plant is a subsidiary within Volvo Car Group. The transactions below cover the period up until the transaction date. The support service for operating the plant has resulted in other income of MSEK 253 (424) . Volvo Car Group has also sold engines to the plant for its production of CMA-based vehicles. The sales have been recognised as revenue of MSEK 845 (922). Volvo Car Group's purchases from Taizhou amounted to MSEK –3,434 (–4,426) and have been recognised as cost of sales. Furthermore, Volvo Car Group provided machinery to the plant through a leasing agreement, which resulted in a non-current asset of MSEK — (694).

Ningbo
Volvo Car Group has several agreements with Ningbo Geely Automobile Research & Development Co., Ltd for research and development of technology of future cars. Volvo Car Group also has an agreement with Ningbo UMD Automobile Transmission Co., Ltd. related to the purchase of gearboxes for PHEV XC40 plug-in hybrid cars as well as an agreement related to the sale of fleet cars to Ningbo Fuhong Auto Sales Co Ltd. The purchase of research and development services from Ningbo amounted to MSEK –938 (—), whereof MSEK –641 (—) has been capitalised as intangible assets. The purchase of gearboxes amounted to MSEK –898 (–716) and has been recognised as cost of sales. The sale of fleet cars amounted to MSEK 791 (747) and has been recognised as revenue.

China-Euro Vehicle Technology AB (CEVT)
Volvo Car Group holds a cost sharing agreement with China-Euro Vehicle Technology AB and Ningbo Geely Automobile Research & Development Co., Ltd regarding development of technology for the CMA platform, where CEVT is the administrator in the cost sharing project. During 2021 the agreement was amended to include technology updates of the CMA platform to be able to use it for future cars. Total purchases of research and development services from CEVT amounted to MSEK –356 (–52) whereof MSEK –315 (–36) has been capitalised as intangible assets.

Zhejiang Forever New Energy
Volvo Car Group has an agreement with Zhejiang Forever New Energy Co., Ltd, for purchases of batteries. The purchases amounted to MSEK –461 (–207) and have been recognised as cost of sales.

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

Other transactions
The Group has issued short-term loans to Geely International (Hong Kong) Ltd. of MUSD 83 (486), Geely Group Ltd. of MEUR — (35) and Geely Financials Denmark A/S of MEUR — (54). The loan to Geely International (Hong Kong) Ltd. is guaranteed by Zhejiang Geely Holding Group Co. Ltd. The Group has a short-term loan from Geely Financials Denmark A/S of MEUR 14 (—).

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.

5 Audit fees

	2021	2020
Deloitte		
Audit fees	–45	–51
Audit-related fees	–15	–8
Tax services	–1	–2
Other services	–5	–2
Total	**-66**	**-63**

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**.

6 Other operating income and expenses

	2021	2020
Other operating income		
Foreign exchange rate gains[1)]	1,618	—
Sold services	1,107	981
Government grants	86	234
Other	1,302	1,227
Total	**4,113**	**2,442**

	2021	2020
Other operating expenses		
Amortisation and depreciation of intangible and tangible assets	–388	–248
Foreign exchange rate loss[2)]	—	–1,011
Royalty	—	–774
Property tax	–124	–124
Other	–1,995	–1,769
Total	**–2,507**	**–3,926**

1) The gross foreign exchange rate gain on operating assets and liabilities amounted to MSEK 1,950 (1,036)
2) The gross foreign exchange rate loss on operating assets and liabilities amounted to MSEK –332 (–2,047)

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 generally has 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 presented as Other non-current and current interest bearing liabilities. The asset is presented as a right of use asset, see Note 16 – Tangible assets. In the income statement, depreciation of the right-of-use asset is presented on the same line item/items with similar expenses. Interest expense on the lease liability is presented as part of finance expenses. In the statement of cash flows, amortisation on the lease liability is presented as a cash flow from financing activities. Payments of interest as well as payments for short-term leases and leases of low value is presented as cash flow from operating activities.

The Group as a lessor

When the Group is a lessor the accounting treatment differs based on the classification into operating and finance leases. The classification is made on the basis of the distribution of risks and rewards incidental to ownership of the lease asset. If they are transferred to the lessee it is classified as a finance lease or if it remains with the Group it is classified as an operating lease.

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.

When accounting for other finance leases, the lease asset is derecognised, and instead a receivable is recognised in the amount of the net investment in the lease, corresponding to the present value of the lease payments less any unguaranteed residual values. Any initial direct costs are included in the net investment in the lease. Income as recognised over the lease term using the effective interest rate.

Sale transactions including repurchase commitments are recognised as operating leases. Operating lease contracts with a maturity less 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 an asset under operating lease, see Note 16 – Tangible asset. 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 requires the Group to make judgemental decisions when determining the lease term for contracts, especially for the 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 have tailored it for our special needs and/or the importance of the underlying asset to the Group's operations.

Lease term

When determining the lease term, management is considering all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option in addition to the non-cancellable lease term. In determining the lease term, those options are only considered if they are reasonably certain. The assessment is reviewed if a significant event or a significant change in circumstances occurs that may affect the assessment.

Discount rate

When determining the discount rate, the Group uses an applicable industrial yield curve and takes into consideration for example credit risk, adjustment for currency, lease term and 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, 2020	6,638	779	7,417
Additions	704	545	1,249
Divestments and disposals	–147	–196	–343
Reclassifications	–16	—	–16
Effect of foreign currency exchange rate differences	–279	–20	–299
Balance at December 31, 2020	**6,900**	**1,108**	**8,008**
Acquired through business combinations	1,230	1	1,231
Additions	1,273	123	1,396
Divestments and disposals	–353	–264	–617
Reclassifications	3	—	3
Effect of foreign currency exchange rate differences	299	17	316
Balance at December 31, 2021	**9,352**	**985**	**10,337**
Accumulated depreciation			
Balance at January 1, 2020	–981	–221	–1,202
Depreciation expense	–994	–277	–1,271
Divestments and disposals	180	187	367
Reclassifications	1	—	1
Effect of foreign currency exchange rate differences	46	19	65
Balance at December 31, 2020	**–1,748**	**–292**	**–2,040**

Right-of-use asset	Buildings and land	Machinery and equipment	Total
Acquired through business combinations	–92	—	–92
Depreciation expense	–1,138	–249	–1,387
Divestments and disposals	25	77	102
Reclassifications	2	11	13
Effect of foreign currency exchange rate differences	–2	9	7
Balance at December 31, 2021	**–2,953**	**–444**	**–3,397**
Net balance at December 31, 2020	**5,152**	**816**	**5,968**
Net balance at December 31, 2021	**6,399**	**541**	**6,940**

Lease liabilities	2021	2020
Non-current lease liabilities	5,509	4,815
Current lease liabilities	1,477	1,175

The maturity analysis of lease liabilities is presented in Note 20 – Financial risks and financial instruments.

Amounts recognised in profit and loss	2021	2020
Deprecation expenses on right-of-use assets	–1,387	–1,271
Interest expense on lease liabilities	–215	–219
Expense relating to short-term leases	–134	–123
Expense relating to leases of low value assets	–72	–29
Expense relating to variable lease payments not included in the measurement of the lease liability	–45	–29
Income from sub-leasing right-of-use assets	159	46

The total cash outflow for leases amounts to MSEK 1,694 (1,625). The amount include 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 contains a maturity analysis of leasing payments and the total of undiscounted lease payments that will be received after the balance sheet day.

Future lease income of operating lease contracts, undiscounted	2021	2020
No later than 1 year	1,678	1,217
Later than 1 year but no later than 2 years	747	466
Later than 2 year but no later than 3 years	75	8
Later than 3 year but no later than 4 years	21	7
Later than 4 year but no later than 5 years	17	7
Later than 5 years	86	83
Total	**2,624**	**1,788**

Finance lease contracts

In 2021 the Group are into finance leasing arrangement as a lessor of cars in China as well as arrangement as a manufacturing finance lessor. The finance leasing arrangements for certain equipment in 2020 is no longer valid in 2021 due to organisational changes.

Amounts receivable under finance leases	2021	2020
No later than 1 year	154	125
Later than 1 year but no later than 2 years	282	125
Later than 2 year but no later than 3 years	199	125
Later than 3 year but no later than 4 years	40	125
Later than 4 year but no later than 5 years	19	125
Later than 5 years	–	338
Undiscounted lease payments	**694**	**963**
Less unearned finance income	37	146
Net investment in the lease	**657**	**817**

The following table presents the amounts included in income statement

	2021	2020
Finance income on the net investment in finance leases	7	29

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 of Volvo Car Group are subject to decision by the Annual General Meeting of 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 (LTVP)

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. Additional social expenses are reported as a liability, revalued at each balance sheet date.

Volvo Car AB programme

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

The programme did not require any recognition of personnel cost as it was 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:	**2021**	Of whom women	2020	Of whom women
Sweden	24,630	27%	21,104	27%
Nordic countries other than Sweden	641	35%	587	33%
Belgium	4,749	14%	4,789	14%
Europe other than the Nordic countries and Belgium	1,452	36%	1,316	35%
North and South America	1,876	35%	1,850	35%
China	8,422	16%	7,709	17%
Asia other than China	937	20%	905	20%
Other countries	104	40%	122	43%
Total[1]	**42,811**	**24%**	**38,382**	**24%**

Number of board members and senior executives[2]	**Dec 31, 2021** Board members (Chief Executive Officers and senior executives)	Of whom women	Dec 31, 2020 Board members (Chief Executive Officers and senior executives)	Of whom women
Parent company	4	25%	4	25%
Subsidiaries	175 (481)	20% (26%)	131 (301)	23% (29%)
Total	**179 (481)**	**20% (26%)**	**135 (301)**	**23% (29%)**

	2021		2020	
Salaries and other remuneration	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	25	15 (7)	10	7 (4)
Subsidiaries	23,302	9,606 (4,841)	21,341	8,994 (4,646)
Total	**23,327**	**9,621 (4,848)**	**21,351**	**9,001 (4,650)**

1) The FTE number in 2020 and 2021 reflects temporary layoffs.
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 2021.

Board member	**2021** Ordinary remuneration, TSEK	2020 Ordinary remuneration, TSEK
Eric Li (Li Shufu), Chairman	–	–
Daniel Li (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. The CEO is entitled to remuneration consisting of fixed annual salary, STVP for Senior Leaders, LTVP and other benefits such as 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 Geely Sweden Holdings AB. Furthermore the CEO is, in the case of termination by Geely Sweden Holdings AB, 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, except those who participate in the STVP for Senior Leaders. 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. The pay-out is capped at 200% of the so-called target bonus. 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. To be eligible for pay-out, the employee must remain within Volvo Car Group at the pay-out date. 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 Sweden 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. To be eligible for pay-out, the employee must remain within the Group on the pay-out date. 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 2,432 (1,109), 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. Under the 2019 programme, the pay-out solely depends on the development of the market value of Volvo Car Group during the term of the programme. Under the 2020 and 2021 programmes, the pay-out depends on the development of the market value of Volvo Car Group as well as satisfaction of certain financial performance factors related to profit (EBIT) and revenue growth measured over the term of the programme, as established by the Board of Directors.

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. The 2019 programme is capped to a maximum of 200% of the value of the award at grant and the 2020 and 2021 programmes are 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 Volvo Car Group on the pay-out date.

Liability and cost

The cost for the LTVP-programme amounted to MSEK 73 (110) including social security expenses. The total liability amounted to MSEK 139 (180).

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 conferred the right to subscribe for one share in Volvo Car Corporation for a predetermined amount, with the last day for subscription being 30 September 2021.

If a participant is no longer employed, and also under other specified circumstances, Volvo Car AB (publ.) had 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, had an option to sell the warrants at fair market value to Volvo Car AB (publ).

On 13 September 2021, the warrants were excercised by all then-current participants, in accordance with the terms of the investment programme, who thus received shares in Volvo Car Corporation. In connection with the listing of the common shares of class B on Nasdaq Stockholm, the participants' shares in Volvo Car Corporation was exchanged for shares in Volvo Car AB through an issue in kind. In total 437 shares in Volvo Car Corporation was exchanged for 1,721,903 new common shares of class B in Volvo Car AB. When the warrants were excercised the financial liability was reversed and accounted for as a financial income in the income statement.

Considering a weighted assessment of the conditions in the agreement, the programme was accounted for as a share-based programme with cash-settlement and was 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 was offered to purchase the warrants at fair market value, the programme has not render any personnel costs.

TSEK	Number of warrants	Assessed fair market value
At the beginning of the year	567	153,767
Sold during the year	–130	–35,255
Change in valuation	—	45,619
Excercised	437	164,131
At the end of the year	**–**	**–**

Exercise of warrants	Number of shares in Volvo Car Corporation	Number of common shares of class B in Volvo Car AB
CEO in Geely Sweden Holdings AB	11	43,343
CEO, EMT and Board of Directors in Volvo Car AB (publ.)	426	1,678,560
Total	**437**	**1,721,903**

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, Polestar Group and Polestar Board. Each participant was offered to purchase shares in Volvo Car 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 0.16 per cent.

Following completion of Polestar's announced business combination with Gores Guggenheim, the intention is that the Polestar programme shall be dissolved in accordance with the terms of the programme, entailing that the participants after dissolvement shall hold shares directly in Polestar Automotive Holding UK Ltd. The participants may have a 180 days' lock-up period following completion of the de-SPAC.

TSEK	Number of shares	Assessed fair market value
At the beginning of the year	38,125	38,125
Redeemed during the year	—	—
Sold during the year	—	—
Change in valuation	—	222,845
At the end of the year	**38,125**	**260,970**

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	2021			2020		
	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 of Geely Sweden Holdings AB	3,543	2,942	3,179 (1,117)	3,278	2,036	3,001 (1,372)
Other members of EMT[4]	6,444	2,311	7,109 (4,279)	2,633	670	2,194 (1,201)
Total	**9,987**	**5,253**	**10,288 (5,396)**	**5,911**	**2,706**	**5,195 (2,573)**

3) Includes benefits such as healthcare and company car.
4) The EMT of Geely Sweden Holdings AB consists of five members and the CEO.. The EMT includes two external consultants whose invoiced fees of TSEK 1,674 (906) are included in administration expenses.

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
Product 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 tangible assets

Tangible assets are systematically depreciated over the expected useful life of the asset. Each component of tangible assets, 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 –Tangible assets.

Operating income includes depreciation and amortisation as specified below:	**2021**	**2020**
Software	–367	–288
Product development	–4,607	–4,051
Other intangible assets	–792	–514
Buildings and land improvements	–929	–877
Machinery and equipment	–6,399	–7,119
Right of use asset[1)]	–1,387	–1,271
Assets under operating leases	–562	–344
Total	**-15,043**	**-14,464**

Depreciation and amortisation according to plan by function:	**2021**	**2020**
Cost of sales	–7,492	–8,061
Research and development expenses	–5,238	–4,667
Selling expenses	–778	–507
Administrative expenses	–1,147	–1,003
Other income and expense	–388	–226
Total	**-15,043**	**-14,464**

1) Depreciation of Right of use assets amounted to MSEK –1,387 (–1,271), whereof MSEK –1,165 (–994) is related to Buildings and land, and MSEK –222 (–277) is related to Machinery and equipment.

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 the asset. Government grants recognised for as a cost reduction, are recognised in the same periods as the expenses for which the grant was intended to compensate for has 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 a depreciable asset as a reduced depreciation expense. In cases where the received government grant is not intended to compensate for any expenses or the 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.

Judgement includes assessing if 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 2021, the government grants received amounted to MSEK 472 (1,340) and the government grants realised in the income statement amounted to MSEK 355 (1,811). Of the government grants realised in the income statement, MSEK 75 (1,013) was recognised as an effect of the Covid-19 pandemic. Furthermore, grants of MSEK — (625) related to support of production facilities of new car models has reduced the carrying amount of the related machinery and equipment.

Non-monetary government grants have been 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 the manufacturing site.

11 Financial income

ACCOUNTING PRINCIPLES

Financial income consist of interest income on interest bearing assets in accordance to the effective interest method, fair value changes on equity holdings and fair value changes on financial derivatives and finally received dividends. Information with regards to the classification of financial instruments, see Note 20 – Financial risks and Financial instruments.

	2021	2020
Net foreign exchange gain on financing activities	—	408
Interest income on bank deposits from related parties	169	198
Interest income on bank deposits	474	417
Fair value through profit or loss[1)]	14	1,943
Dividends received	4,098	—
Other financial income	165	125
Total	**4,920**	**3,091**

1) For 2020, the changes in fair value mainly related to shares, warrants and earn-out shares in Luminar.

12 Financial expenses

ACCOUNTING PRINCIPLES

Financial expenses mainly consist of interest expenses and changes related to measurement to fair value on equity holdings and financial derivatives. Information of the classification of financial instruments, see Note 20 – Financial risks and Financial instruments.

	2021	2020
Net foreign exchange rate losses on financing activities	–25	—
Interest effect from the measurement of repurchase obligations	–158	–175
Interest expenses related to provisions for post-employment benefits	–204	–208
Expenses for credit facilities	–276	–59
Interest expenses to related parties	—	–1
Interest expenses	–1,629	–2,013
Interest expenses related to lease liabilities	–228	–209
Fair value through profit or loss[1)]	–777	—
Other financial expenses	–347	–209
Total	**–3,644**	**–2,874**

1) Mainly inncluding fair value changes related to shares, warrants and earn-out shares in Luminar.

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 or joint venture equals or exceeds its interest in the associate or joint venture, 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.

	2021	2020
Share of income in joint ventures	–521	–64
Share of income in associates	1	3
Total	**-520**	**-61**

Share of income in joint ventures and associates is specified below:	2021	2020
V2 Plug-In Hybrid Vehicle Partnership HB[1)]	—	365
Volvofinans Bank AB[2)]	269	222
Zenuity AB[3)]	1,175	297
Lynk & Co Investment Co., Ltd[4)]	305	160
Polestar Group[5)6)]	–2,397	–2,817
Geely Financials Denmark A/S[7)]	193	587
Other companies	–65	–4
Total	**-520**	**-61**

Investments in joint ventures and associates	Dec 31, 2021	Dec 31, 2020
At beginning of the year/acquired acquisition value	17,055	16,036
Share of net income	–520	–61
Investment in Saxo Geely Tech Holding A/S[9)]	152	822
Investment in Zenuity AB[3)]	—	240
Investment in Polestar Automotive Holding Ltd[6)]	2,068	3,773
Investment in World of Volvo AB[10)]	—	125
Investment in Volvo Car Financial Services UK Ltd[11)]	—	388
Disposal in Geely Financials Denmark A/S[7)]	–3,341	—
Reversal internal profit elimination[5)6)]	–310	–213
Reclassification from joint venture to subsidiary[5)]	–1,882	—
Shareholder transaction in joint venture under common control[5)]	—	–1,901
Obligation to cover accumulated losses classified as Non-current liabilities[3)]	—	–210
Capital repayment V2 Plug-In Hybrid Vehicle Partnership HB[1)]	–132	–464
Dividends	–1,991	–333
Translation difference	766	–1,147
Total	**11,865**	**17,055**

The Group's carrying amount in joint ventures and associates:	Corp. ID no.	Country of incorporation	% interest held	**Dec 31, 2021**	Dec 31, 2020
Joint ventures					
Geely Financials Denmark A/S[7)]	38976176	Denmark	49	3,809	6,480
Saxo Geely Tech Holding A/S[9)]	15731249	Denmark	50	1,125	874
Volvo Trademark Holding AB	556567-0428	Sweden	50	6	6
V2 Plug-In Hybrid Vehicle Partnership HB[1)]	969741-9175	Sweden	—	—	132
Volvofinans Bank AB[2)]	556069-0967	Sweden	50	2,811	2,649
VH Systems AB	556820-9455	Sweden	50	37	38
Zenuity AB[3)]	559073-6871	Sweden	50	—	—
World of Volvo AB[10)]	559233-9849	Sweden	50	114	113
VCFS Germany GmbH	HRB 85091	Germany	50	2	2
VCIS Germany GmbH	HRB 86800	Germany	50	6	4
Volvo Car Financial Services UK Ltd[11)]	12718441	United Kingdom	50	370	388
Polestar Automotive (Shanghai) Co., Ltd[5)]	91310000MA1FL17P99	China	50	—	1,817
Polestar Automotive Holding Ltd[6)]	2942747	Hong Kong, China	50	106	1,110
GV Automobile Technology (Ningbo) Co., Ltd[8)]	91330201MA2AGKLQ8E	China	50	36	36
Lynk & Co Investment Co., Ltd[4)]	91330200MA2AF25Y7B	China	30	3,418	3,380
Associated companies					
VCC Tjänstebilar KB	969673-1950	Sweden	50	3	3
VCC Försäljnings KB	969712-0153	Sweden	50	1	2
Volvohandelns PV Försäljnings KB	916839-7009	Sweden	50	2	4
Volvohandelns PV Försäljnings AB	556430-4748	Sweden	50	12	12
Zhejiang Aurobay Powertrain Co., Ltd[12)]	91330200MA2KP5DK52	China	33	—	—
Trio Bilservice AB	556199-1059	Sweden	33	1	—
Göteborgs Tekniska College AB	556570-6768	Sweden	26	5	4
Leiebilservice AS	879 548 632	Norway	20	1	1
Carrying amount, participations in joint ventures and associates				**11,865**	**17,055**

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 was 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. During 2021, V2 Plug-In Hybrid Vehicle Partnership HB provided a repayment of MSEK 132 (464) to Volvo Car PHEV Holding AB. In 2021, the Group acquired 100 per cent of the shares in Vattenfall PHEV Holding AB hence V2 Plug-In Hybrid is since May 2021 a wholly owned subsidiary within the Group.
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. 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 2020, 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 from Zenuity AB and its subsidiary Zenuity Software Technology Co., Ltd. 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.
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 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 stand-alone 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 have 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. The transaction had no impact on Group Balance sheet, other than a reclassification of shares in joint ventures of MSEK 1,882 to Cash. Share of income from Polestar Grouop up until mid-September 2020 refers to the Polestar Automotive Shanghai Group and share of income thereafter refers to the Polestar Automotive Holding Group.

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. In March 2021, Polestar Automotive Holding Ltd Group raised external capital from long-term financial investors. The private placement was conducted through newly issued shares and diluted the Group's ownership in Polestar. The valuation effects in connection with the transaction amounted to MSEK 2,039 and were recognised as income from shares in joint ventures and associates. In July 2021, PSD Investment Ltd sold 7.3 per cent of its shares to Volvo Cars, which increased Volvo Cars' share in Polestar from 46.1 per cent to 49.5 per cent following an investment of MSEK 2,068. In September 2021, Polestar annnounced its intention to be listed in a planned combination with Gores Guggenheim.
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. Following an announcement made in October 2021, the joint venture has completed its mission and are now in the process of liquidation.
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 August 2021, the company Zhejiang Aurobay Powertrain Co., Ltd. (Aurobay) was established as a subsidiary to Volvo Cars (China) Investment Co., Ltd. In November 2021, the subsidiary was reclassified to an associated company when Zhejiang Geely Chantou Holding Co., Ltd was registered as majority owner of the company. Thereafter Zhejiang AurobayPowertrain Co., Ltd. (Aurobay) is owned by Volvo Cars (China) Investment Co. Ltd (33 per cent) and Zhejiang Geely Chantou Holding Co., Ltd (67 per cent). The purpose of the company is to be a global supplier of complete powertrain solutions including next generation combustion engines, transmissions and hybrid solutions. On 31 January 2022, the associated company Aurobay acquired the 50 per cent owned subsidiary Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. from Volvo Cars (China) Investment Co., Ltd., for further information see Note 31 – Business Combinations.

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	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Percentage voting/ownership	49	49/95	50	50	50	50	30	30	—	50	50	50
Non-current assets	8,233	8,141	38,799	37,390	—	—	19,901	14,093	—	7	13,628	12,136
Cash and cash equivalents	9	4	2,262	2,357	7	232	2,419	826	—	7,429	6,863	2,995
Other current assets	154	95	3,995	4,352	1	2,139	13,241	15,058	—	—	8,586	5,016
Total assets	**8,396**	**8,240**	**45,056**	**44,099**	**8**	**2,371**	**35,561**	**29,977**	**–**	**7,436**	**29,077**	**20,147**
Equity[13]	8,243	7,607	4,870	4,546	7	2,364	11,354	11,230	—	7,436	931	5,537
Non-current liabilities[13) 14) 15) 16)]	—	—	37,661	37,084	—	—	5,513	4,609	—	—	1,324	651
Current liabilities[17) 18) 19)]	153	633	2,525	2,469	1	7	18,694	14,138	—	—	26,822	13,959
Total equity and liabilities	**8,396**	**8,240**	**45,056**	**44,099**	**8**	**2,371**	**35,561**	**29,977**	**–**	**7,436**	**29,077**	**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 36,623 (36,093).
15) In Lynk & Co Investment Co., Ltd, the non-current liabilities include financial liabilities of MSEK 1,390 (1,251).
16) In Polestar Automotive Holding Co.,Ltd, the non-current liabilities include financial liabilities of MSEK 604 (—).
17) In Polestar Automotive Holding Ltd, the current liabilities include financial liabilities of MSEK 5,981 (2,921).
18) In Lynk & Co Investment Co., Ltd, the current liabilities include financial liabilities of MSEK 28 (1,251).
19) In Geely Financials Denmark A/S, the current liabilities include financial liabilities of MSEK — (557).
20) Volvofinans Bank AB's equity share in the Group is included with a time lag of one quarter.
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 International Sales (Yuyao) Co., Ltd, Lynk & Co Automobile (Taizhou) Co., Ltd, Ningbo Lynk Automobile Culture 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, Geely Asia Europe (Ningbo Meishan free tradeport) Tecgnology 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, Lynk & Co Sales Spain S.L and Lynk & Co Sales Netherlands B.V..
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 Automotive Holding UK Ltd, PAH UK Merger Sub Inc, 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 GmbH, Polestar Automotive Denmark ApS, Polestar Austria GmbH, Polestar Automotive Finland Oy, Polestar Automotive Korea Ltd, Polestar Automotive Australia Pty Ltd, Polestar Automotive (Shanghai) Distribution PTE. Ltd, Polestar Automotive Luxembourg SARL, Polestar Automotive Czech Republic s.r.o, Polestar Automotive Spain S.L, PLSTR Automotive Portugal Unipessoal, Lda, Polestar Automotive Ireland Ltd, Polestar Automotive Poland Sp.z.o.o, Polestar Automotive Shanghai Co., Ltd, Polestar Automotive Consulting Service (Shangha) Co., Ltd, Polestar Automotive China Distribution Co., Ltd, Polestar Automotive China Distribution Co., Ltd (Taizhou), Polestar Automotive (Chongqing) Co., Ltd and Polestar New Energy Vehicle Co., Ltd.

Summarised income statements	Geely Financials Denmark A/S[7)] 2021	2020	Volvofinans Bank AB[2) 20)] 2021	2020	Zenuity AB[3) 21)] 2021	2020	Lynk & Co Investment Co., Ltd[4) 22)] 2021	2020	Polestar Automotive (Shanghai) Co., Ltd[5) 23)] 2021	2020	Polestar Automotive Holding Ltd[6) 24)] 2021	2020
Revenue	—	—	5,164	4,861	5	2,595	40,036	31,708	—	1,492	11,721	4,048
Profit/loss from continuing operations[25)26)27)28)29)30)]	390	426	414	364	–8	1,894	836	607	—	–2,380	–8,758	–1,826
Profit (loss) for the year	**390**	**426**	**414**	**364**	**-8**	**1,894**	**836**	**607**	**–**	**-2,380**	**-8,758**	**-1,826**
Other comprehensive income for the year	**28**	**-19**	**–**	**–**	**–**	**-3**	**23**	**9**	**–**	**-116**	**-302**	**11**
Total comprehensive income for the year	**418**	**407**	**414**	**364**	**-8**	**1,891**	**859**	**616**	**–**	**-2,496**	**-9,060**	**-1,815**
Dividends received from joint ventures during the year	—	—	107	—	1,175	326	703	—	—	—	—	—

25) In Geely Financials Denmark A/S the profit (loss) for the year includes interest expenses of MSEK –4 (–5).
26) In Volvofinans Bank AB the profit for the year includes depreciation and amortisation of MSEK –9 (–8).
27) In Zenuity AB the profit (loss) for the year includes depreciation and amortisation of MSEK — (–67)..
28) In Lynk & Co Investment Co., Ltd the profit for the year includes depreciation and amortisation of MSEK –3,087 (–2,114), interest income of MSEK 60 (38) and interest expenses of MSEK –90 (–79).
29) In Polestar Automotive (Shanghai) Co., Ltd the loss for the year includes depreciation and amortisation of MSEK — (–1,248), interest income of MSEK — (38) and interest expenses of MSEK — (–143).
30) In Polestar Automotive Holding Ltd the loss for the year includes depreciation and amortisation of MSEK –2,039 (–632), interest income of MSEK 12 (4) and interest expenses of MSEK –382 (–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)] 2021	2020	Volvofinans Bank AB[2) 20)] 2021	2020	Zenuity AB[3) 21)] 2021	2020	Lynk & Co Investment Co., Ltd[4) 22)] 2021	2020	Polestar Automotive (Shanghai) Co., Ltd[5) 23)] 2021	2020	Polestar Automotive Holding Ltd[6) 24)] 2021	2020
Net asset of the joint venture	8,243	7,607	4,870	4,546	7	2,364	11,354	11,230	—	7,436	931	5,537
Proportion of the Group's ownership in the joint venture	49%	95%	50%	50%	50%	50%	30%	30%	—	50%	50%	50%
Adjustment for call option	—	183	—	—	—	—	—	—	—	—	—	—
Adjustments for differences in accounting principles	—	—	—	—	–4	1	—	—	—	—	—	—
Goodwill	—	—	376	376	—	—	—	—	—	—	—	—
Adjustments for Common control transaction	27	21	—	—	—	—	11	11	—	—	17	—
Elimination of intra-group profit	–338	–639	—	—	—	–736	—	—	—	—	—	—
Capital injection from investors other than the Group	11	25	—	—	—	–447	—	—	—	—	–145	–1,834
Shareholder transaction in joint venture under common control[5)]	—	—	—	—	—	—	—	—	—	–1,901	—	—
Net foreign exchange rate effect	70	–336	—	—	—	—	1	—	—	—	–226	175
Carrying amount of the Group´s participations in joint ventures	**3,809**	**6,480**	**2,811**	**2,649**	**–**	**–**	**3,418**	**3,380**	**–**	**1,817**	**106**	**1,110**

Significant restrictions

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

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	**2021**	**2020**
Current income tax for the year	–2,807	–3,322
Current income tax for previous years	–615	20
Deferred taxes	–1,428	1,350
Withholding taxes[1)]	–96	54
Other taxes	451	209
Total	**-4,495**	**-1,689**

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	**2021**	**2020**
Income before tax for the year	22,129	8,936
Tax according to applicable Swedish tax rate, 20.6% (21.4%)	–4,559	–1,912
Operating income/costs, non-taxable	–107	–17
Witholding taxes	–96	54
Other taxes, non-taxable	451	209
Capital gains or losses, non-taxable	521	–186
Effect of different tax rates	–195	–82
Tax effect on deferred tax due to change of tax rate	—	241
Non recognised deferred tax asset on tax losses carry forward	–353	—
Revaluation of previously non-valued losses and other temporary differences	–190	53
Other	33	–49
Total	**-4,495**	**-1,689**

Income tax recognised in other comprehensive income	**2021**	**2020**
Deferred tax		
Tax effects on cash flow hedge reserve	–472	1,239
Tax effect of remeasurement of provisions for post-employment benefits	669	–212
Tax effects on translation difference of hedge instruments for net investments in foreign operations	–54	79
Total	**143**	**1,106**

Specification of deferred tax assets	**Dec 31, 2021**	**Dec 31, 2020**
Goodwill arising from the purchase of the net assets of a business	102	125
Provision for employee benefits	2,306	2,848
Unutilised tax loss carry-forwards	5,588	5,758
Accruals	4,659	4,531
Reserve for unrealised income in inventory	1,016	721
Provision for warranty	1,370	1,275
Fair value of financial instruments	517	—
Other temporary differences	2,338	1,663
Total deferred tax assets	**17,896**	**16,921**

Netting of assets/liabilities	–10,529	–9,445
Total deferred tax assets, net	**7,367**	**7,476**

Specification of deferred tax liabilities	Dec 31, 2021	Dec 31, 2020
Fixed assets	9,655	8,260
Untaxed reserves	21	44
Auto lease portfolio	2,326	1,984
Fair value of financial instruments	—	27
Other temporary differences	474	174
Total deferred tax liabilities	**12,467**	**10,489**
Netting of assets/liabilities	–10,529	–9,445
Total deferred tax liabilities, net	**1,947**	**1,044**

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 the 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 5,588 (5,758) recognised, deferred tax assets related to tax loss carry-forwards, of MSEK 4,640 (5,085) relates to Sweden with indefinite periods of utilisation. MSEK 667 (440) relates to the US where tax loss carry-forwards are expected to be utilised before expiration date. The assessement is that the 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 the Group may consider them permanently reinvested in the subsidiaries.

Changes in deferred tax assets and liabilities during the reporting period	Dec 31, 2021	Dec 31, 2020
Net book value of deferred taxes at January 1	6,432	6,473
Deferred tax income/expense recognised through income statement	–1,428	1,350
Change in deferred taxes recognised directly in other comprehensive income	–143	–1,106
Reclassifications[2)]	–119	–41
Business combinations	25	—
Exchange rate impact	653	–244
Net book value of deferred taxes at December 31	**5,420**	**6,432**

2) MSEK –40 (–17) of deferred tax assets and MSEK 233 (—) of deferred tax liabilites have been reclassified to assets and liabilities held for sale. For more information, see Note 33 – Assets and liabilities held for sale.

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.

As of December 31, 2021, the recognised tax loss carry-forwards amounted to MSEK 26,384 (27,449). 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, 2021	Dec 31, 2020
Due date		
2022	—	—
2023	—	—
2024	—	33
2025	8	17
2026	559	—
2027–	25,817	27,399
Total	**26,384**	**27,449**

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 benefit. All other subsequent expenditure is expensed in the period in which it is incurred.

Product 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 product development cost[1]	Software	Trademark and goodwill[2]	Other intangible assets[3]	Total
Aquisition cost					
Balance at January 1, 2020	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**
Additions	10,771	969	—	251	11,991
Acquired through business combinations	—	19	245	—	264
Divestments and disposals	–122	–121	—	–96	–339
Reclassifications[4][5]	—	–193	—	1,078	885
Effect of foreign currency exchange differences	—	–46	1	168	123
Balance at December 31, 2021	**63,832**	**5,002**	**4,451**	**8,018**	**81,303**
Accumulated amortisation and impairment					
Balance at January 1, 2020	–21,710	–1,909	–4	–2,948	–26,571
Amortisation expense[6]	–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**
Amortisation expense	–4,607	–367	—	–792	–5,766
Acquired through business combinations	—	–5	—	—	–5
Divestments and disposals	—	99	–2	30	127
Reclassifications[4][5]	—	–54	—	–609	–663
Effect of foreign currency exchange differences	—	60	—	–163	–103
Balance at December 31, 2021	**–30,368**	**–2,315**	**–6**	**–4,866**	**–37,555**
Net balance at December 31, 2020	**27,422**	**2,326**	**4,201**	**3,285**	**37,234**
Net balance at December 31, 2021	**33,464**	**2,687**	**4,445**	**3,152**	**43,748**

1) The Group has capitalised borrowing costs related to product development of MSEK 199 (142). A capitalisation rate of 2.2 (2.4) per cent was used to determine the amount of borrowing costs eligible for capitalisation.
2) Of the total net balance at December 31, 2021, Goodwill amounted to MSEK 847 (603).
3) Other intangible assets are licences, dealer networks and patents.
4) Gross intangible assets of MSEK –341 (–297) and depreciation of MSEK 203 (147) with a net value of MSEK –138 (–150) have been reclassified to assets held for sale. For more information, see Note 33 – Assets and liabilities held for sale.
5) Other intangible assets includes a patent, since during the year the joint venture company V2 Plug-In-Hybrid has been reclassified to a wholly-owned subsidiary. Gross value MSEK 580 and accumulated amortisation MSEK –580.
6) The amortisation expenses for 2020 were affected by adjustments of the useful life period to reflect updated assumptions and cycle plan changes.

Since the majority of the intangible assets with indefinite useful lives in Geely Sweden Holdings (99.6 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 2022–2025 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 2021, 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 (11.5) per cent. No impairment loss was recognised as a result of performed test.

16 Tangible assets

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.

	Buildings and land[1) 2) 3)]	Machinery and equipment[1) 2)3)]	Construction in progress	Right of use assets[1) 4)]	Assets under operating leases[5)]	Total
Aquisition cost						
Balance at January 1, 2020	**24,954**	**110,922**	**5,112**	**7,417**	**3,739**	**152,144**
Additions	288	3,287	4,045	1,249	2,885	11,754
Acquired through business combinations	2	211	6	–	–	219
Divestments and disposals	–158	–2,826	–36	–343	–1,690	–5,053
Reclassification[6)]	475	–8,060	–4,726	–16	–	–12,327
Effect of foreign currency exchange differences	–1,016	–2,214	–191	–299	–43	–3,763
Balance at December 31, 2020	**24,545**	**101,320**	**4,210**	**8,008**	**4,891**	**142,974**
Additions	1,684	3,910	3,016	1,396	5,747	15,753
Acquired through business combinations	534	4,186	13	1,231	562	6,526
Divestments and disposals	–1,243	–10,896	–83	–617	–13	–12,852
Reclassification[6)]	533	8,562	–2,010	3	–2,682	4,406
Effect of foreign currency exchange differences	996	2,420	51	316	91	3,874
Balance at December 31, 2021	**27,049**	**109,502**	**5,197**	**10,337**	**8,596**	**160,681**
Accumulated depreciation and impairment						
Balance at January 1, 2020	**-10,430**	**-65,810**	**–**	**-1,202**	**-496**	**-77,938**
Depreciation expense	–877	–7,119	–	–1,271	–344	–9,611
Acquired through business combinations	–1	–92	–	–	–	–93
Divestments and disposals	86	1,726	–	367	436	2,615
Reclassification[6)]	134	4,832	–	1	–	4,967
Effect of foreign currency exchange differences	269	914	–	65	3	1,251
Balance at December 31, 2020	**-10,819**	**-65,549**	**–**	**-2,040**	**-401**	**-78,809**
Depreciation expense	–929	–6,399	–	–1,387	–562	–9,277
Acquired through business combinations	–97	–984	–	–92	–107	–1,280
Divestments and disposals[1)]	800	6,332	–	102	1	7,235
Reclassification[6)]	–46	–3,852	–	13	452	–3,433
Effect of foreign currency exchange differences	–213	–1,023	–	7	–6	–1,235
Balance at December 31, 2021	**-11,304**	**-71,475**	**–**	**-3,397**	**-623**	**-86,799**
Net balance at December 31, 2020	**13,726**	**35,771**	**4,210**	**5,968**	**4,490**	**64,165**
Net balance at December 31, 2021	**15,745**	**38,027**	**5,197**	**6,940**	**7,973**	**73,882**

1) Includes an impairment loss of MSEK –89 (–22).
2) The Group has no mortgages in Buildings and land or Machinery and equipment. For further information regarding pledged assets, see Note 28 – Pledged assets.
3) The Group has capitalised borrowing costs related to Machinery and equipment of MSEK 2 (2).
4) For information regarding Right of use assets, see Note 7 – Leasing.
5) Assets under operating leases mainly relate to vehicles sold with repurchase commitments and contracts under the name of Care by Volvo.
6) Gross tangible assets of MSEK –12,448 (–11,618) and depreciation of MSEK 5,010 (5,024) with a net value of MSEK –7,438 (–6,594) have been reclassified to assets held for sale. For more information, please see Note 33 – Assets and liabilities held for sale.

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.

17 Other non-current assets

	Dec 31, 2021	Dec 31, 2020
Restricted cash	271	274
Endowment insurance for pensions	395	379
Rental deposition	56	50
Other non-current assets	4,275	2,919
Total	**4,997**	**3,622**

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, 2021	Dec 31, 2020
Raw materials and consumables	189	106
Work in progress	10,731	7,565
Current assets held under operating lease	6,147	8,186
Finished goods and goods for resale	19,495	19,658
Total[1]	**36,562**	**35,515**
Of which value adjustment reserve:	–713	–858

1) MSEK 1,245 (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 215,791 (208,132). 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.

19 Accounts receivable and other current assets

ACCOUNTING PRINCIPLES

Accounts receivables are recognised at amortised cost. An allowance for expected credit loss is recognised when the receivable is initially recognised. The recognised allowance for credit losses are consisting 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 allowance is based on a multiplier consisting of average historical write-offs and forward-looking macroeconomic data. In these cases there has not yet been any events incurred showing any inability to pay.

If it has been determined that an accounts receivable is uncollectible, it will be written off and removed. It usuallly means that collection have been unsuccessful and an entity has no reasonable expectations of recovering the contractual cash flows on the receivable in its entirety or a portion thereof.

	Dec 31, 2021	Dec 31, 2020
Accounts receivable, non-group companies	6,395	6,192
Accounts receivable, related companies	12,043	8,690
VAT receivables	2,400	1,884
Prepaid expenses and accrued income	4,440	2,311
Other financial receivables	203	274
Restricted cash	4	103
Other receivables	5,107	8,220
Total[1)]	**30,592**	**27,674**

1) MSEK 57 (23) 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 18,438 (14,882) including a credit loss allowance of MSEK 127 (113) in which MSEK 34 (16) is related to allowance for expected credit losses. As of December 31, 2021, the total credit loss allowance amounted to 0.68 (0.86) per cent of total accounts receivable.

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

Change in loss allowance for accounts receivable is as follows:	2021	2020
Balance at January 1	113	128
Additions	53	57
Reversals	–18	–22
Write-offs	–23	–46
Translation difference	2	–4
Balance at December 31	**127**	**113**

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
2021					
Accounts receivable gross	17,496	135	31	903	18,565
Loss allowance	–77	–	–5	–45	–127
Accounts receivable net	**17,419**	**135**	**26**	**858**	**18,438**
2020					
Accounts receivable gross	13,848	314	84	749	14,995
Loss allowance	–87	–	–1	–25	–113
Accounts receivable net	**13,761**	**314**	**83**	**724**	**14,882**

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 Swap (CDS) 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. One holding of equity instrument is recognised at fair value 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 effect from realised cash flow hedges is classified as Revenue and Cost of sales, respectively, depending on the underlying substance of the transaction.

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.

Benchmark rate reform

The interest rate benchmark reform refers to the transition from the existing interst rate benchmark, Interbank Offered Rates (IBOR), to new benchmark rates. During 2021 the administrators of benchmark rates announced that from the end of year 2021, it will stop publishing fixings for different currencies such as GBP, EUR, CHF, JPY and two-month and two-weeks USD LIBOR fixings. All remaining USD LIBOR fixings will be discontinued after June 2023. The Euro Overnight Interest Average (EONIA) has been replaced by the Euro short term-rate (ESTER). During 2021 a transition was initiated to a new method of determining STIBOR in accordance with the requirements of the interst rate reference reform. During 2021 a new overnight risk-free interest rate was presented; the Swedish krona Short Term Rate (SWESTR). The aim is to use this as an overnight risk-free interest rate and in the long run all STIBOR fixings will be transitioned.

To preapare for the Benchmark rate reform, the Group adopted early the Phase 1 amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments : Disclosures in 2019. These amendments provided relief from applying specific hedge accounting requirements to hedge relationships directly affected by benchmark rates reform and have the effect that the reform should generally not cause hedge accounting to terminate. There was no financial impact from the early adoption of these amendments. Further amendmets (Phase 2) were issued on 27 August 2020 and the Group applied these in 2021.

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 or other financing solutions 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 are recognised in the financial net. The valuation of the unlisted warrants is measured 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 remeasured each time a transaction is performed and makes a current 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 2 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 function 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	
	2021	2020	**2021**	2020
CNY	25%	27%	24%	27%
EUR	24%	25%	50%	48%
GBP	6%	7%	1%	1%
JPY	3%	3%	7%	8%
USD	21%	19%	12%	11%
Other	21%	19%	6%	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 MSEK 6,498 (4,430). 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	
	2021	2020	**2021**	2020	**2021**	2020
Nominal hedge, %	56	50	20	19	—	1
CFaR hedge %	46	41	16	13	—	1

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

Maturity	AUD	EUR	GBP	JPY	KRW	NOK	USD	TWD	CNY	PLN
Average hedge rate	6.43	10.24	11.86	7.87	0.0075	1.00	8.85	0.32	1.30	2.21
1–12 months	–496	2,946	–1,107	73,655	–331,717	–3,672	–1,796	–8,506	–3,638	–800
13–24 months	–302	909	–612	23,377	–26,998	–500	–243	–5,210	—	—
25–36 months	—	—	—	—	—	—	—	—	—	—
37–48 months	—	—	—	—	—	—	—	—	—	—

The average duration of the portfolio was 9 (10) months. The fair value of the outstanding currency derivatives as of December 31, 2021 amounted to MSEK –1,875 (578).

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, 2021 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, 2021, the cash flow hedge reserve related to currency hedges, amounted to MSEK –1,875 (578) before tax. The fluctuation from December 31, 2020 to December 31, 2021 within the hedge reserve that has had an impact on other comprehensive income in 2021 is MSEK –2,453 (6,036) before tax. The balance of MSEK –1,875 (578) represents the fair value of derivatives used for cash flow hedging as at December 31, 2021.

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	2021	2020
Hedge reserve	–1,875	578
Recognised in other comprehensive income	**-1,875**	**578**
Time value in options and cross currency options	–	–1
Recognised in other operating income and expenses	**–**	**-1**
Total fair value	**-1,875**	**577**

Status at year-end

The table below shows the translation exposure of net investments in foreign operations as of December 31, 2021.

	CNY	EUR	USD	JPY	MYR	Other	Total
Investments in foreign operations (MSEK)	26,179	9,001	–1,111	906	849	3,492	39,316
Translation exposure	**26,179**	**9,001**	**–1,111**	**906**	**849**	**3,492**	**39,316**

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 393 (447). 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 4,531 (–3,376). 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, 2021, amounts to MSEK –514 (–252) before tax. No ineffectiveness has affected net income for 2021 or 2020.

Fair value of financial instruments for hedging of net investment in foreign operations	2021	2020
Hedge reserve	–514	–252
Recognised in other comprehensive income	**-514**	**-252**
Total fair value	**-514**	**-252**

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, 2021 was 34.0 (24.0) per cent, of which shareholders' equity amounted to MSEK 113,564 (74,106).

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

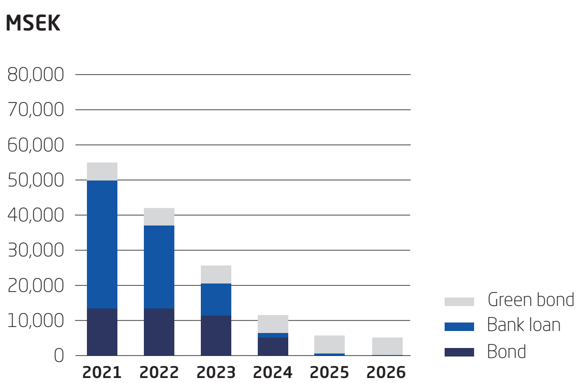
In December 2021, the two bonds maturing in March 2022 with a total outstanding nominal amount of MSEK 3,000 were repaid early by exercising the embedded call option of the bonds.

As of December 31, 2021, 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 2021 was MSEK 54,950 (75,239). The remaining credit term of the outstanding facilities was 2.1 (2.5) years. Debt maturing over the next 12 months was 23 per cent at year-end. 79 per cent of the Group's long term debt is refinanceable within three years and mitigating activities are ongoing.

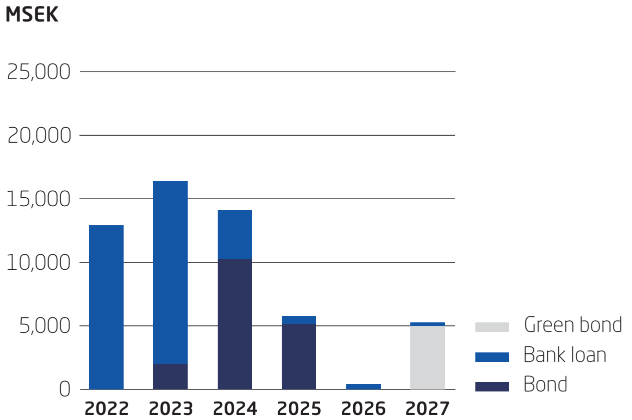
The outstanding debt is shown below.

Funding	Currency	Nominal amount in respective currency (million)	MSEK
Bank loan	EUR	2,419	24,890
Bank loan	USD	210	1,906
Bank loan	SEK	5,533	5,533
Bond	EUR	1,500	15,435
Bond	SEK	2,000	2,000
Green bond	EUR	500	5,145
Other	PLN	18	41
Total			**54,950**

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



Bank loan and bond amortisation schedule



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, 2021, 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, 2021	Dec 31, 2020
– Expiring after one year but within five years	13,377	23,698
– Expiring after five years	—	1,002
Total	**13,377**	**24,700**

Status at year-end

As of December 31, 2021, the Group had committed credit facilities and cash and marketable securities available of MSEK 84,650 (94,790) around 30 (36) 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.

	2021				2020			
	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	–	–	169	–	–	–	1,261	16
Other non-current assets	–	–	8,770	375	–	–	2,950	483
Total non-current financial assets	**–**	**–**	**8,939**	**375**	**–**	**–**	**4,211**	**499**
Accounts receivable	17,379	1,059	–	–	14,062	820	–	–
Derivative assets	244	580	–	–	210	508	–	–
Other current assets	3,965	2,653	–	–	1,989	6,344	–	–
Marketable securities	3,864	4,132	–	–	2,639	5,448	–	–
Cash and cash equivalents	63,277	–	–	–	62,003	–	–	–
Total current financial assets	**88,729**	**8,424**	**–**	**–**	80,903	13,120	–	–
Total financial assets	**88,729**	**8,424**	**8,939**	**375**	**80,903**	**13,120**	**4,211**	**499**
Liabilities								
Bonds[1)]	–	–	17,232	5,145	143	372	16,156	10,228
Liabilities to credit institutions[1)]	–	–	18,481	99	–	–	39,836	223
Derivative liabilities	–	–	1,590	19	–	–	1,199	–
Other non-current interest-bearing liabilities[1)]	–	–	3,688	1,821	–	–	2,975	1,756
Other non-current liabilities	–	–	6,035	5	–	–	4,658	5
Total non-current financial liabilities	**–**	**–**	**47,026**	**7,089**	**143**	**372**	**64,824**	**12,212**
Bonds[1)]	–	–	–	–	–	7,123	–	–
Liabilities to credit institutions[1)]	2	13,723	–	–	487	4,475	–	–
Accounts payable	44,374	3,817	–	–	45,706	1,184	–	–
Derivative liabilities	1,001	1,311	–	–	1,076	744	–	–
Other current interest-bearing liabilities[1)]	323	1,154	–	–	281	879	–	–
Other current liabilities	7,140	5,669	–	–	4,693	7,541	–	–
Total current financial liabilities	**52,840**	**25,674**	**–**	**–**	**52,243**	**21,946**	**–**	**–**
Total financial liabilities	**52,840**	**25,674**	**47,026**	**7,089**	**52,386**	**22,318**	**64,824**	**12,212**

1) Including interest.

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, 2021, 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 1 (1) month. The average fixed interest term on debt was around 24 (24) months. At year-end the duration of the net debt position was 24 (24) months. The average cost of borrowing was 1.9 (2.0) 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	2021	2020
Market rate +1%	–253	262
Market rate –1%	253	–275

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.

During 2021 the MEUR 500 bond issued in May 2016 matured. The Group hedged the fair value risk of the bond by using interest rate swaps, the bond with fixed interest payments has been swapped into floating interest. Hedge accounting has not been applied on other bonds.

Benchmark rate reform

The implications on the wider business of IBOR reform have been assessed and the Group have been preparing to move to the new benchmark rates during 2021. The change of reference rate du to the upcoming IBOR transition does not affect future cash flows on interest income and interest expense which means the Group expects continued 100 per cent effectiveness of the hedges and no net interest impact. The group is exposed to external interest rate risk in EUR, SEK and USD from EURIBOR, STIBOR and USD LIBOR benchmarks respectively, however there is no expected cash flow risk as these benchmarks are not to be discontinued in the short-term and will therefore continue to decide interest cash flows. The Group expect however a minor valuation effect from the discounting of future cash flows using new risk-free rate curves in 2022.

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 48 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 2021, the Group had raw material costs of approximately MSEK 32,450 (17,369). A one percentage point change in the prices of raw materials will impact operating income in the amount of around MSEK 140 (105).

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 over-the-counter (OTC) contracts.

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

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, 2021, the cash flow hedge reserve related to commodity hedges, included in other reserves in shareholders' equity, amounted to MSEK 150 (12) before tax. Ineffectiveness affected net income for 2021 and amounts to MSEK — (–1).

Fair value of derivatives for commodity hedging	**2021**	**2020**
Hedge reserve	150	12
Recognised in other comprehensive income	**150**	**12**
Non hedge accounting	–	–
Recognised in other operating income and expenses	**–**	**–**
Total fair value	**150**	**12**

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 higher from 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, 2021, the maximum amount exposed to financial credit risk amounts to MSEK 72 266 (72 085) this encompass cash and cash equivalents of MSEK 63,277 (62,003), investments in marketable securities of MSEK 7,996 (8,087) and fair value of outstanding derivative assets of MSEK 993 (1,995). 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, 2021					
Derivative assets	993	—	993	–838	155
Derivative liabilities	3,922	—	3,922	–838	3,084
December 31, 2020					
Derivative assets	1,995	—	1,995	–1,384	611
Derivative liabilities	3,019	—	3,019	–1,384	1,635

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 inputs other than quoted market 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, 2021 belong to level 2. See section Accounting policies for valuation technique for these instruments. Amounts invested in other long-term securities amounts to MSEK 37,089 (35,003), of which MSEK 36,074 (33,762) was holdings categorised as level 1 financial instruments and MSEK 1,015 (1,241) as level 3 financial instruments. The most substantial level 3 investment is in the form of unlisted share warrants in the listed company Luminar. The valuation of these instruments is as of 31 December 2021 based on:

- The probability of whether the Group will fulfill contractual terms and when it would do this
- The risk-free interest rate for which have been determinedd to 0.4 per cent and 1.2 per cent.
- Volatility of the underlying share price which has been deterined at 94 per cent.

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. Transfers between the levels of the fair value hierachy have occurred during 2021 for received earn-out shares of a total amount of MSEK 74. The fair value of share warrants and earn-out share rights in the level 3 category of financial instruments as per December 31, 2021 amounts to MSEK 431 (874) and the financial income of the same instruments recognised in the income statement is MSEK –369 (874). The share warrants as of December 31, 2021 were deep in the money with a strike price well under the current list price.

There are also other holdings of non-listed equity instruments that are categorised as level 3 and they are measured at fair value when there is information availabel indicating that the value has changed, for example if there has been a transaction in the instrument during the period.

Sensitivity analysis for warrants (MSEK)

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

Fair value estimation

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

December 31, 2021	Level 1	Level 2	Level 3	**Total**
Derivative instruments for hedging of currency risk in future commercial cash flows	–	773	–	773
Derivative instruments for hedging of currency risk related to financial assets and liabilities	–	63	–	63
Derivative instruments for hedging of interest rate risk	–	6	–	6
Commodity derivatives	–	151	–	151
Commercial papers[1]	–	2,692	–	2,692
Other long-term securities holdings	36,074	–	1,015	37,089
Total assets	**36,074**	**3,685**	**1,015**	**40,774**
Derivative instruments for hedging of currency risk in future commercial cash flows	–	2,629	–	2,629
Derivative instruments for hedging of currency risk related to financial assets and liabilities	–	1,247	–	1,247
Derivative instruments for hedging of interest rate risk	–	45	–	45
Commodity derivatives	–	1	–	1
Total liabilities	**–**	**3,922**	**–**	**3,922**

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**

1) Of which MSEK 1,860 (750) is reported as marketable securities in the balance sheet and MSEK 832 (776) as cash and cash equivalents.

Financial assets and liabilities by category	Financial instruments measured at fair value through the income statement							
	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, 2021								
Other long-term securities holdings	1,765	—	—	35,324	—	—	37,089	37,089
Other non-current assets	—	—	—	—	9,145	—	9,145	9,145
Accounts receivable	—	—	—	—	18,438	—	18,438	18,438
Derivative assets	275	718	—	—	—	—	993	993
Other current assets	—	—	—	—	6,618	—	6,618	6,618
Marketable securities	1,860	—	—	—	6,136	—	7,996	7,996
Cash and cash equivalents	832	—	—	—	62,445	—	63,277	63,277
Total financial assets	**4,732**	**718**	**–**	**35,324**	**102,782**	**–**	**143,556**	**143,556**
Bonds and liabilities to credit institutions[1)]	—	—	—	—	—	54,683	54,683	55,630
Other non-current liabilities	—	—	154	—	—	5,885	6,039	6,039
Accounts payable	—	—	—	—	—	48,192	48,192	48,192
Derivative liabilities	221	3,701	—	—	—	—	3,922	3,922
Other current liabilities	—	—	—	—	—	12,808	12,808	12,808
Total financial liabilities	**221**	**3701**	**154**	**–**	**–**	**121,568**	**125,644**	**126,591**
December 31, 2020								
Other long-term securities holdings	2,449	—	—	32,554	—	—	35,003	35,003
Other non-current assets	—	—	—	—	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	—	—	—	—	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[1)]	—	—	—	—	—	75,459	75,459	76,876
Other non-current liabilities	—	—	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	—	—	—	—	—	12,234	12,234	12,234
Total financial liabilities	**1,796**	**1,223**	**154**	**–**	**–**	**139,092**	**142,265**	**143,682**

1) The carrying amount of the bonds is presented above including a fair value adjustment amounting to MSEK — (7), 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.

Nominal amounts and fair values of derivative instruments	Dec 31, 2021 Nominal amount	Dec 31, 2021 Fair value	Dec 31, 2020 Nominal amount	Dec 31, 2020 Fair value
Derivative instruments for hedging of currency risk related to financial assets and liabilities				
Foreign exchange swaps and forward contracts				
– receivable position	8,209	63	1,152	5
– payable position	5,191	–1,247	30,513	–1,486
Subtotal	**13,400**	**–1,184**	**31,665**	**–1,481**
Derivative instruments for hedging of currency risk in future commercial cash flows				
Foreign exchange swaps and forward contracts				
– receivable position	30,121	568	39,660	1,785
– payable position	61,815	–2,430	32,094	–1,194
Currency options				
– receivable position	3,988	205	4,297	121
– payable position	4,989	–199	6,220	–147
Subtotal	**100,913**	**–1,856**	**82,271**	**565**
Derivative instruments for hedging of interest rate risk				
Interest rate swaps				
– receivable position	1,029	6	7,518	42
– payable position	6,300	–45	7,033	–162
Subtotal	**7,329**	**–39**	**14,551**	**–120**
Derivative instruments for hedging of commodity price risk				
Forward contracts				
– receivable position	543	151	157	42
– payable position	40	–1	184	–30
Subtotal	**583**	**150**	**341**	**12**
Total	**122,225**	**–2,929**	**128,828**	**–1,024**

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

Net gains/losses, interest income and expenses related to financial instruments	**2021**			2020		
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[1]	–2,302	—	—	–3,335	—	—
Financial assets carried at amortised cost, other financial liabilities						
Accounts receivable/accounts payable[2,3]	1,597	—	—	–1,001	—	—
Effect on operating income	**-705**	**–**	**–**	**-4,336**	**–**	**–**
Recognised in financial items						
Financial assets and liabilities at fair value through the income statement						
Derivative instruments for hedging of currency risk[5]	1,503	—	—	–1,073	—	—
Derivative instruments for hedging of interest rate risk[5]	102	17	—	–500	17	—
Financial liabilities at fair value through profit and loss	–271	—	—	–32	—	—
Financial assets at fair value through profit and loss[4]	–777	—	—	1,948	—	—
Marketable securities	291	—	—	–133	37	—
Financial assets carried at amortised cost, other financial liabilities						
Financial assets carried at amortised cost	–3	—	—	–384	—	—
Cash and cash equivalents[2]	1,706	474	—	–1,094	378	—
Other financial liabilities including currency effects[2]	–3,808	126	–1,800	3,086	—	–1,475
Effect on financial items	**-1,257**	**617**	**-1,800**	**1,818**	**432**	**-1,475**

1) Derivative instruments for hedging of currency and commodity risk for future commercial cash flows rerouted from the hedge reserve, incuding time value in options and cross currency options.
2) The total income and expense from items that are not measured at fair value through income statement amounts to MSEK 3,903 (3,464) and MSEK –5,611 (–3,954) respectively.
3) Unrealised and realised foreign exchange effect on accounts receivable and accounts payable.
4) Including fair value changes related to warrants and earn-out shares in Luminar.
5) Related to financial assets and liabilities.

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, 2021	Dec 31, 2020
Commercial papers	1,860	750
Time deposits in banks	6,136	7,337
Total	**7,996**	**8,087**

Cash and cash equivalents	Dec 31, 2021	Dec 31, 2020
Cash in banks	40,222	41,579
Time deposits in banks	22,223	19,648
Commercial papers	832	776
Total[1]	**63,277**	**62,003**

1) MSEK 951 (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 3,881 (2,458) 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.

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.) had issued preference shares recognised as equity instruments but during October 2021 these preference shares were redeemed. 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.) had issued convertible preference shares and during October 2021 Volvo Cars exercised its call option and the preference shares were redeemed. Based on the fact that there were no unconditional obligation for Volvo Car AB (publ.) to make any payments to the investors during the contract period, the instruments were classified as equity instruments.

The preference shares constituted equity instruments, since payment of dividends was 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. When the conversion of preference shares into ordinary shares occurred, the conversion ratio on Volvo Car Group level was fixed. The conversion of preference shares to ordinary shares was 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.).

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 also 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 interest increased during the year by MSEK 15,462 (—) due to the new share issue in Volvo Car AB (publ.). In July 2021 the non-controlling interest also increased through a direct share issue in Zenseact AB of MSEK 907 (—) and in September 2021 through a capital contribution to HaleyTek AB of MSEK 360 (—) from ECARX Technology Co, Ltd. The non-controlling interest decreased in 2021 due to a dividend paid of MSEK 9,199 (—) from Daqing Volvo Car Manufacturing Co., Ltd and MSEK 492 (—) from Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd to its shareholder Zhejiang Geely Holding Group Co., Ltd. In 2020, the non-controlling interests increased by MSEK 122 due to the directed issue of preference shares in the subsidiary Volvo Car AB (publ.) at a group of Swedish institutional investors.

At year end 2021 non-controlling interests amounted to MSEK 20,833 (12,309).

Total equity consists of the equity attributable to the owners of the parent company and non-controlling interests. At year-end 2021, the Group's total equity amounted to MSEK 113,564 (74,106).

23 Post-employment benefits

ACCOUNTING PRINCIPLES

Pension benefits

The Group has various schemes for post-employment benefits, mainly relating to pension plans. Other benefits can 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 will have 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 to make periodic payments with a promise of a guaranteed minimum return on investments. Such 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 dependent 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 foundations. 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 at 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 to 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 different 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.

Description of the substantial pension schemes within the Group is presented below.

Sweden

In Sweden, the Group has seven retirement plans of which four 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 refers to a defined benefit plan that comprises several employers and is reported according to a pronouncement by the Swedish Financial Reporting Board, UFR 10. For 2021, 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 payments of premiums of about MSEK 168 to Alecta in 2022. The Group's share of the total saving premiums for ITP2 in Alecta as at 31 December 2021 amounted to 0.32 (0.22) per cent and the Group's share of the total number of active policy holders amounted to 1.42 (1.56) 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 expanding existing benefits or introduce premium reductions. At year end 2021, the consolidation level amounted to 172 (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 which 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 fully externalised through a number of pension funds and through 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 provision for post-employment benefits have been recognised in the balance sheet as follows:

	Dec 31, 2021	Dec 31, 2020
Post-employment benefits	11,961	14,187
Other provisions (Note 24)	395	379
Closing balance	**12,356**	**14,566**

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 12,356 (14,566) in total, which includes endowment insurances and similar undertakings amounting to MSEK 395 (379) in respect of defined premium pension plans in Sweden.

	Total	of which Sweden	of which Belgium	Total	of which Sweden	of which Belgium
Financial year ending on	**Dec 31, 2021**	**Dec 31, 2021**	**Dec 31, 2021**	Dec 31, 2020	Dec 31, 2020	Dec 31, 2020
Amounts recognised in the statement of financial position						
Defined benefit obligation	28,167	19,891	4,266	29,093	20,912	4,297
Fair value of plan assets	16,206	9,760	3,379	14,906	9,239	3,116
Funded status	**11,961**	**10,131**	**887**	**14,187**	**11,673**	**1,181**
Net provision (asset) as recorded in the balance sheets	**11,961**	**10,131**	**887**	**14,187**	**11,673**	**1,181**
Principal actuarial assumptions						
Weighted average assumptions to determine benefit obligations						
Discount rate, %	1.84	2.00	1.10	1.34	1.45	0.73
Rate of salary increase, %	3.10	3.15	2.91	2.98	3.00	2.91
Rate of price inflation, %	1.88	1.75	1.75	1.72	1.60	1.75
Rate of pension indexation, %	1.89	1.75	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 mortgage 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 annually reviewed by the Group and modified when deemed appropriate to do so.

Financial year ending on	Total Dec 31, 2021	of which Sweden Dec 31, 2021	of which Belgium Dec 31, 2021	Total Dec 31, 2020	of which Sweden Dec 31, 2020	of which Belgium Dec 31, 2020
Change in defined benefit obligation						
Defined benefit obligation at end of prior year	29,093	20,912	4,297	27,345	19,145	4,227
Service cost	1,103	867	176	1,030	793	183
Interest expense	389	304	31	430	323	35
Cash flows	–566	–326	–89	–626	–310	–119
Increase due to effect of business combination	201	201	—	—	—	—
Remeasurements	–2,479	–2,067	–261	1,469	961	158
Effect of changes in foreign exchange rates	426	—	112	–555	—	–187
Defined benefit obligation at end of year	**28,167**	**19,891**	**4,266**	**29,093**	**20,912**	**4,297**
Change in fair value of plan assets						
Fair value of plan assets at end of prior year	14,906	9,239	3,116	14,762	8,873	3,046
Interest income	198	134	24	236	151	27
Cash flows	98	91	83	–57	—	67
Remeasurements	652	296	70	383	215	112
Effect of changes in foreign exchange rates	352	—	86	–418	—	–136
Fair value of plan assets at end of year	**16,206**	**9,760**	**3,379**	**14,906**	**9,239**	**3,116**
Components of defined pension cost						
Service cost	1,103	867	176	1,030	793	183
Net interest cost	191	170	7	194	172	8
Remeasurements of Other long term benefits	–3	—	–3	95	—	94
Administrative expenses and taxes	24	—	21	25	—	21
Total pension cost for defined benefit plans	**1,315**	**1,037**	**201**	**1,344**	**965**	**306**
Pension cost for defined contribution plans	3,423	2,866	268	3,299	2,784	272
Total pension cost recognised in P&L	**4,738**	**3,903**	**469**	**4,643**	**3,749**	**578**
Remeasurements (recognised in other comprehensive income)	–3,123	–2,363	–331	992	745	–47
Effect of changes in demographic assumptions	–4	—	—	–12	—	—
Effect of changes in financial assumptions	–2,087	–1,814	–164	1,422	1,009	40
Effect of experience adjustments	–384	–253	–94	–36	–49	24
Return on plan assets (excluding interest income)	–648	–296	–73	–382	–215	–111
Total defined benefit cost recognised in P&L and OCI	**-1,808**	**-1,326**	**-130**	**2,336**	**1,710**	**259**

Financial year ending on	Total Dec 31, 2021	of which Sweden Dec 31, 2021	of which Belgium Dec 31, 2021	Total Dec 31, 2020	of which Sweden Dec 31, 2020	of which Belgium Dec 31, 2020
Net defined benefit provision (asset) reconciliation						
Net defined benefit provision (asset)	14,187	11,673	1,181	12,583	10,272	1,181
Defined benefit cost included in the income statement	1,315	1,037	201	1,344	965	306
Total remeasurements included in OCI	–3,123	–2,363	–331	992	745[1)]	–47
Effect of business combinations	201	201	—	—	—	—
Cash flows	–692	–417	–190	–595	–309	–208
Employer contributions	–293	–91	–159	–227	—	–187
Employer direct benefit payments	–399	–326	–31	–368	–309	–21
Effect of changes in foreign exchange rates	73	—	26	–137	—	–51
Net defined benefit provision (asset) as of end of year	**11,961**	**10,131**	**887**	**14,187**	**11,673**	**1,181**
Defined benefit obligation by participant status						
Actives	15,538	11,139	3,521	16,124	11,684	3,586
Vested deferreds	6,356	4,350	569	6,793	4,756	502
Retirees	6,273	4,402	176	6,176	4,472	209
Total	**28,167**	**19,891**	**4,266**	**29,093**	**20,912**	**4,297**

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

Plan assets

Fair value of plan assets	2021	2020	Of which with a quoted market price 2021	Of which with a quoted market price 2020
Cash and cash equivalents	511	2,481	260	2,481
Equity instruments	2,172	2,114	1,208	2,011
Debt instruments	7,387	5,423	6,206	4,780
Real estate	11	9	11	9
Investment funds	4,247	3,077	4,244	3,072
Other	1,878	1,802	1,811	1,622
Total	**16,206**	**14,906**	**13,740**	**13,975**

Responsibility for the management of several pension plans rest with the Group and therefore 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 to ensure that capital is allocated and managed according to the investment policies. In Sweden the minimum funding level is decided 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 851 (619).

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 principal risks that may increase the future pension payments and hence, increase the pension obligation. The second category relates to investment return. Pension plan assets are invested in a variety of financial instruments and are exposed to market fluctuations. 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 for measuring the obligation and the plan assets. The discount rate used for measuring the present value of the obligation may fluctuate which 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 the financial items and the 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%	–2,021	–206
Discount rate –0.5%	2,303	239
Inflation rate +0.5 %	2,303	135
Inflation rate –0.5%	–2,021	–126

The weighted average duration of the obligation is 21.7 years for Sweden and 10.4 years for Belgium.

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 January 1, 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**

	Warranties	Other provisions	Total
Balance at January 1, 2021	**12,021**	**4,688**	**16,710**
Provided for during the year	8,309	7,058	**15,367**
Utilised during the year	–7,413	–5,672	**-13,085**
Reversal of unutilised amounts	–2,495	–89	**-2,584**
Translation differences and other	665	182	**846**
Balance at December 31, 2021	**11,087**	**6,167**	**17,254**
Of which current [1]	3,615	4,992	**8,607**
Of which non-current[1]	7,472	1,175	**8,647**

1) MSEK 182 (117) of recognised current provisions and MSEK 82 (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.

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 January 1, 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 December 31, 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**
Balance at January 1, 2021	**18,360**	**4,780**	**1,720**	**2,612**	**27,472**
Provided for during the year	44,684	3,559	4,903	100,065	**153,211**
Utilised during the year	–45,654	–2,720	–5,151	–99,446	**-152,971**
Translation differences and other	1,613	335	63	173	**2,184**
Balance at December 31, 2021	**19,003**	**5,954**	**1,535**	**3,404**	**29,896**
Of which current	15,995	2,248	1,284	3,402	**22,929**
Of which non-current	3,008	3,706	251	2	**6,967**

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.

26 Other non-current liabilities

	Dec 31, 2021	Dec 31, 2020
Liabilities related to repurchase commitments	1,354	1,537
Other liabilities[1)2)]	4,685	3,042
Total	**6,039**	**4,579**

1) The internal profit elimination related to sale of licences and technology to Polestar amounted to MSEK 2,596 (2,129).
2) MSEK 518 (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.

27 Other current liabilities

	Dec 31, 2021	Dec 31, 2020
Accrued expenses and prepaid income[1)]	13,292	10,815
Liabilities related to repurchase commitments	7,754	8,843
Personnel related liabilities[1)]	6,173	8,061
VAT liabilities	3,018	4,993
Other liabilities[1)]	3,850	3,075
Total	**34,087**	**35,787**

1) MSEK 109 (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.

28 Pledged assets

	Dec 31, 2021	Dec 31, 2020
Shares in subsidiaries[1)]	8,263	2,273
Restricted cash	141	236
Inventory	303	304
Real estate mortgages	—	175
Floating charges	253	251
Other pledged assets	788	632
Total	**9,748**	**3,871**

1) Geely Sweden Holdings AB has pledged the shares in the subsidiaries Geely Sweden 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 8,263 (2,273).

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, 2021	Dec 31, 2020
Guarantees to insurance company FPG	180	173
Legal claims	—	61
Other claims [1]	21	410
Guarantee commitments	365	507
Other contingent liabilities [2]	358	314
Total	**924**	**1,465**

1) In addition to the contingent liabilities related to other claims there is also tax related contingent asset amounting to MSEK 53 (—).
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.

30 Cash flow statements

Adjustments for other non-cash items:	**2021**	**2020**
Capital gains/losses on sale of property, plant and equipment and intangible assets	5,263	1,249
Share of income in joint ventures and associates	520	61
Interest effect from measurement of repurchase obligations	–158	–175
Provision for variable pay	2,239	1,025
Provision for repurchase commitments	—	20
Other provisions	–1,818	2,704
Deferred income	–2,779	–1,246
Reclassification of residual value guarantee	–728	—
Inventory impairment	–149	169
Elimination of intra-group profit	794	1,132
IFRS 16 adjustments	–890	–1,416
Assets held for sale	–1,986	—
IPO transaction costs	–210	—
Other non-cash items	–934	176
Total	**–836**	**3,699**

		Cash flows	Non-cash changes					
Change in net cash	**Jan 1, 2020**		Acquisition	Reclassi-fications	Foreign exchange movement	Fair value changes	Other non-cash changes	**Dec 31, 2020**
Cash and cash equivalents [2]	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 [1]	–27,843	—	–5,209	7,419	946	—	–81	–24,768
Bonds, current [1]	—	—	—	–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**

Change in net cash	**Jan 1, 2021**							**Dec 31, 2021**
Cash and cash equivalents [2]	62,003	–2,282	—	–951	4,507	—	—	63,277
Marketable securities	8,087	–460	—	—	354	15	—	7,996
Liabilities to credit institutions (non-current)	–39,331	9,481	—	4,401	–953	—	–90	–26,492
Bonds, non-current [1]	–24,768	—	—	2,999	–534	—	–75	–22,378
Bonds, current [1]	–7,047	10,190	—	–2,999	–139	—	–5	—
Other non-current interest-bearing liabilities	–84	84	—	—	—	—	—	—
Liabilities to credit institutions (current)	–4,306	3,082	—	–4,401	–190	—	—	–5,815
Net cash	**–5,446**	**20,095**	**–**	**–951**	**3,045**	**15**	**–170**	**16,588**

1) The bonds are presented above at amortised cost. The MEUR 500 fixed interest rate bond issued in May 2016 (matured in May 2021), was hedged into a variable interest rate bond, hence a part of the bond was valued at fair value through the income statement and the remaining part was valued at amortised cost. On December 31 2020 the fair value component amounted to MSEK 7.
2) MSEK 951 (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.

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 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.

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 handle common control transactions. the Group has elected to apply predecessor accounting, meaning that the acquirer consolidates the predecessors respective carrying values for 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. Any difference between the cost of the combination (i.e. the fair value of the consideration paid) and the carrying values for assets and liabilities are recognised directly in equity within retained earnings.

Business combinations under common control

Asia Euro Automobile Manufacturing (Taizhou) Co., Ltd

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

The acquisition is between parties under common control and the Group has applied predecessor accounting, see section Critical accounting estimates and judgements. The Group has consolidated the company from the transaction date, December 1, 2021.

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

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

Acquisition-related costs for 2021 amounted to MSEK 4 and have been reported as administration costs in the income statement. There were no contingent liabilities assumed or collateral pledged arising from the acquisition. For Chinese companies there are some restrictions on the Group's ability to access cash outside China. The carrying value of the acquired accounts receivable corresponds to the gross contractual value and amounts to MSEK 9 431. All receivables are expected to be collectible.

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

The acquired business contributed revenues of MSEK 1,431 and net profit of MSEK 262 to the Group for the period from December 1 to December 31 2021. If the acquisition had occurred on January 1 2021 the acquired business would have contributed revenues of MSEK 8,899 and net profit of MSEK 881 to the Group. The total cost of combination and carrying values have been determined provisionally, thus, the acquisition analyses may be subject to adjustment during a twelve-month period.

Polestar Automotive (Shanghai) Co., Ltd

On January 12 2021, Geely Holding Co., Ltd. ceased to be a shareholder of Polestar Automotive (Shanghai) Co., Ltd. and the joint venture company became a wholly-owned subsidiary of Volvo Cars (China) Investment Co., Ltd. The net assets of the company only consisted of Cash, which corresponded to Volvo Car's investment value of MSEK 1,882, why the transaction had no material impact on the Group financial statements. See Note 13 – Investments in joint ventures and associates for further information.

Business combinations

Real estate companies Sörred

On September 1 2021, Volvo Car Group, through one of its wholly-owned subsidiaries, Volvo Car Corporation, acquired by way of appropriation 100 per cent of the shares in Fastighetsbolag Sörred 7:24 AB[1)] and Fastighetsbolag Sörred 8:11 AB. The acquired real estate companies own land and office buildings. The acquisition is part of Volvo Car Groups long-term strategic decision to own its facilities.

	2021
Purchase price	
Purchase consideration	202
Total cost of the combination	**202**
Acquired assets and liabilities at fair value	
Tangible assets	294
Current tax assets	1
Other current assets	1
Deferred tax liabilities	–2
Current liabilities	–92
Total fair value of net assets acquired	**202**
Goodwill	**–**
Cash effect on business combination	
Purchase consideration	–202
Repayment of debts	–89
Acquired cash and cash equivalents	—
Change in cash and cash equivalents due to acquisitions	**–291**

1) Name changed to Volvo Car Real Estate and Assets 7:24 AB

Acquisition-related costs for 2021 amounted to MSEK 2 and have been reported as administration costs in the income statement. There were no contingent liabilities assumed or collateral pledged arising from the acquisition. The acquisition is conditional on Volvo Car Corporation signing a 10-year lease agreement with the seller to lease another property within the area.

The acquired business contributed revenues of MSEK 0 and net profit of MSEK 2 to the Group for the period from September 1 to December 31 2021. The total cost of combination and fair values have been determined provisionally, thus, the acquisition analyses may be subject to adjustment during a twelve-month period.

Upplands Motor

On January 13 2021, after approval from competition authorities, Volvo Car Group, through one of its wholly-owned subsidiaries, Volvo Personvagnar Norden AB finalised the acquisition of Upplands Motor. The acquisition of Upplands Motor, the 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 acquisition consisted 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 shareholding in Upplands Motor Mark KB and Upplands Motor Fastigheter i Märsta KB.

	2021
Purchase price	
Purchase consideration	493
Total cost of the combination	**493**
Acquired assets and liabilities at fair value	
Intangible assets	5
Tangible assets	1,280
Financial assets	1,336
Deferred tax assets	28
Inventories	334
Current receivables	440
Other current assets	85
Cash and cash equivalents	32
Deferred tax liabilities	–1
Pension and other provision	–202
Other non-current liabilities	–2,237
Current liabilities	–852
Total fair value of net assets acquired	**248**
Goodwill	**245**
Cash effect on business combination	
Purchase consideration	–493
Redemption of debt	292
Acquired cash and cash equivalents	32
Change in cash and cash equivalents due to acquisitions	**–169**

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 costs for 2021 amounted to MSEK 11 and have been reported as administration costs in the income statement. There were contingent liabilities of MSEK 2 assumed and collateral pledged of MSEK 275 arising from the acquisition. The fair value of the acquired receivables amounts to MSEK 440.

The acquired business contributed revenues of MSEK 2,683 and net loss of MSEK 18 to the Group for the period from January 13 to December 31 2021. On December 3 2021 Upplands Motor AB, Bilpark i Hufvudstaden AB and Upplands Motor Hyrbilar AB were merged into Volvo Car Retail AB. The total cost of combination and fair values have been adopted in January 2022.

Adoption of preliminary acquisition analysis

An acquisition analysis is preliminary until adopted which must take place within 12 months from the acquisition. The preliminary acquisition analysis previously recognised for Zenuity AB and Zenuity Software Technology (Shanghai) Co., Ltd were adopted in 2021.

Divestment after the balance sheet date

Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd.

On December 31 2021, Volvo Cars (China) Investment Co., Ltd and Zhejiang Geely Holding Group Co., Ltd signed a share transfer agreement with Zhejiang Aurobay Powertrain Co., Ltd. regarding their shareholdings in

Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. On January 31 2022, Volvo Car Group finalised the separation of its combustion engine operations and the control of the 50% owned subsidiary Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. was passed to the acquirer, the associated company Zhejiang Aurobay Powertrain Co., Ltd (Aurobay), China. Aurobay will be a global supplier of complete powertrain solutions, including next generation combustion engines, transmissions and hybrid solutions. The divestment will enable Volvo Car Group to focus on the development of its all-electric range of premium cars.

The divestment is between parties under common control and Volvo Car Group has applied predecessor accounting, see section Critical accounting estimates and judgements. As part of the divestment, the registered company name has been changed to Zhangjiakou Aurobay Powertrain Manufacturing Co., Ltd. Volvo Car Group has consolidated the company until January 31 2022 when control was ceased. The purchase consideration received amounted to MSEK 958. The carrying amount of assets and liabilities as at the date of the divestment were MSEK 1,245. Deficit of consideration received recognised in Equity amounted to MSEK 267. At the time of disposal, cash and cash equivalents over which control was lost amounted to MSEK 358. The total cost of divestment and carrying values have been determined provisionally, thus, the divestment analyses may be subject to adjustment during a twelve-month period.

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 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, 2021			
Non-current assets	71%	13%	16%
Dec 31, 2020			
Non-current assets	77%	8%	15%

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.

As of December 31, 2021, assets and liabilities related to the combustion engine operations carried out were classified as held for sale with a net value of MSEK 5,627. The proceeds from the sales are expected to exceed the carrying amount of the net assets in Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd., Powertrain Engineering Sweden AB and Powertrain Engineering Sweden Real Estate AB. As of December 31, 2021, there are no indications of impairment. No translation difference has been recognised in other comprehensive income related to the reclassified assets and liabilities held for sale. The sale of Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd. was completed on January 31, 2022 and the buyer was the newly created company Zhejiang Aurobay Powertrain Co., Ltd. See Note 31 – Business combinations for further information. As of December 31, 2021, there is an agreement to sell Powertrain Engineering Sweden AB and Powertrain Engineering Sweden Real Estate AB to Zhejiang Aurobay Powertrain Co., Ltd. The completion of the transaction will take place during second half of 2022.

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

	2021
Intangible assets	138
Tangible assets	7,438
Deferred tax assets	40
Inventories	1,245
Accounts receivable	14
Current tax assets	67
Other current assets	43
Cash and cash equivalents	951
Total assets	**9,936**
Deferred tax liabilities	233
Other non-current provisions	82
Other non-current liabilities	518
Current provisions	182
Accounts payable	3,101
Current tax liabilities	84
Other current liabilities	109
Total liabilities	**4,309**

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	2021	2020
Gross income in % of revenue	**21.7**	**17.5**

EBIT Margin	2021	2020
Operating income (EBIT) in % of revenue	**7.4**	**3.3**

EBITDA/EBITDA Margin	2021	2020
Operating income	20,853	8,719
Depreciation and amortisation of non-current assets	15,043	14,464
EBITDA	**35,896**	**23,183**
EBITDA in % of revenue	**12.7**	**8.8**

Equity ratio	Dec 31, 2021	Dec 31, 2020
Total equity	113,564	74,106
Total assets	334,229	308,462
Equity in % total assets	**34.0**	**24.0**

Net cash	Dec 31, 2021	Dec 31, 2020
Cash and cash equivalents	63,277	62,003
Marketable securities	7,996	8,087
Liabilities to credit institutions (non-current)	–18,581	–39,331
Bonds (non-current)	–22,378	–24,768
Other non-current interest-bearing liabilities	—	–84
Liabilities to credit institutions (current)	–13,726	–4,306
Bonds (current)[1)]	—	–7,047
Net cash[2)]	**16,588**	**-5,446**

1) The bonds are presented above at amortised cost. The MEUR 500 fixed interest rate bond issued in May 2016 (matured in May 2021), was hedged into a variable interest rate bond, hence a part of the bond was valued at fair value through the income statement and the remaining part was valued at amortised cost. On 31 December 2020 the fair value component amounted to MSEK 7.
2) The net cash calculation excludes current MSEK –1,462 (–1,160) and non-current MSEK –5,509 (–4,731) financial liabilities related to IFRS 16.

Liquidity	Dec 31, 2021	Dec 31, 2020
Cash and cash equivalents	63,277	62,003
Marketable securities	7,996	8,087
Undrawn credit facilities	13,377	24,700
Liquidity	**84,650**	**94,790**

Income Statements and Comprehensive Income – Parent Company

MSEK	Note	2021	2020
Revenue		—	17
Administrative expenses	4	–104	–46
Operating income	3, 5	**-104**	**-29**
Result from participation in subsidiaries	6	8,886	—
Writedown of participation in subsidiaries	8	–410	–187
Financial income	6	216	201
Financial expenses	6	–61	–139
Income before tax		**8,527**	**-154**
Income tax	7	–1	—
Net income		**8,526**	**-154**

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, 2021	Dec 31, 2020
ASSETS			
Non-current assets			
Participation in subsidiaries	8	26,023	21,857
Investments in joint ventures[1]		1,026	874
Deferred tax assets	7	–	1
Receivables from group companies	3	1,795	3,049
Total non-current assets		**28,844**	**25,781**
Current assets			
Receivables from group companies	3	6,277	1,467
Other current assets		–	4
Accrued income and prepaid expenses		2	1
Cash and cash equivalents		716	22
Total current assets		**6,995**	**1,494**
TOTAL ASSETS		**35,839**	**27,275**
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		14,119	14,273
Net income		8,526	–154
		32,847	**24,321**
Total equity		**32,847**	**24,321**
Non-current liabilities			
Non-current liabilities to group companies	3	2,684	2,695
Total non-current liabilities		**2,684**	**2,695**
Current liabilities			
Accounts payable		1	2
Liabilities to group companies	3	284	244
Other current liabilities		3	4
Accrued expenses and prepaid income		20	9
Total current liabilities		**308**	**259**
TOTAL EQUITY & LIABILITIES		**35,839**	**27,275**

[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, 2020	—	**6,509**	**3,693**	**14,273**	**24,475**
Net income for the year	—	—	—	**-154**	**-154**
Balance at December 31, 2020	—	**6,509**	**3,693**	**14,119**	**24,321**
Net income for the year	—	—	—	**8,526**	**8,526**
Balance at December 31, 2021	—	**6,509**	**3,693**	**22,645**	**32,847**

[1] Share capital amounts to SEK 100,000 (100,000).

Statement of Cash Flows – Parent Company

MSEK	Note	2021	2020
OPERATING ACTIVITIES			
Operating income		–104	–29
Interest received		103	107
Interest paid		–61	–73
Other financial items		47	37
		-15	**42**
Movements in working capital			
Change in receivables group companies	3	–4,810	91
Change in liabilities group companies	3	40	–178
Change in current receivables		3	–2
Change in current liabilities		9	3
Cash flow from movements in working capital		**–4,758**	**-86**
Cash flow from operating activities		**–4,773**	**–44**
INVESTING ACTIVITIES			
Investment in subsidiaries		–74	–3
Investment in joint ventures		–152	–822
Divestment of subsidiaries		3,974	—
Dividend received from subsidiaries		410	—
Cash flow from investing activities		**4,158**	**-825**
Cash flow from operating and investing activities		**–615**	**-869**
FINANCING ACTIVITIES			
Change of long-term liabilities group companies	3	–11	–1,990
Change of long-term receivables group companies	3	1,254	–402
Cash flow from financing activities		**1,243**	**-2,392**
Cash flow for the year		**628**	**-3,261**
Cash and cash equivalents at beginning of year		**22**	**3,193**
Change in cash and cash equivalents due to change in exchange rates		66	90
Cash and cash equivalents at end of year		**716**	**22**

Notes to The Parent Company Financial Statements

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

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, 2021, 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.

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.

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	
	2021	2020	**2021**	2020
Companies within the Geely Sweden Holdings	0%	*100%*	44%	*45%*

	Receivables		Payables	
	Dec 31, 2021	Dec 31, 2020	**Dec 31, 2021**	Dec 31, 2020
Companies within the Geely Sweden Holdings	8,072	*4,516*	2,968	*2,939*
whereof short-term	*6,277*	*1,467*	*284*	*244*

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 2021, Geely Sweden Holdings AB has received dividend from subsidiaries of MSEK 6,389 (—), whereof MSEK 5,979 from Volvo Cars AB (publ.) and MSEK 410 from Powertrain Engineering Sweden AB.

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.

4 Audit fees

TSEK	2021	2020
Deloitte		
Audit fees	–432	–345
Audit-related fees	–457	–350
Other services	–71	–50
Total	**-960**	**-745**

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.

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.

6 Financial income and expenses

	2021	2020
Financial income		
Group contribution/dividend from subsidiaries	6,389	94
Income from divestment of shares in subsidiaries	2,497	—
Foreign exchange gain	113	—
Interest income from subsidiaries	103	97
Interest income from related party	—	10
Total	**9,102**	**201**
Financial expenses		
Interest expenses to subsidiaries	61	-73
Foreign exchange loss	—	-66
Total	**61**	**-139**

During year 2021, Geely Sweden Holdings AB has received Group Contributions from subsidiaries of MSEK — (94).

7 Taxes

Income tax recognised in income statement	2021	2020
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	8,526	–154
Tax according to applicable Swedish tax rate, 20,6% (21,4%)	–1,756	33
Costs, non-deductable	–85	–40
Tax effect of interest net	9	7
Non-taxable dividends	1,316	–
Non-taxable income	515	–
Total	**-1**	**–**

Total deferred tax assets MSEK — (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.

8 Participation in subsidiaries

	Dec 31, 2021	Dec 31, 2020
At beginning of the year/acquired acquisition value	**21,857**	**21,746**
Shareholder's distribution in kind	5,979	–
Write-down	–410	–187
Shareholder / group contributions provided	74	298
Divestments	–1,477	–
Total	**26,023**	**21,857**

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, 2021	Book value Dec 31, 2020
Volvo Car AB (publ.)[1)]	556810-8988	Gothenburg/Sweden	2,443,396,227	82	21,072	21,560
Powertrain Engineering Sweden AB	556830-5964	Gothenburg/Sweden	500	100	4,581	–
Geely Business Center AB	559094-6454	Gothenburg/Sweden	500	100	4	4
Geely Europe Innovation Centre AB	559166-5699	Gothenburg/Sweden	100,000	100	118	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	8
Geely Sweden Financials AB	559168-2157	Gothenburg/Sweden	500	100	–	–
Geely Sweden Finance AB (publ.)	559171-4950	Gothenburg/Sweden	501	100	8	1
Geely Sweden Investment AB	559150-4781	Gothenburg/Sweden	10,000	100	147	138
GSHAB 1 AB	559263-3035	Stockholm/Sweden	50,000	100	45	45
Total					**26,023**	**21,857**

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.

In April 2020 Geely Group Ltd 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, 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 28 September 2020, the Group, through one of its wholly-owned subsidiaries First Rent Invest AB, renamed to Volvo Car Retail AB, exercised a call option and entered into an agreement to acquire the remaining 50 per cent of the shares in the car retail company Bra Bil Sverige AB. The Group was 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 was classified as subsidiary and fully consolidated into Volvo Car Group with a non-controlling interest of 50 per cent.

On 30 September 2021, Volvo Car Retail AB acquired the remaining 50 per cent shareholding in Bra Bil Sverige AB and consequently the non-controlling interest ceased.

On 29 October 2021, Volvo Car AB (publ.) listed the company's shares on Nasdaq Stockholm. The principal owner is Geely Sweden Holdings AB, with 82 per cent of the shares (votes and capital). In the consolidated financial statements, Volvo Car AB (publ.) is classified as a subsidiary and fully consolidated with a non-controlling interest of 18 per cent.

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

	Registered office	% non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
Legal entity:		**Dec 31, 2021**	Dec 31, 2020	**Dec 31, 2021**	Dec 31, 2020	**Dec 31, 2021**	Dec 31, 2020
Daqing Volvo Car Manufacturing Co., Ltd.[2)]	China	50	50	1,389	1,844	2,462	9,441
Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd.[2)]	China	50	50	277	74	1,148	1,207
Shanghai Volvo Car Research and Development Co., Ltd. [2)]	China	50	50	–	1	116	102
Bra Bil Sverige AB	Sweden	–	50	27	35	–	218
HaleyTek AB	Sweden	40	–	-20	–	340	–
Zenseact AB	Sweden	15	–	-42	–	457	–
Volvo Car AB (publ.)	Sweden	18	2	195	–	16,275	1,307
Total non-controlling interests				**1,826**	**1,954**	**20,798**	**12,275**

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

9 Pledged assets

	Dec 31, 2021	Dec 31, 2020
Shares in subsidiaries[1)]	147	138
Total	**147**	**138**

1) Pledged shares in Geely Sweden Investment AB and Geely Sweden Financials AB for external bank loans.

10 Contingent liabilities

	Dec 31, 2021	Dec 31, 2020
Guarantee commitments[1)]	2,276	2,450
Total	**2,276**	**2,450**

1) In addition to above stated guarantee commitments, Geely Sweden Holdings AB has 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 amount to MSEK 23,949 (33,449). The risk to fulfill any of these guarantee commitments is deemed as very low.

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	14,119,067,021
Net income for the year	SEK	8,525,782,084
At the disposal of the AGM	**SEK**	**32,847,181,004**

The Board proposes the following allocations of funds:

Carried forward	SEK	32,847,181,004
Total	**SEK**	**32,847,181,004**

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 30, 2022

Eric Li (Li Shufu)
Chairman of the Board

Hans Oscarsson
Board member and CEO

Lone Fønss Schrøder
Board member

Daniel Li (Li Donghui)
Board member

Our audit report was submitted on June 30, 2022
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 2021-01-01–2021-12-31. The annual accounts and consolidated accounts of the company are included on pages 20–91 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 2021 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 2021 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

This document also contains other information than the annaul accounts and consolidated accounts and is found on pages 1-19. The Board of Directors and the Managing Director are responsible for this other information.

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 signi-

ficant 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 2021-01-01–2021-12-31 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 30, 2022
Deloitte AB

Signature on Swedish original

Jan Nilsson
Authorized Public Accountant